MOODY'S
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ISSUER COMMENT
18 AUGUST 2015

RATINGS

Oncor Electric Delivery Company LLC

Issuer Rating	Baa1
Outlook	Positive

Moody's

KEY METRICS:

Oncor Electric Delivery Company LLC

	2014	2013	2012
CFO pre-w/ c+Interest/ Interest	4.5x	4.6x	4.3x
CFO pre-w/c/ Debt	18%	21.2%	18.7
Debt/Book Capitalization	42%	41.2%	42.6%

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Oncor Electric Delivery Company, LLC

Energy Future Holdings bankruptcy emergence plans cast shadows over Oncor credit profile

Energy Future Holdings Corp.'s (EFH, unrated) most recent amended plan of reorganization and disclosure statement is credit negative for Oncor Electric Delivery Company LLC (Oncor, Baa1 positive), EFH's 80%-owned regulated transmission and distribution utility. The plan proposes spinning off Texas Competitive Energy Holdings Company LLC (TCEH, unrated), EFH's unregulated merchant power operations to its creditors, and selling a reorganized EFH to Hunt Consolidated (Hunt, unrated). Hunt plans to restructure Oncor into a real estate investment trust (REIT) and will file the appropriate applications with the Public Utility Commission of Texas (PUCT) in September. The PUCT has about six months to review this change-of-control application.

While the plan is not yet final and requires bankruptcy court approval before the PUCT considers it, we view the separation from TCEH to be credit positive for Oncor, in general. Separation from the riskier and financially distressed affiliate would eliminate any contagion risk across family. On the other hand, we also see three credit-negative risks associated with EFH's bankruptcy emergence plans: heightened regulatory contentiousness during the approval process for Oncor's conversion to a REIT structure; dismantling of existing ring-fence provisions; and the potential for higher leverage on top of Oncor as EFH emerges out of bankruptcy.

Currently, Oncor is strongly positioned within the Baa-rating category based on the constructive regulatory environment in Texas which is regulated by the PUCT with a stable stand-alone business and financial profile. The PUCT provides a broad suite of timely recovery mechanisms for prudently incurred costs and investments and Oncor's stand-alone key credit metrics are positioned strongly within the Baa-rating range.

Oncor's positive rating outlook reflects our expectation that:

» The constructive and credit supportive regulatory environment will remain unchanged

» The continued presence of a strong suite of ring fence type provisions, including the special governance rights and independent board composition remain intact

» Adequate sources of liquidity are maintained

» Oncor will continue to produce a ratio of cash flow to debt in the high-teens to low-20% range on a sustained basis

Exhibit 1

Oncor's selected historical financials show steady growth
($ in millions)

Date	Revenue	EBITDA	Interest Expense	Debt	Dividends	Assets	Equity	CAPEX	CFO Pre-W/C	(CFO Pre-W/C) / Debt	(CFO Pre W/C - Dividends) / Debt	Debt / Capitalization
March LTM	$3,851	$2,020	$373	$7,590	$329	$19,148	$7,517	-$1,093	$1,239	16.3%	12.0%	43.0%
2014	$3,822	$2,019	$380	$7,308	$282	$19,098	$7,518	-$1,115	$1,315	18.0%	14.1%	42.0%
2013	$3,552	$1,977	$406	$6,883	$310	$18,274	$7,409	-$1,087	$1,460	21.2%	16.7%	41.2%
2012	$3,328	$1,936	$402	$7,031	$225	$18,050	$7,304	-$1,402	$1,312	18.7%	15.5%	42.6%
2011	$3,118	$1,757	$391	$6,763	$145	$17,431	$7,181	-$1,375	$1,457	21.5%	19.4%	42.4%
2010	$2,914	$1,637	$363	$6,594	$211	$16,904	$6,987	-$1,029	$1,153	17.5%	14.3%	42.8%
2009	$2,690	$1,425	$379	$6,243	$272	$16,276	$6,847	-$1,007	$1,060	17.0%	12.6%	42.5%
2008	$2,580	$1,344	$339	$6,032	$1,583	$15,746	$6,799	-$926	$873	14.5%	-11.8%	42.3%
2007	$2,500	$1,280	$330	$5,293	$326	$15,474	$7,618	-$749	$818	15.4%	9.3%	37.1%

Source: Moody's Investors Service

Exhibit 2

Oncor's qualitative rating methodology factors scores compare favorably to its peers

Company	Actual Rating	Grid Indicated Rating	Legislative and Judicial Underpinnings of the Regulatory Framework	Consistency and Predictability of Regulation	Timeliness of Recovery of Operating and Capital Costs	Sufficiency of Rates of Returns	Market Position
NSTAR Electric Company	A2	A2	A	A	A	A	A
CenterPoint Energy Houston Electric, LLC	A3	Baa1	A	A	A	A	Baa
Texas-New Mexico Power Company	A3	A3	A	A	A	A	Ba
AEP Texas North Company	Baa1	A3	A	A	A	Baa	Baa
AEP Texas Central Company	Baa1	Baa1	A	A	A	Baa	Baa
Commonwealth Edison Company	Baa1	A3	A	A	Aa	Baa	A
Connecticut Light & Power Company	Baa1	Baa1	A	A	A	Baa	Baa
El Paso Electric Company	Baa1	Baa1	A	Baa	Baa	A	Ba
Southwestern Public Service Company	Baa1	Baa1	A	Baa	A	Baa	Ba
Southwestern Electric Power Company	Baa2	Baa1	A	Baa	Baa	Baa	Ba
Jersey Central Power & Light Company	Baa2	Baa2	A	Baa	Baa	Ba	Baa
Oncor Electric Delivery Company	Baa3*	A3	A	A	A	Baa	A
Entergy Texas, Inc.	Baa3	Baa2	A	Baa	Baa	Baa	Baa

* Implied senior unsecured rating

Source: Moody's Investors Service

EFH's third restructuring plan has been accepted by the numerous creditor groups, which we believe increases the likelihood of bankruptcy court approval. The third amended plan also eliminated one of two paths the company considered to emerge from bankruptcy when it filed its second plan on 23 July. We view EFH's preferred path for bankruptcy emergence potentially impacting several aspects of Oncor's credit profile, but the disclosure statement by itself is insufficient to impact our ratings or rating outlook.

For example, EFH's plan to convert Oncor into a real estate investment trust (REIT), will increase the risk of regulatory contentiousness during the PUCT approval process for the change in control as well as in future rate cases. A REIT structure would allow the new owner of the utility assets to reduce its tax obligations, potentially creating a disconnect between the reduced tax obligation at the corporate level as a REIT and the rate collected from the ratepayers to cover the higher tax obligations as an electric utility corporation. Unless authorized rates are modified to reflect the tax efficiencies associated with REITs, we expect customers will become more intolerant of rate increase requests, and pressure to reduce rates will build at both political and regulatory levels. As a result, we believe the PUCT, which regulates Texas electric rates, would likely address the disconnect through regulatory measures. For example, the PUCT might restrict upstream dividend payments or lower Oncor's 10.25% authorized return on equity, which is already higher than its Texas peers whose rates are also regulated by the PUCT, to factor in the tax savings with the REIT structure.

We also see a material dismantling of the strong suite of ring-fence provisions that helped insulate Oncor from its financially distressed parent and affiliate. The disclosure plan contemplates the removal of Oncor's minority investors, including the Canadian pension manager Borealis Infrastructure. The presence of Borealis at Oncor, combined with the special corporate governance rights provided to it, was a principal element in our analysis of how well Oncor would be insulated from its parent's bankruptcy. The disclosure statement reminds us that minority investors can help reduce the probability of a default, but they have very little say with respect to expected losses. That said, we see Borealis as a formidable minority investor who will vigorously defend their rights, which may help keep Oncor's existing ring fence provisions in place.

The third risk is that leverage across the family. We estimate $12 billion of capital will sit above Oncor at its parent holding company, in addition to its roughly $7.5 billion debt. Regardless of whether its legally liable or not, Oncor will need to service the financing costs associated with that capital since it is the only entity within the corporate family that generates any earnings or cash flow. EFH expects the capital to be in a mix of debt and equity, but it is unclear to determine how much of additional debt will be added to the structure at this time.

Exhibit 3

Selected utility holding company notching with operating utility

Illustrative

Holding Company	Unsecured / Issuer Rating	Primary Utility Subsidiaries	Unsecured / Issuer Rating	Notching Difference in Ratings	HoldCo Debt (% of Consolidated Debt)	Unregulated Business (% of Consolidated Earnings/Cash Flow)
DPL Inc. *	Ba3	Dayton Power & Light Company	Baa3	3	60%	<10%
ITC Holdings Corp.	Baa2	All four transcos (e.g. ITC Midwest LLC)	A3	2	55%	0%
Duquesne Light Holdings, Inc.	Baa3	Duquesne Light Company	A3	3	48%	< 10%
Dominion Resources Inc.	Baa2	Virginia Electric and Power Company / Dominion Gas Holdings, LLC	A2	3	47%	20%
NextEra Energy, Inc.	Baa1	Florida Power & Light Company	A1	3	40%	50%
Sempra Energy	Baa1	Southern California Gas Company / San Diego Electric & Gas Company	A1	3	37%	16%
The Laclede Group	Baa2	Alabama Gas Corporation / Laclede Gas Company	A2 / (P) A3	2 / 3	37%	5%
IPALCO Enterprises, Inc.	Baa3	Indianapolis Power & Light Company	Baa1	2	35%	0%
CMS Energy Corp	Baa2	Consumers Energy Company	A3**	2	34%	5%
Integrys Energy Group,, Inc.	A3	Wisconsin Public Service Corporation	A1	2	31%	<5%
Puget Energy Inc.	Baa3	Puget Sound Energy, Inc.	Baa1	2	31%	0%
Duke Energy Corporation	A3	Duke Energy Carolinas, LLC / Duke Energy Progress, Inc.	A1	2	30%	15%
TECO Energy Inc.	Baa1	Tampa Electric Power Company	A2	2	29%	<5%
FirstEnergy Corp.	Baa3	Jersey Central Power & Light Company	Baa2	1	25%	30-40%
Entergy Corporation	Baa3	Entergy Louisiana, LLC / Entergy Arkansas, Inc.	Baa1 / Baa2	1 / 2	20%	24%
Otter Tail Corp	Baa2	Otter Tail Power Company	A3	2	11%	24%
OGE Energy Corp.	A3	Oklahoma Gas & Electric Company	A1	2	7%	25%
Public Service Enterprise Group Incorporated	Baa2	Public Service Electric and Gas Company	A2	3	0%	40%

* The ultimate parent of DPL Inc. and Dayton Power & Light Company is The AES Corporation, Ba3 stable

** Consumers Energy Company only has a first mortgage bond senior secured rating of A3. Therefore, its implied senior unsecured rating would be A3.

Source: Moody's

What Could Change the Rating - Up

Oncor's ratings could be upgraded with better clarity over its ultimate ownership profile and parent consolidated capital structure, including upstream requirements for cash, in the form of both dividends and tax payments or other administrative fees. On a stand-alone basis, Oncor's rating should be higher today, but is constrained by the complexities of its parent's (and affiliate) bankruptcy proceeding. As a result, ratings could be upgraded, potentially by more than 1-notch, if Oncor's parent holding company debt was eliminated, or sustantially reduced, and assuming the utility continues to produce a ratio of cash flow to debt in the high-teens and low 20% range. If high levels of parent company debt remain, but the ring fence remains intact, Oncor could be upgraded with new ownership.

What Could Change the Rating - Down

With the ring fence, on a stand-alone basis, Oncor's rating could be downgraded if Oncor's financial profile were to deteriorate, where the ratio of cash flow from operations pre-working capital (CFO pre-WC) to debt were to fall into the low to mid-teens on a sustained basis or if a contentious regulatory environment develops, impacting Oncor's timely recovery of costs and investments negatively. Given the developments we have seen out of the bankruptcy court to date, we place a very low probability of the existing ring-fencing provisions failing to insulate Oncor. Still, a downgrade would be a possibility if there are any developments in the bankruptcy proceedings that would change the separateness of Oncor from its bankrupt parent. Oncor's ratings could also be pressured if there was an attempt to move Oncor into a new corporate structure, such as a REIT, where higher leverage is utilized. In the case of a REIT scenario developing, Oncor's rating could face pressure if a more contentious regulatory environment emerged, as its municipalities or other customer groups looked to reduce their rates to more accurately reflect the transfer of tax payments to the REIT shareholders.

Exhibit 4

Oncor's 3 year average financial ratios compared to selected peers

		Financial Strength		
Company	Actual Rating	CFO pre-WC / Debt (3 yr avg)	CFO pre-WC - Dividends / Debt (3 yr avg)	Debt / Capitalization (3 yr avg)
NSTAR Electric Company	A2	28.4%	20.5%	37.0%
CenterPoint Energy Houston Electric, LLC	A3	16.4%	2.6%	65.2%
Texas-New Mexico Power Company	A3	27.3%	23.2%	35.8%
AEP Texas North Company	Baa1	19.1%	14.8%	47.2%
AEP Texas Central Company	Baa1	14.0%	6.1%	59.1%
Commonwealth Edison Company	Baa1	18.1%	15.0%	37.2%
Connecticut Light & Power Company	Baa1	18.4%	14.0%	43.3%
El Paso Electric Company	Baa1	21.3%	17.7%	46.9%
Southwestern Public Service Company	Baa1	21.8%	16.5%	39.4%
Southwestern Electric Power Company	Baa2	21.9%	18.6%	42.0%
Jersey Central Power & Light Company	Baa2	14.5%	11.2%	43.2%
Oncor Electric Delivery Company	Baa3*	19.3%	15.4%	41.9%
Entergy Texas, Inc.	Baa3	19.3%	15.7%	46.8%

* Implied senior unsecured rating

Source: Moody's