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Texas Oncor Buyout Approved - With Reservations

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On Thursday (March 24, 2016), the Texas Public Utility Commission granted the request to convert Oncor into a real estate investment trust. ([See the corresponding post on this topic for additional information](#)) In a 2-1 vote, the Commissioners agreed to allow the transformation to go forward with the proviso that the Commission would consider the treatment of the potential tax savings from the REIT structure in a separate proceeding.



At issue in the subsequent proceeding, is how the approximately \$250 million in annual tax savings attributable to the REIT format would be shared with ratepayers, if at all. In a conventional utility corporate structure, the utility is permitted to recover from its

customers an amount in its rates attributable to the tax liability of the entity. In the REIT arrangement, federal law requires at least 90% of the REIT's income to be paid to its shareholders through dividends. In that instance, opponents of the Oncor REIT approach argue that ratepayers will continue to pay an increment in their electric utility rates previously dedicated to covering the utility's tax liability which, in the REIT structure, no longer exists. They argue that customers should see a reduction in rates commensurate to the reduced tax liability of the REIT entity.

The two Commissioners voting in favor of the Oncor proposal made it clear that the Commission will consider the treatment of Oncor's REIT-related tax savings in a future proceeding on the utility's rates. It will be up to the Commission at that point to decide whether Oncor will be required to share some of its tax savings with ratepayers through reduced rates.

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