UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 2, 2018

SEMPRA ENERGY
(Exact name of registrant as specified in its charter)

CALIFORNIA	1-14201	33-0732627
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

488 8th AVENUE, SAN DIEGO, CALIFORNIA	92101
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (619) 696-2000

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

INTRODUCTORY NOTE

Sempra Energy is filing this Current Report on Form 8-K to disclose the supplemental risk factors set forth under Item 8.01 below, which are substantially similar to certain risk factors included in Sempra Energy's preliminary prospectus supplements dated January 2, 2018 for the public offering of its Common Stock by certain forward sellers (together with Sempra Energy's intention to enter into forward sale agreements for future sale of a corresponding number of shares of its Common Stock) and the public offering of its Mandatory Convertible Preferred Stock, Series A, which were filed with the Securities and Exchange Commission (the "SEC") on January 2, 2018 (together, the "Prospectus Supplements").

Sempra Energy is also filing this Current Report on Form 8-K to file certain audited and unaudited financial statements and unaudited pro forma condensed combined financial information attached hereto as Exhibits 99.1, 99.2, 99.3, 99.4 and 99.5, which were also included in the Prospectus Supplements. These financial statements and the pro forma financial information relate to Sempra Energy's proposed acquisition (the "Merger") of Energy Future Holdings Corp. ("EFH"), which holds an indirect 80.03 percent interest in the outstanding membership interests of Oncor Electric Delivery Company LLC ("Oncor"). The proposed Merger is described in more detail in Sempra Energy's Current Reports on Form 8-K filed with the SEC on August 25, 2017, August 28, 2017, October 6, 2017, October 10, 2017 and December 15, 2017 and Sempra Energy's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 filed with the SEC on October 30, 2017.

We are filing this Current Report on Form 8-K for purposes of supplementing the risk factors and financial disclosures incorporated by reference into our shelf registration statement on Form S-3 (Registration No. 333-220257) and our other registration statements filed with the SEC and contained in our periodic reports filed under the Securities Exchange Act of 1934, as amended.

Item 8.01 Other Events.

Supplemental Risk Factors

When evaluating Sempra Energy and its business, you should carefully consider the risks and other information described below and the risks and other information contained in "Risk Factors" under Item 1A of Part I and elsewhere in Sempra Energy's Annual Report on Form 10-K for the year ended December 31, 2016 (the "Annual Report"), which was filed with the SEC on February 28, 2017, and under Item 1A of Part II and elsewhere in Sempra Energy's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the "Quarterly Report"), which was filed with the SEC on October 30, 2017, and in our other filings with the SEC. These risk factors could materially adversely affect our actual results of operations and financial condition and cause such results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. We may also be materially harmed by risks and uncertainties not currently known to us or that we currently deem to be immaterial. If any of the following occurs, our businesses, cash flows, results of operations, financial condition and/or prospects could be materially negatively impacted. In addition, the trading prices of our debt securities and equity securities and those of our subsidiaries could substantially decline due to the occurrence of any of these risks. These risk factors should be read in conjunction with the other detailed information concerning our company set forth in the Annual Report and the Quarterly Report, including, without limitation, the information set forth in the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Recent U.S. tax legislation may materially adversely affect our financial condition, results of operations and cash flows, the value of investments in our common stock, preferred stock and debt securities, and our credit ratings.

Recently enacted U.S. tax legislation will significantly change the U.S. Internal Revenue Code, including taxation of U.S. corporations, by, among other things, limiting interest deductions, reducing the U.S. corporate income tax rate, altering the expensing of capital expenditures, adopting elements of a territorial tax system, assessing a repatriation tax or "toll-charge" on undistributed earnings and profits of U.S.-owned foreign corporations, and introducing certain anti-base erosion provisions. The legislation is unclear in certain respects and will require interpretations and implementing regulations by the Internal Revenue Service ("IRS"), as well as state tax authorities, and the legislation could be subject to potential amendments and technical corrections, any of which could lessen or increase certain adverse impacts of the legislation. In addition, the regulatory treatment of the impacts of this legislation will be subject to the discretion of the Federal Energy Regulatory Commission ("FERC") and state public utility commissions.

While our analysis and interpretation of this legislation is preliminary and ongoing, based on our current evaluation, we expect that the limitations on interest deductions will negatively impact our earnings per share, and that the reduction of the U.S. corporate income tax rate will require a write-down of our deferred income tax assets (including the value of our net operating loss carryforwards) resulting in a material noncash charge against earnings in the fourth quarter of 2017, the period in which the tax legislation was enacted, which may be subject to further adjustment in subsequent periods throughout 2018 in accordance with recent interpretive guidance issued by the SEC. In addition, although it is unclear when or how capital markets, credit rating agencies, the FERC or state public utility commissions may respond to this legislation, we do expect that certain financial metrics used by credit rating agencies, such as our funds from operations-to-debt percentage, could be negatively impacted as a result of certain limitations on tax deductions and an anticipated decrease in required income tax reimbursement payments to us from our domestic utility subsidiaries. Further, there may be other material adverse effects resulting from the legislation that we have not yet identified.

We believe that interpretations and implementing regulations by the IRS, as well as potential amendments and technical corrections, could result in lessening the negative impacts of certain aspects of this legislation, including some of the adverse impacts resulting from the limitations on interest deductions (the proper interpretation of which is still unclear), although there can be no assurance that this will occur or that interpretations, regulations, amendments and technical corrections will not exacerbate some of the negative impacts of the legislation. In addition, we believe we should be able to take actions to manage some of the anticipated adverse impacts of the legislation (other than the write-down of our deferred income tax assets) over the next several years, including through repatriation of undistributed non-U.S. earnings, adjusting the timing of capital expenditures, and possible redeployment of capital through sales or monetizations of assets to reduce our future use of debt financing to fund our capital requirements, although there can be no assurance in this regard. It is also uncertain how credit rating agencies will treat the impacts of this legislation on their credit ratings and metrics, and whether additional avenues will evolve for companies to manage the adverse aspects of this legislation. We believe that these actions, to the extent available and if successfully applied, could lessen the negative impacts on certain credit metrics, such as our funds from operations-to-debt percentage, although there can be no assurance in this regard.

If we are unable to successfully take actions to manage the adverse impacts of the new tax legislation, or if additional interpretations, regulations, amendments or technical corrections exacerbate the adverse impacts of the legislation, the legislation could have a material adverse effect on our financial condition, results of operations and cash flows and on the value of investments in our common stock, preferred stock and debt securities, and could result in credit rating agencies placing our credit ratings on negative outlook or downgrading our credit ratings. Any such actions by credit rating agencies may make it more difficult and costly for us to issue debt securities and certain other types of financing and could increase borrowing costs under our credit facilities.

Certain credit rating agencies may downgrade our credit ratings or place those ratings on negative outlook, which may adversely affect the market price of our common stock, preferred stock and debt securities.

On December 20, 2017, Moody's Investors Service ("Moody's") placed Sempra Energy's credit ratings on negative outlook. Moody's indicated that this action was triggered by our having entered into a comprehensive stipulation with the staff of the Public Utility Commission of Texas ("PUCT") and other key stakeholders with respect to our joint application with Oncor to the PUCT for regulatory approval of the Merger, which Moody's described as a significant milestone in our attaining regulatory approval for the Merger. In addition, Moody's indicated that a downgrade of our credit ratings over the 12 to 18 months after December 20, 2017 is likely if they anticipate that our consolidated credit metrics will remain weak, relative to our current credit rating, beyond 2019, specifically if our consolidated ratio of cash flow from operations before changes in working capital to debt remains below 18% (assuming successful completion of the Merger) for an extended period of time. Moody's also indicated that a downgrade could also be considered if there is a further delay in the completion of our Cameron LNG project. Likewise, Standard & Poor's has indicated that it could downgrade its rating of Sempra Energy's senior unsecured debt securities within 12 months following October 9, 2017 if we do not complete the Merger or if the aggregate indebtedness of our subsidiaries continues to exceed 50% of our consolidated debt. Moody's also issued a public comment on December 20, 2017 regarding recent wildfires in northern California and Ventura County, California indicating that the December 6, 2017 decision issued by the California Public Utilities Commission ("CPUC") denying the request of our subsidiary San Diego Gas & Electric Company ("SDG&E") to recover approximately $379 million of pretax costs associated with the 2007 wildfires (based on the CPUC's finding that SDG&E did not reasonably operate the facilities involved in the wildfires) is credit negative for SDG&E, for Sempra Energy and for other California utilities seeking to recover costs from wildfires.

Moody's further indicated that it may reassess its view of the California regulatory framework if it determines that the credit supportiveness of California's regulatory environment has weakened (including as a result of the CPUC's discretion in denying recovery of wildfire costs), which would also be credit negative and could lead to a downgrade of the credit ratings of California investor-owned utilities, including SDG&E, or those ratings being placed on negative outlook. Also, as described in the preceding risk factor, recently enacted U.S. tax legislation could materially adversely affect our credit ratings. The negative outlook by Moody's, any downgrade of our credit ratings by Standard & Poor's, Fitch Ratings, Moody's or any other rating agency, or any additional negative outlook on our credit ratings may adversely affect the market price of our common stock, preferred stock and debt securities, and could make it more costly for us to issue debt securities, to borrow under our credit facilities and to raise certain other types of financing.

Cautionary Note Regarding Forward-Looking Statements

This current report (including Exhibit 99.5 attached hereto) contains statements that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by words such as "believes," "expects," "anticipates," "plans," "estimates," "projects," "forecasts," "contemplates," "assumes," "depends," "should," "could," "would," "will," "confident," "may," "can," "potential," "possible," "proposed," "target," "pursue," "outlook," "maintain," or similar expressions or discussions of guidance, strategies, plans, goals, opportunities, projections, initiatives, objectives or intentions. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in the forward-looking statements.

Factors, among others, that could cause actual results and future actions to differ materially from those described in any forward-looking statements include risks and uncertainties relating to: the impact of current global economic, credit and market conditions and the satisfaction of customary closing conditions related to the proposed offerings, as well as risks and uncertainties associated with our business in general, including, actions and the timing of actions, including decisions, new regulations, and issuances of permits and other authorizations by the California Public Utilities Commission, U.S. Department of Energy, California Division of Oil, Gas, and Geothermal Resources, Federal Energy Regulatory Commission, U.S. Environmental Protection Agency, Pipeline and Hazardous Materials Safety Administration, Los Angeles County Department of Public Health, states, cities and counties, and other regulatory and governmental bodies in the United States and other countries in which we operate; the timing and success of business development efforts and construction projects, including risks in obtaining or maintaining permits and other authorizations on a timely basis, risks in completing construction projects on schedule and on budget, and risks in obtaining the consent and participation of partners; the resolution of civil and criminal litigation and regulatory investigations; deviations from regulatory precedent or practice that result in a reallocation of benefits or burdens among shareholders and ratepayers; modifications of settlements; delays in, or disallowance or denial of, regulatory agency authorizations to recover costs in rates from customers (including with respect to regulatory assets associated with the San Onofre Nuclear Generating Station facility and 2007 wildfires) or regulatory agency approval for projects required to enhance safety and reliability; the availability of electric power, natural gas and liquefied natural gas, and natural gas pipeline and storage capacity, including disruptions caused by failures in the transmission grid, moratoriums or limitations on the withdrawal or injection of natural gas from or into storage facilities, and equipment failures; changes in energy markets; volatility in commodity prices; moves to reduce or eliminate reliance on natural gas; the impact on the value of our investment in natural gas storage and related assets from low natural gas prices, low volatility of natural gas prices and the inability to procure favorable long-term contracts for storage services; risks posed by actions of third parties who control the operations of our investments, and risks that our partners or counterparties will be unable or unwilling to fulfill their contractual commitments; weather conditions, natural disasters, accidents, equipment failures, computer system outages, explosions, terrorist attacks and other events that disrupt our operations, damage our facilities and systems, cause the release of greenhouse gases, radioactive materials and harmful emissions, cause wildfires and subject us to third-party liability for property damage or personal injuries, fines and penalties, some of which may not be covered by insurance (including costs in excess of applicable policy limits) or may be disputed by insurers; cybersecurity threats to the energy grid, storage and pipeline infrastructure, the information and systems used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers and employees; capital markets and economic conditions, including the availability of credit and the liquidity of our investments; fluctuations in inflation, interest and currency exchange rates and our ability to effectively hedge the risk of such fluctuations; the impact of changes in the tax code as a result of recent federal tax reform and uncertainty as to how certain of those changes may be applied; actions by rating agencies to downgrade credit raitings of us or our subsidiaries or to place these ratings on negative outlook; changes in foreign and domestic trade *policies and laws, including border tariffs, revisions to international trade agreements, such as the North American Free Trade Agreement, and changes that make our exports less competitive or otherwise restrict our ability to export or resolve trade disputes; the ability to win competitively bid infrastructure projects against a number of strong and aggressive competitors; expropriation of assets by foreign governments and title and other property disputes; the impact on reliability of San Diego Gas & Electric Company's (SDG&E) electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources; the impact on competitive customer rates due to the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through SDG&E's electric transmission and distribution system and from possible departing retail load resulting from customers transferring to Direct Access and Community Choice Aggregation or other forms of distributed and local power generation, and the potential risk of nonrecovery for stranded assets and contractual obligations; and other uncertainties, some of which may be difficult to predict and are beyond our control.*

Additional forward-looking statements include, but are not limited to, statements about the completion of the merger and the expected financing plans for the merger, and other statements that are not historical facts. Additional factors that could cause actual results and future actions to differ materially from those described in any such forward-looking statements include risks and uncertainties relating to: the risk that Sempra Energy, EFH or Oncor may be unable to obtain bankruptcy court and governmental and regulatory approvals required for the merger, or that required bankruptcy court and governmental and regulatory approvals may delay the merger or result in the imposition of conditions that could cause the parties to abandon the transaction or be onerous to Sempra Energy; the risk that a condition to closing of the merger may not be satisfied; the risk that the transaction may not be completed for other reasons, or may not be completed on the terms or timing currently contemplated; the risk that the anticipated benefits from the transaction may not be fully realized or may take longer to realize than expected; the risk that Sempra Energy may be unable to obtain the external financing necessary to pay the consideration and expenses related to the merger on terms favorable to Sempra Energy, if at all; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; the diversion of management time and attention to merger-related issues; and related legal, accounting and other costs, whether or not the merger is completed; and the risk that Oncor will eliminate or reduce its quarterly dividends due to its requirement to meet and maintain its new required regulatory capital structure, or because any of the three major credit rating agencies rates its senior secured debt securities below BBB (or its equivalent) or its independent directors determine it is in the best interest of Oncor to retain such amounts to meet future capital expenditures.

These risks and uncertainties are further discussed in the reports that Sempra Energy has filed with the SEC. These reports are available through the EDGAR system free-of-charge on the SEC's website, www.sec.gov. Investors should not rely unduly on any forward-looking statements. These forward-looking statements speak only as of the date hereof, and the company undertakes no obligation to update or revise these forecasts or projections or other forward-looking statements, whether as a result of new information, future events or otherwise.

Item 9.01. Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired.*

The audited consolidated financial statements of Energy Future Holdings Corp. and subsidiaries as of and for the year ended December 31, 2016, and the related Independent Auditors' Report, are attached hereto as Exhibit 99.1. The unaudited condensed consolidated financial statements of Energy Future Holdings Corp. and subsidiaries as of and for the nine months ended September 30, 2017 are attached hereto as Exhibit 99.2.

The audited consolidated financial statements of Oncor Electric Delivery Holdings Company LLC and subsidiary as of and for the year ended December 31, 2016, and the related Independent Auditors' Report, are attached hereto as Exhibit 99.3. The unaudited condensed consolidated financial statements of Oncor Electric Delivery Holdings Company LLC and subsidiary as of and for the nine months ended September 30, 2017 are attached hereto as Exhibit 99.4.

(b) *Pro Forma Financial Information.*

Unaudited pro forma condensed combined financial information as of September 30, 2017 and for the nine months ended September 30, 2017 and for the year ended December 31, 2016, giving effect to certain pro forma events relating to Sempra Energy's pending acquisition of Energy Future Holdings Corp., is attached hereto as Exhibit 99.5.

(d) *Exhibits.*

Exhibit No.	Description
23.1	Consent of Deloitte & Touche LLP, independent auditors.
23.2	Consent of Deloitte & Touche LLP, independent auditors.
99.1	Audited consolidated financial statements as of and for the year ended December 31, 2016 of Energy Future Holdings Corp. and subsidiaries, and the related Independent Auditors' Report.
99.2	Unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2017 of Energy Future Holdings Corp. and subsidiaries.
99.3	Audited consolidated financial statements as of and for the year ended December 31, 2016 of Oncor Electric Delivery Holdings Company LLC and subsidiary, and the related Independent Auditors' Report.
99.4	Unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2017 of Oncor Electric Delivery Holdings Company LLC and subsidiary.
99.5	Unaudited pro forma condensed combined financial information.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SEMPRA ENERGY

Date: January 2, 2018

By: /s/ Trevor I. Mihalik

Name: Trevor I. Mihalik

Title: Senior Vice President, Controller and Chief Accounting Officer

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement No. 333-220257 on Form S-3 and Nos. 333-200828, 333-188526, 333-182225, 333-56161, 333-50806, 333-49732, 333-121073, 333-151184, 333-155191 and 333-129774 on Form S-8 of Sempra Energy of our report dated March 31, 2017 relating to the consolidated financial statements of Energy Future Holdings Corp. and subsidiaries (the “Company”) as of and for the year ended December 31, 2016 (which report expresses an unmodified opinion and includes an emphasis-of-matter paragraph that describes that the financial statements do not purport to reflect or provide for the consequences of the bankruptcy proceedings and an emphasis-of-matter paragraph that describes substantial doubt regarding the Company’s ability to continue as a going concern, both items discussed in Note 2 of the consolidated financial statements) appearing in this Current Report on Form 8-K of Sempra Energy dated January 2, 2018.

/s/ Deloitte & Touche LLP

Dallas, TX
January 2, 2018

Exhibit 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement No. 333-220257 on Form S-3 and Nos. 333-200828, 333-188526, 333-182225, 333-56161, 333-50806, 333-49732, 333-121073, 333-151184, 333-155191 and 333-129774 on Form S-8 of Sempra Energy of our report dated November 13, 2017 relating to the consolidated financial statements of Oncor Electric Delivery Holdings Company LLC and its subsidiary (the “Company”) as of and for the year ended December 31, 2016 (which report expresses an unmodified opinion and includes an emphasis-of-matter paragraph that describes the ring-fencing measures implemented by the Company) appearing in this Current Report on Form 8-K of Sempra Energy dated January 2, 2018.

/s/ Deloitte & Touche LLP

Dallas, TX
January 2, 2018

ENERGY FUTURE HOLDINGS CORP.

A DEBTOR-IN-POSSESSION

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

AND

INDEPENDENT AUDITORS' REPORT

GLOSSARY

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Chapter 11 Cases	Cases being heard in the US Bankruptcy Court for the District of Delaware (Bankruptcy Court) concerning voluntary petitions for relief under Chapter 11 of the US Bankruptcy Code (Bankruptcy Code) filed on April 29, 2014 by the Debtors
Competitive Electric segment	the former EFH Corp. business segment that consisted principally of subsidiaries previously owned directly or indirectly by TCEH that became subsidiaries of Vistra Energy on the TCEH Effective Date
Contributed EFH Debtors	Certain Debtors previously owned directly or indirectly by EFH Corp. that became subsidiaries of Vistra Energy on the TCEH Effective Date. These debtors hold an entity that employs personnel who perform corporate service functions, an entity that leases office space, along with the contribution of liabilities associated with certain employee benefit plans.
Debtors	EFH Corp. and the substantial majority of its direct and indirect subsidiaries, including EFIH, EFCH and TCEH but excluding the Oncor Ring-Fenced Entities. Prior to the TCEH Effective Date, also included the TCEH Debtors and the Contributed EFH Debtors.
DIP Facilities	Refers to TCEH's debtor-in-possession financing and the EFIH DIP Facilities. See Note 8 to the Financial Statements.
Disclosure Statement	Amended Disclosure Statement for the Debtors' Seventh Amended Joint Plan of Reorganization, approved by the Bankruptcy Court in January 2017.
EFCH	Energy Future Competitive Holdings Company LLC, a direct, wholly owned subsidiary of EFH Corp. and the direct parent of TCEH, and/or its subsidiaries, depending on context
EFH Corp.	Energy Future Holdings Corp., a holding company, and/or its subsidiaries, depending on context, of which Oncor is the major subsidiary
EFH Debtors	EFH Corp. and its subsidiaries that are Debtors in the Chapter 11 Cases, including the EFIH Debtors, but, as of the TCEH Effective Date, excluding the TCEH Debtors and the Contributed EFH Debtors
EFH Effective Date	the date of the effective time of the Plan of Reorganization with respect to the EFH Debtors
EFIH	Energy Future Intermediate Holding Company LLC, a direct, wholly owned subsidiary of EFH Corp. and the direct parent of Oncor Holdings
EFIH Debtors	EFIH and EFIH Finance
EFIH DIP Facility	Refers to EFIH's debtor-in-possession financing. See Note 8 to the Financial Statements.
EFIH Finance	EFIH Finance Inc., a direct, wholly owned subsidiary of EFIH, formed for the sole purpose of serving as co-issuer with EFIH of certain debt securities
EFIH First Lien Notes	EFIH's and EFIH Finance's $503 million principal amount of 6.875% Senior Secured First Lien Notes and $3.482 billion principal amount of 10.000% Senior Secured First Lien Notes, collectively

EFIH PIK Notes	EFIH's and EFIH Finance's $1.566 billion principal amount of 11.25%/12.25% Senior Toggle Notes
EFIH Second Lien Notes	EFIH's and EFIH Finance's $322 million principal amount of 11% Senior Secured Second Lien Notes and $1.389 billion principal amount of 11.75% Senior Secured Second Lien Notes, collectively
Federal and State Income Tax Allocation Agreements	EFH Corp. and certain of its subsidiaries (including EFCH, EFIH and TCEH, but not including Oncor Holdings and Oncor) were parties to a Federal and State Income Tax Allocation Agreement, executed on May 15, 2012 but effective as of January 1, 2010. EFH Corp., Oncor Holdings, Oncor, Texas Transmission, and Oncor Management Investment LLC are parties to a separate Federal and State Income Tax Allocation Agreement dated November 5, 2008. See Note 5 to the Financial Statements.
FERC	US Federal Energy Regulatory Commission
GAAP	generally accepted accounting principles
IRS	US Internal Revenue Service
LIBOR	London Interbank Offered Rate, an interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market
Merger	the transaction referred to in the Agreement and Plan of Merger, dated February 25, 2007, under which Texas Holdings agreed to acquire EFH Corp., which was completed on October 10, 2007
Oncor	Oncor Electric Delivery Company LLC, a direct, majority-owned subsidiary of Oncor Holdings and an indirect subsidiary of EFH Corp. that is engaged in regulated electricity transmission and distribution activities
Oncor Holdings	Oncor Electric Delivery Holdings Company LLC, a direct, wholly owned subsidiary of EFIH and the direct majority owner of Oncor, and/or its subsidiaries, depending on context
Oncor Ring-Fenced Entities	Oncor Holdings and its direct and indirect subsidiaries, including Oncor
Petition Date	April 29, 2014, the date the Debtors made the Bankruptcy Filing
Plan of Reorganization	the Eighth Amended Joint Plan of Reorganization, Pursuant to Chapter 11 of the Bankruptcy Code, which was confirmed by the Bankruptcy Court with respect to the TCEH Debtors and the Contributed EFH Debtors in August 2016 and the EFH Debtors in February 2017
Plan Support Agreement	With respect to holders of claims asserted against the TCEH Debtors and certain claims against, and interests in, the EFH Debtors, the Third Amendment to the Amended and Restated Plan Support Agreement, entered into in December 2015, amending and restating the Plan Support Agreement approved by the Bankruptcy Court in September 2015. With respect to the plan sponsor and claims held by Fidelity, the Plan Support Agreement entered into with NextEra Energy, Inc. and certain holders of claims in EFH Corp. and EFIH, in September 2016, approved by the Bankruptcy Court in September 2016. With respect to holders of claims asserted against the EFIH Debtors, the Plan Support Agreement entered into in January 2017 with certain holders of claims in EFIH.
PUCT	Public Utility Commission of Texas
REP	retail electric provider

Securities Act	Securities Act of 1933, as amended
SG&A	selling, general and administrative
Settlement Agreement	Amended and Restated Settlement Agreement among the Debtors, the Sponsor Group, settling TCEH first lien creditors, settling TCEH second lien creditors, settling TCEH unsecured creditors and the official committee of unsecured creditors of TCEH (collectively, the Settling Parties), filed by the Debtors with the Bankruptcy Court in December 2015. See Note 2 to the Financial Statements.
Sponsor Group	Refers, collectively, to certain investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., TPG Global, LLC (together with its affiliates, TPG) and GS Capital Partners, an affiliate of Goldman, Sachs & Co., that have an ownership interest in Texas Holdings.
TCEH	Texas Competitive Electric Holdings Company LLC, a direct, wholly owned subsidiary of EFCH and an indirect subsidiary of EFH Corp., and/or its subsidiaries, depending on context, that prior to the TCEH Effective Date, were engaged in electricity generation and wholesale and retail energy market activities. Subsequent to the TCEH Effective Date, Vistra Energy continued substantially the same operations as TCEH.
TCEH Debtors	Certain Debtors previously owned directly or indirectly by TCEH that became subsidiaries of Vistra Energy on the TCEH Effective Date
TCEH Effective Date	October 3, 2016, the date the TCEH Debtors and the Contributed EFH Debtors completed their reorganization under the Bankruptcy Code and emerged from the Chapter 11 Cases
Texas Holdings	Texas Energy Future Holdings Limited Partnership, a limited partnership controlled by the Sponsor Group, that owns substantially all of the common stock of EFH Corp.
Texas Holdings Group	Texas Holdings and its direct and indirect subsidiaries other than the Oncor Ring-Fenced Entities
Texas Transmission	Texas Transmission Investment LLC, a limited liability company that owns a 19.75% equity interest in Oncor and is not affiliated with EFH Corp., any of EFH Corp.'s subsidiaries or any member of the Sponsor Group
US	United States of America
VIE	variable interest entity
Vistra Energy	the entity that emerged after the TCEH Effective Date and which continues substantially the same operations as TCEH and the Contributed EFH Debtors conducted prior to the TCEH Effective Date.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Energy Future Holdings Corp. (Debtor-in-Possession) Dallas, Texas

We have audited the accompanying consolidated financial statements of Energy Future Holdings Corp. and subsidiaries (Debtor-in-Possession) ("EFH Corp." or "the Company"), which comprise the consolidated balance sheet as of December 31, 2016, and the related statements of consolidated income (loss), consolidated comprehensive income (loss), consolidated cash flows and consolidated equity for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Bankruptcy Proceedings

As discussed in Note 2 to the consolidated financial statements, on April 29, 2014 Energy Future Holdings Corp. and the substantial majority of its direct and indirect subsidiaries, excluding Oncor Electric Delivery Holdings Company LLC and its subsidiaries, filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy

Code. The accompanying consolidated financial statements do not purport to reflect or provide for the consequences of the bankruptcy proceedings. In particular, such financial statements do not purport to show (1) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (2) as to prepetition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (3) as to equity accounts, the effect of any changes that may be made in the capitalization of EFH Corp; or (4) as to operations, the effect of any changes that may be made in its business. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Going Concern

The accompanying consolidated financial statements for the year ended December 31, 2016 have been prepared assuming that EFH Corp. will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, EFH Corp.'s ability to continue as a going concern is contingent upon its ability to comply with covenants contained in its DIP Facility described in Note 8, its ability to obtain new debtor-in-possession financing in the event the DIP Facility was to expire during the pendency of the Chapter 11 Cases and its ability to complete a Chapter 11 plan of reorganization in a timely manner, including obtaining applicable regulatory approvals required for such plan, among other factors. These circumstances and uncertainties inherent in the bankruptcy proceedings raise substantial doubt about EFH Corp.'s ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include adjustments that might result from the outcome of these uncertainties. Our opinion is not modified with respect to this matter.

DELOITTE & TOUCHE LLP

March 31, 2017

ENERGY FUTURE HOLDINGS CORP. AND SUBSIDIARIES, A DEBTOR-IN-POSSESSION
STATEMENT OF CONSOLIDATED INCOME (LOSS)

	Year Ended December 31, 2016
	(millions of dollars)
Selling, general and administrative expenses	$ (18)
Other income (Note 13)	3
Other deductions (Note 13)	(683)
Interest expense and related charges (Note 6)	(384)
Reorganization items (Note 7)	(89)
Loss from continuing operations before income taxes and equity in earnings of unconsolidated subsidiaries	(1,171)
Income tax benefit (Note 5)	404
Equity in earnings of unconsolidated subsidiaries (net of tax) (Note 4)	332
Net loss from continuing operations	(435)
Income from discontinued operations (net of tax) (Note 3)	22,117
Net income attributable to EFH Corp.	$ 21,682

See Notes to the Financial Statements.

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31, 2016 (millions of dollars)
Components related to continuing operations:	
Net loss from continuing operations	$ (435)
Other comprehensive income, net of tax effects:	
Effects related to pension and other retirement benefit obligations (net of tax)	2
Net effects related to Oncor — reported in equity in earnings of unconsolidated subsidiaries (net of tax)	2
Total other comprehensive income	4
Comprehensive loss from continuing operations attributable to EFH Corp.	(431)
Components related to discontinued operations:	
Income from discontinued operations	22,117
Comprehensive income from discontinued operations attributable to EFH Corp.	22,117
Comprehensive income attributable to EFH Corp.	$ 21,686

See Notes to the Financial Statements.

ENERGY FUTURE HOLDINGS CORP. AND SUBSIDIARIES, A DEBTOR-IN-POSSESSION
STATEMENT OF CONSOLIDATED CASH FLOWS

	Year Ended December 31, 2016 (millions of dollars)
Cash flows — operating activities:	
Net income	$ 21,682
Adjustments to reconcile net income to cash used in operating activities:	
Depreciation and amortization	539
Deferred income tax benefit, net	(329)
Gain on tax-free spin-off of TCEH	(22,764)
Make-whole claim charges (Note 10)	669
Unrealized net loss from mark-to-market of commodity positions	36
Adjustment to asbestos liability	23
Fees paid on DIP Facilities (Note 8) (reported as financing activities)	24
Equity in earnings of unconsolidated subsidiaries	(332)
Distributions of earnings from unconsolidated subsidiaries (Note 4)	162
Write-off of intangible and other assets	45
Other, net	78
Changes in operating assets and liabilities:	
Accounts receivable — trade	(223)
Inventories	71
Accounts payable — trade	19
Payables due to unconsolidated subsidiary	10
Commodity and other derivative contractual assets and liabilities	28
Margin deposits, net	(124)
Accrued interest on make-whole claims (Note 6)	150
Accrued interest	31
Other — net assets	(3)
Other — net liabilities	(136)
Cash used in operations	(344)
Cash flows — financing activities:	
Borrowings under EFIH DIP Facilities (Note 8)	4,755
Repayments/repurchases of debt (Note 8)	(2,699)
Net transfer of cash to Vistra Energy	(1,851)
TCEH DIP Roll Facilities financing fees	(112)
Fees paid on DIP Facilities (Note 8)	(24)
Cash provided by financing activities	69
Cash flows — investing activities:	
Capital expenditures	(230)
Nuclear fuel purchases	(33)
Business combination — net of cash acquired	(1,343)
Other changes in restricted cash	365
Proceeds from sales of nuclear decommissioning trust fund securities	201
Investments in nuclear decommissioning trust fund securities	(215)
Other, net	8
Cash used in investing activities	(1,247)
Net change in cash and cash equivalents	(1,522)
Cash and cash equivalents — beginning balance	2,286
Cash and cash equivalents — ending balance	$ 764

See Notes to the Financial Statements.

ENERGY FUTURE HOLDINGS CORP. AND SUBSIDIARIES, A DEBTOR-IN-POSSESSION
CONSOLIDATED BALANCE SHEET

	December 31, 2016 (millions of dollars)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 764
Trade accounts receivable — net	7
Other current assets	3
Total current assets	774
Investment in unconsolidated subsidiary (Note 4)	6,230
Other investments (Note 13)	26
Accumulated deferred income taxes (Note 5)	982
Other noncurrent assets	7
Total assets	$ 8,019
LIABILITIES AND EQUITY	
Current liabilities:	
Borrowings under debtor-in-possession credit facilities (Note 8)	$ 5,475
Net payables due to unconsolidated subsidiary (Note 12)	101
Accrued taxes	31
Accrued interest	40
Other current liabilities	74
Total current liabilities	5,721
Liabilities subject to compromise (Note 9)	5,566
Other noncurrent liabilities and deferred credits (Note 13)	75
Total liabilities	11,362
Commitments and Contingencies (Note 10)	
Equity (Note 11):	
Common stock (shares outstanding 2016 — 1,669,861,379)	2
Additional paid-in capital	7,968
Retained deficit	(11,223)
Accumulated other comprehensive loss	(90)
Total equity	(3,343)
Total liabilities and equity	$ 8,019

See Notes to the Financial Statements.

ENERGY FUTURE HOLDINGS CORP. AND SUBSIDIARIES, A DEBTOR-IN-POSSESSION
STATEMENT OF CONSOLIDATED EQUITY

	Year Ended December 31, 2016 (millions of dollars)
Common stock stated value of $0.001 effective May 2009 (number of authorized shares — 2,000,000,000):	
Balance at beginning of period	$ 2
Balance at end of period (number of shares outstanding: 2016 — 1,669,861,379)	2
Additional paid-in capital:	
Balance at beginning of period	7,968
Balance at end of period	7,968
Retained earnings (deficit):	
Balance at beginning of period	(32,905)
Net income attributable to EFH Corp.	21,682
Balance at end of period	(11,223)
Accumulated other comprehensive loss, net of tax effects:	
Pension and other postretirement employee benefit liability adjustments:	
Balance at beginning of period	(76)
Effects from deconsolidation of prior affiliate	6
Change in unrecognized gains related to pension and OPEB plans	(4)
Balance at end of period	(74)
Amounts related to dedesignated cash flow hedges:	
Balance at beginning of period	(50)
Effects from deconsolidation of prior affiliate	32
Change during the period	2
Balance at end of period	(16)
Total accumulated other comprehensive loss at end of period	(90)
Total equity at end of period	$ (3,343)

See Notes to the Financial Statements.

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

References in this report to "we," "our," "us" and "the Company" are to EFH Corp. and/or its subsidiaries, as apparent in the context. See *Glossary* for defined terms.

EFH Corp., a Texas corporation, is a Dallas-based holding company that conducts its operations principally through its Oncor subsidiary and, prior to the TCEH Effective Date, TCEH subsidiaries. EFH Corp. is a subsidiary of Texas Holdings, which is controlled by the Sponsor Group.

Prior to the TCEH Effective Date, TCEH was a holding company for subsidiaries engaged in competitive electricity market activities largely in Texas, including electricity generation, wholesale energy sales and purchases, commodity risk management and trading activities, and retail electricity operations. On the TCEH Effective Date, the TCEH Debtors and the Contributed EFH Debtors emerged from the Chapter 11 Cases as subsidiaries of a newly-formed company, Vistra Energy. On the TCEH Effective Date, Vistra Energy was spun-off from EFH Corp. in a tax-free spin-off transaction to the former first lien creditors of TCEH (see Note 2).

Oncor is engaged in regulated electricity transmission and distribution operations in Texas. Oncor provides distribution services to REPs, including subsidiaries of Vistra Energy, which sell electricity to residential, business and other consumers. Oncor Holdings, a holding company that holds an approximate 80% equity interest in Oncor, is a wholly owned subsidiary of EFIH, which is a holding company and a wholly owned subsidiary of EFH Corp. Oncor Holdings and its subsidiaries (the Oncor Ring-Fenced Entities) are not consolidated in EFH Corp.'s financial statements in accordance with consolidation accounting standards related to variable interest entities (VIEs) (see Note 4).

Various ring-fencing measures have been taken to enhance the credit quality of Oncor. Such measures include, among other things: the sale in November 2008 of a 19.75% equity interest in Oncor to Texas Transmission; maintenance of separate books and records for the Oncor Ring-Fenced Entities; Oncor's board of directors being comprised of a majority of independent directors, and prohibitions on the Oncor Ring-Fenced Entities providing credit support to, or receiving credit support from, any member of the Texas Holdings Group. The assets and liabilities of the Oncor Ring-Fenced Entities are separate and distinct from those of the Texas Holdings Group, and none of the assets of the Oncor Ring-Fenced Entities are available to satisfy the debt or contractual obligations of any member of the Texas Holdings Group. Moreover, Oncor's operations are conducted, and its cash flows managed, independently from the Texas Holdings Group.

Chapter 11 Cases

On April 29, 2014 (the Petition Date), EFH Corp. and the substantial majority of its direct and indirect subsidiaries, including EFIH, EFCH and TCEH but excluding the Oncor Ring-Fenced Entities (collectively, the Debtors), filed voluntary petitions for relief (the Bankruptcy Filing) under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court). The Disclosure Statement as to the TCEH Debtors and the Contributed EFH Debtors was approved by the Bankruptcy Court in July 2016, and the Disclosure Statement as to the EFH Debtors was approved by the Bankruptcy Court in January 2017.

Following the approval of the Disclosure Statement as to the TCEH Debtors and the Contributed EFH Debtors by the Bankruptcy Court, the Debtors solicited the vote of their required creditors for approval of the Plan of Reorganization as it relates to the TCEH Debtors and the Contributed EFH Debtors. In July 2016, the required creditors voted to approve the Plan of Reorganization as it relates to the TCEH Debtors and the

Contributed EFH Debtors, and the Bankruptcy Court confirmed the Plan of Reorganization as it relates to the TCEH Debtors and the Contributed EFH Debtors in August 2016. The TCEH Debtors and the Contributed EFH Debtors emerged from the Chapter 11 Cases in October 2016.

In February 2017, the required creditors voted to approve the Plan of Reorganization as it relates to the EFH Debtors and the Bankruptcy Court confirmed the Plan of Reorganization as it relates to the EFH Debtors. The EFH Debtors have not yet emerged from the Chapter 11 Cases. See Note 2 for further discussion regarding the Chapter 11 Cases, the Plan of Reorganization and the Disclosure Statement.

On July 29, 2016, (i) the EFH Debtors entered into a Plan Support Agreement (NEE Plan Support Agreement) with NextEra Energy, Inc. (NEE) to effect an agreed upon restructuring of the EFH Debtors pursuant to an amendment to the Plan of Reorganization, and (ii) EFH Corp. and EFIH entered into an Agreement and Plan of Merger (NEE Merger Agreement) with NEE and EFH Merger Co., LLC (Merger Sub), a wholly-owned subsidiary of NEE. Pursuant to the NEE Merger Agreement, on the EFH Effective Date, EFH Corp. will merge with and into Merger Sub (NEE Merger) with Merger Sub surviving as a wholly owned subsidiary of NEE.

In January 2017, the EFH Debtors and over 67% of holders of unsecured claims against the EFIH Debtors executed a Plan Support Agreement, pursuant to which such parties agreed to vote to accept the Plan of Reorganization as it relates to the EFH Debtors.

In February 2017, the EFH Debtors, certain holders of secured claims against the EFIH Debtors, and certain holders of unsecured claims against the EFH Debtors reached agreement on the settlement of EFIH First Lien Note and the EFIH Second Lien Note claims (including, most significantly, the make-whole claims asserted by holders of these claims). Under the terms of the settlement, on the EFH Effective Date, the make-whole claims of the holders of the EFIH First Lien Notes will be paid at 95% plus accrued interest and the make-whole claims of the holders of the EFIH Second Lien Notes will be paid at 87.5% plus accrued interest. The Bankruptcy Court approved the settlement in March 2017.

In February 2017, the required EFH Corp. and EFIH creditors voted to approve the Plan of Reorganization as it relates to the EFH Debtors, and the Bankruptcy Court confirmed the Plan of Reorganization as it relates to the EFH Debtors. As part of the order confirming the Plan of Reorganization as it relates to the EFH Debtors, the Bankruptcy Court overruled the objection of certain holders of asbestos claims against certain EFH Debtors and approved the treatment of asbestos claims under the Plan of Reorganization. On the EFH Effective Date, all timely filed proofs of claim asserting an alleged asbestos injury will be allowed and reinstated under the Plan of Reorganization, and all intracompany payables and receivables, with respect to the EFH Debtors where such asbestos liability resides, will be reinstated at their face value, plus interest accrued since the filing of the Chapter 11 Cases.

Consistent with the ring-fencing measures discussed above, the assets and liabilities of the Oncor Ring-Fenced Entities have not been, and are not expected to be, substantively consolidated with the assets and liabilities of the Debtors in the Chapter 11 Cases.

We had two reportable segments prior to the TCEH Effective Date: the Regulated Delivery segment, consisting largely of our investment in Oncor, which is now EFH Corp.'s primary investment; and the Competitive Electric Segment, which consisted largely of TCEH and which became subsidiaries of Vistra Energy on the TCEH Effective Date. After the TCEH Effective Date we no longer have operating segments as our business is comprised solely of our investment in Oncor. See Note 3 for further information concerning the discontinued Competitive Electric Segment.

Basis of Presentation, Including Application of Bankruptcy Accounting

The consolidated financial statements have been prepared in accordance with US GAAP. The consolidated financial statements have been prepared as if EFH Corp. is a going concern and contemplate the realization of assets and liabilities in the normal course of business. The consolidated financial statements reflect the application of Financial Accounting Standards Board Accounting Standards Codification (ASC) 852, *Reorganizations*. During the pendency of the Chapter 11 Cases, the EFH Debtors will operate their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. ASC 852 applies to entities that have filed a petition for bankruptcy under Chapter 11 of the Bankruptcy Code. The guidance requires that transactions and events directly associated with the reorganization be distinguished from the ongoing operations of the business. In addition, the guidance covers the accounting and presentation of liabilities. See Notes 7 and 9 for discussion of these accounting and reporting matters.

Investments in unconsolidated subsidiaries, which are 50% or less owned and/or do not meet accounting standards criteria for consolidation, are accounted for under the equity method (see Note 4). All intercompany items and transactions have been eliminated in consolidation. All dollar amounts in the financial statements and tables in the notes are stated in millions of US dollars unless otherwise indicated. Subsequent events have been evaluated through March 31, 2017, the date these consolidated financial statements were issued.

Discontinued Operations

Discontinued operations comprise those activities that were disposed of during the period and represent a separate major line of business or geographical area that can be clearly distinguished for operational and financial reporting purposes.

Because of the emergence (and related spin-off) of the TCEH Debtors and the Contributed EFH Debtors on the TCEH Effective Date, the results of operations of the Competitive Electric Segment and the Contributed EFH Debtors have been classified as discontinued operations in the Consolidated Statements of Operations. EFH Corp. has elected to present cash flows of discontinued operations combined with cash flows of continuing operations. See Note 3 for additional information.

Use of Estimates

Preparation of financial statements requires estimates and assumptions about future events that affect the reporting of assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense, including fair value measurements and estimates of expected allowed claims. In the event estimates and/or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information.

Income Taxes

EFH Corp. will file a consolidated US federal income tax return for 2016 that will include the full year results of EFIH and Oncor Holdings, as well as, the results of EFCH and TCEH prior to the TCEH Effective Date. Oncor is a partnership for US federal income tax purposes and is not a corporate member of the EFH Corp. consolidated group.

Deferred income taxes are provided for temporary differences between the book and tax basis of assets and liabilities as required under accounting rules. See Note 5.

We report interest and penalties related to uncertain tax positions as current income tax expense. See Note 5.

Accounting for Contingencies

Our financial results may be affected by judgments and estimates related to loss contingencies. Accruals for loss contingencies are recorded when management determines that it is probable that an asset has been impaired or a liability has been incurred and that such economic loss can be reasonably estimated. Such determinations are subject to interpretations of current facts and circumstances, forecasts of future events and estimates of the financial impacts of such events. Litigation costs associated with estimated loss contingencies are expensed as incurred. As part of our Chapter 11 Cases we have received numerous pre-petition claims, many of which are unsubstantiated or irrelevant to our business operations. Further, at this time, some of those claims might be relevant but are not reasonably estimable. See Notes 2 and 10 for a discussion of contingencies.

Changes in Accounting Standards

In November 2015, the FASB issued Accounting Standards Update 2015-17 (ASU 2015-17), *Balance Sheet Classification of Deferred Taxes*. The ASU simplifies the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as noncurrent in a statement of financial position. We early adopted ASU 2015-17 effective December 31, 2015 on a prospective basis. Adoption of this ASU resulted in a reclassification of our net current deferred tax asset and liability to the net noncurrent deferred tax asset and liability in our consolidated balance sheet as of December 31, 2015. No prior periods were retrospectively adjusted.

2. CHAPTER 11 CASES

On the Petition Date, EFH Corp. and the substantial majority of its direct and indirect subsidiaries, including EFIH, EFCH and TCEH but excluding the Oncor Ring-Fenced Entities, filed voluntary petitions for relief under the Bankruptcy Code in the Bankruptcy Court. During the pendency of the remaining Chapter 11 Cases, the EFH Debtors will continue to operate their business as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code.

Plan of Reorganization

On October 3, 2016, the TCEH Effective Date, the TCEH Debtors and the Contributed EFH Debtors completed their reorganization under the Bankruptcy Code and emerged from the Chapter 11 Cases as subsidiaries of Vistra Energy. On the TCEH Effective Date, Vistra Energy was spun-off from EFH Corp. in a tax-free transaction to the former first lien creditors of TCEH. The tax-free spin-off generated a taxable gain that has been largely offset with available net operating losses (NOLs), substantially reducing the NOLs that are available to EFH Corp. in the future. See Note 5 for further information about NOLs at December 31, 2016.

With respect to the EFH Debtors, the Plan of Reorganization and the NEE Merger Agreement, subject to certain conditions and certain regulatory approvals, provides for, among other things, the acquisition by affiliates of NextEra Energy Inc. (NEE) of the EFH Debtors (as reorganized).

The EFH Debtors have not yet completed their Chapter 11 Cases. The EFH Debtors will emerge from bankruptcy if and when certain conditions to the effectiveness of the Plan of Reorganization are satisfied. Such conditions include, among other things, the receipt of all necessary tax opinions and regulatory approvals and all conditions to the completion of the transactions contemplated by the NEE Merger Agreement and the Plan or Reorganization having been satisfied. Additional disclosures regarding the conditions precedent to the consummation of the Plan of Reorganization are set forth in the Disclosure Statement as it relates to the EFH Debtors approved by the Bankruptcy Court in January 2017.

Plan Support Agreements

In July 2016, the EFH Debtors and NEE entered into a plan support agreement (the NEE Plan Support Agreement) to effect an agreed upon restructuring of the EFH Debtors pursuant to the Plan of Reorganization. In September 2016, certain creditors of EFH Corp. and EFIH also became parties to the NEE Plan Support Agreement. The Bankruptcy Court approved the NEE Plan Support Agreement in September 2016. In January

2017, the EFH Debtors and certain holders of unsecured claims against the EFIH Debtors became party to a separate Plan Support Agreement with the EFH Debtors and the EFIH Debtors, pursuant to which such holders agreed to support the Plan of Reorganization.

Settlement Agreement

Various parties entered into a settlement agreement (the Settlement Agreement) in August 2015 (as amended in September 2015) to compromise and settle, among other things (a) intercompany claims among the Debtors, (b) claims and causes of actions against holders of first lien claims against TCEH and the agents under the TCEH senior secured facilities, (c) claims and causes of action against holders of interests in EFH Corp. and certain related entities and (d) claims and causes of action against each of the Debtors' current and former directors, the Sponsor Group, managers and officers and other related entities. Under the terms of the Settlement Agreement, the TCEH first lien creditors were granted a $700 million unsecured claim against EFH Corp. (see Note 9). This claim remains outstanding and is subject to treatment under the Plan of Reorganization as it relates to the EFH Debtors. The Bankruptcy Court approved the Settlement Agreement in December 2015.

NEE Merger Agreement

In July 2016, EFH Corp. and EFIH entered into an Agreement and Plan of Merger (NEE Merger Agreement) with NEE and a wholly-owned subsidiary of NEE (Merger Sub). The NEE Merger Agreement was amended in September 2016. Pursuant to the NEE Merger Agreement, on the EFH Effective Date, NEE will acquire the EFH Debtors (as reorganized) as a result of a merger (NEE Merger) between EFH Corp. and Merger Sub in which Merger Sub will survive as a wholly owned subsidiary of NEE. The consideration payable by NEE pursuant to the NEE Merger Agreement consists of cash and NEE common stock paid to certain creditors of the EFH Debtors. The NEE Merger Agreement was approved by the Bankruptcy Court in September 2016.

The NEE Merger Agreement contains representations and warranties and interim operating covenants that are customary for an agreement of this nature. The NEE Merger Agreement also includes various conditions precedent to consummation of the NEE Merger Agreement, including a condition that certain approvals and rulings are obtained, including from the PUCT, the FERC and the IRS. NEE will not be required to consummate the NEE Merger if, among other items, the PUCT approval is obtained but with conditions, commitments or requirements that impose a Burdensome Condition (as defined in the NEE Merger Agreement). In October 2016, NEE and Oncor filed a joint merger approval application with the PUCT. In March 2017, the PUCT indicated that, as currently constructed, the transactions proposed by the NEE Merger Agreement are not in the public interest. The PUCT has up to 180 days to approve or deny the application. NEE's and Merger Sub's obligations under the NEE Merger Agreement are not subject to any financing condition.

Following confirmation of the Plan of Reorganization as it relates to the EFH Debtors by the Bankruptcy Court, EFH Corp. and EFIH may no longer engage in discussions or negotiations with respect to acquisition proposals for the EFH Debtors. If the NEE Merger Agreement is terminated for certain reasons set forth therein and an alternative transaction is consummated by EFH Corp. or EFIH in which neither NEE nor any of its affiliates obtains direct or indirect ownership of approximately 80% of Oncor, then EFH Corp. and/or EFIH may be required to pay a termination fee of $275 million to NEE (though the allocation between EFH Corp. and EFIH of such fee is subject to a separate order of the Bankruptcy Court).

The NEE Merger Agreement may be terminated upon certain events, including, among other things, by either party, if the NEE Merger is not consummated by June 24, 2017.

Purchase by NEE of Minority Interests in Oncor

In October 2016, an affiliate of NEE entered into an Agreement and Plan of Merger (the TTI Merger Agreement) with Texas Transmission and certain of its affiliates to purchase Texas Transmission's 19.75%

interest in Oncor for approximately $2.4 billion. The TTI Merger Agreement contains various conditions precedent to consummation of the transactions contemplated thereby, including approval of the PUCT. In March 2017, the PUCT indicated that, as currently constructed, the transactions proposed by the TTI Merger Agreement (coupled with the transactions proposed by the NEE Merger Agreement) are not in the public interest. In connection with the TTI Merger Agreement and subject to Bankruptcy Court approval, EFH Corp. waived its rights of first refusal to purchase (as set forth in an Investor Rights Agreement, dated November 5, 2008, by and among Oncor, Oncor Holdings, Texas Transmission and EFH Corp.) Texas Transmission's 19.75% interest in Oncor. So long as such waiver is in effect, NEE has agreed not to consummate the transactions contemplated by the TTI Merger Agreement prior to the consummation of the transactions contemplated by the NEE Merger Agreement.

In October 2016, an affiliate of NEE entered into an Interest Purchase Agreement (the Oncor Purchase Agreement) with Oncor and Oncor Management Investment LLC, an entity that owns approximately 0.22% interest in Oncor on behalf of certain members of Oncor's current and former management, for approximately $27 million. The Oncor Purchase Agreement contains various conditions precedent to consummation of the transactions contemplated thereby, including the consummation of the transactions contemplated by the NEE Merger Agreement.

Tax Matters

In July 2016, EFH Corp. received a private letter ruling (the Private Letter Ruling) from the IRS in connection with Vistra Energy's emergence from bankruptcy, which provides, among other things, for certain rulings regarding the qualification of (a) the transfer of certain assets and ordinary course operating liabilities to Vistra Energy and (b) the distribution of the equity of Vistra Energy, the cash proceeds from Vistra Energy debt, the cash proceeds from the sale of preferred stock in a newly-formed subsidiary of Vistra Energy, and the right to receive payments under a tax receivables agreement, to holders of TCEH first lien claims, as a reorganization qualifying for tax-free treatment.

The NEE Merger Agreement provides that a closing condition to the NEE Merger is the receipt of a supplemental private letter ruling (the Supplemental Ruling) from the IRS regarding the impact of the NEE Merger on certain rulings received in the Private Letter Ruling. We submitted a request to the IRS for the Supplemental Ruling in the fourth quarter of 2016.

Implications of the Chapter 11 Cases

Our ability to continue as a going concern is contingent upon, among other factors, our ability to comply with the financial and other covenants contained in the EFIH DIP Facility described in Note 8, our ability to obtain new debtor in possession financing in the event the EFIH DIP Facility were to expire during the pendency of the Chapter 11 Cases as well as our ability to obtain applicable regulatory approvals required for the effectiveness of the Plan of Reorganization as it relates to the EFH Debtors and the consummation of the transactions contemplated by the NEE Merger Agreement. These circumstances and uncertainties inherent in the bankruptcy proceedings raise substantial doubt about our ability to continue as a going concern.

Operations During the Chapter 11 Cases

In general, the Debtors have received final Bankruptcy Court orders with respect to first day motions and other operating motions that allow the Debtors to operate their businesses in the ordinary course, including, among others, providing for the payment of certain pre-petition employee and retiree expenses and benefits, the use of the Debtors' existing cash management system, the segregation of certain cash balances which require further order of the Bankruptcy Court for distribution, the payment of certain pre-petition amounts to certain critical vendors and the ability to pay certain pre-petition taxes and regulatory fees. In addition, the Bankruptcy Court has issued orders approving the EFIH DIP Facility discussed in Note 8.

Pursuant to the Bankruptcy Code, the Debtors intend to comply with all applicable regulatory requirements during the pendency of the Chapter 11 Cases. Further, the Debtors have been complying, and intend to continue to comply, with the various reporting obligations that are required by the Bankruptcy Court during the pendency of the Chapter 11 Cases. Moreover, to the extent the Debtors either maintain insurance policies or self-insure their regulatory compliance obligations, the Debtors intend to continue such insurance policies or self-insurance in the ordinary course of business.

Pre-Petition Claims

Holders of the substantial majority of pre-petition claims against the Debtors were required to file proofs of claims by the bar date established by the Bankruptcy Court. A bar date is the date by which certain claims against the Debtors must be filed if the claimants wish to receive any distribution in the Chapter 11 Cases. The Bankruptcy Court established a bar date of October 27, 2014 for the substantial majority of claims. In addition, in July 2015, the Bankruptcy Court entered an order establishing December 14, 2015 as the bar date for certain asbestos claims that arose or are deemed to have arisen before the Petition Date, except for certain specifically exempt claims.

Since the Petition Date and prior to the applicable bar dates (which have expired), we have received approximately 41,300 filed pre-petition claims, including approximately 30,900 in filed asbestos claims. The Debtors have substantially completed the process of reconciling all non-asbestos claims that were filed and have recorded such claims at the expected allowed amount. As of March 31, 2017, most of those claims have been settled, withdrawn or expunged.

Certain claims filed or reflected in the Debtors schedules of assets and liabilities were resolved on the TCEH Effective Date, including certain claims filed by holders of funded debt and contract counterparties. Claims that remain unresolved or unreconciled through the filing of this report have been estimated based upon management’s best estimate of the likely claim amounts that the Bankruptcy Court will ultimately allow.

On the TCEH Effective Date, the TCEH Debtors (together with the Contributed EFH Debtors) emerged from the Chapter 11 Cases and discharged approximately $33.8 billion in liabilities subject to compromise (LSTC). Distributions for the settled claims related to the funded debt of the TCEH Debtors commenced subsequent to the TCEH Effective Date.

Separation of the EFH Debtors from the TCEH Debtors and the Contributed EFH Debtors

On the TCEH Effective Date, the EFH Debtors and the TCEH Debtors (together with the Contributed EFH Debtors) were separated and are no longer affiliated companies. In addition to the Plan of Reorganization, the separation was effectuated, in part, pursuant to the terms of a separation agreement, a transition services agreement and a tax matters agreement.

Separation Agreement

On the TCEH Effective Date, EFH Corp., Vistra Energy and a subsidiary of Vistra Energy entered into a separation agreement that provides for, among other things, the transfer of certain assets and liabilities by EFH Corp., EFCH and TCEH to Vistra Energy. Among other things, EFH Corp., EFCH and/or TCEH, as applicable, (a) transferred the TCEH Debtors and certain contracts and assets (and related liabilities) primarily related to the business of the TCEH Debtors to Vistra Energy, (b) transferred sponsorship of certain employee benefit plans (including related assets), programs and policies to a subsidiary of Vistra Energy and (c) assigned certain employment agreements from EFH Corp. and certain of the Contributed EFH Debtors to a subsidiary of Vistra Energy.

Transition Services Agreement

On the TCEH Effective Date, EFH Corp. and a subsidiary of Vistra Energy entered into a transition services agreement that provides for, among other things, (a) the applicable subsidiaries of Vistra Energy to provide certain services to the EFH Debtors, including business services administration, accounting, corporate secretary, tax, human resources, information technology, internal audit, physical facilities and corporate security, treasury and legal services and (b) EFH Corp. to pay such subsidiary of Vistra Energy all reasonable and documented fees, costs and expenses (including employee-related overhead and general and administrative expenses) incurred by Vistra Energy and its subsidiaries related directly to these services.

Tax Matters Agreement

On the TCEH Effective Date, Vistra Energy and EFH Corp. entered into a tax matters agreement (the Tax Matters Agreement), which provides for the allocation of certain taxes among the parties and for certain rights and obligations related to, among other things, the filing of tax returns, resolutions of tax audits and preserving the tax-free nature of the spin-off. See Note 5 for further information about the Tax Matters Agreement. EFH Corp. has not recorded any amounts in its financial statements for possible indemnification payments that may be due to, or due from, Vistra Energy related to the Tax Matters Agreement.

3. DISCONTINUED OPERATIONS

On the TCEH Effective Date, the Plan of Reorganization with respect to the TCEH Debtors and Contributed EFH Debtors became effective, and the TCEH Debtors and Contributed EFH Debtors consummated their reorganization under the Bankruptcy Code and emerged from the Chapter 11 Cases.

As a result of the emergence of the TCEH Debtors and Contributed EFH Debtors from the Chapter 11 Cases, the competitive businesses previously owned by EFH Corp. are no longer indirect wholly owned subsidiaries of EFH Corp., and EFH Corp. is no longer the parent holding company of the competitive businesses.

Income (Loss) on Discontinued Operations

The emergence of the TCEH Debtors and the Contributed EFH Debtors from the Chapter 11 Cases as subsidiaries of Vistra Energy represents a strategic shift in our business. For this reason, our competitive businesses' results for all periods prior to the October 3, 2016 spin-off are classified as discontinued operations. Income on discontinued operations for the year ended December 31, 2016 is presented below:

	Year Ended December 31, 2016
Operating revenues	$ 3,973
Fuel, purchased power costs and delivery fees	(2,082)
Net gain from commodity hedging and trading activities	282
Operating costs	(664)
Depreciation and amortization	(466)
Selling, general and administrative expenses	(470)
Other income (deductions) and interest income	(47)
Interest expense and related charges	(1,057)
Reorganization items	(116)
Gain on tax-free spin-off of TCEH	21,688
Income on discontinued operations before income taxes	21,041
Income tax benefit	1,076
Income on discontinued operations	$ 22,117

Cash Flow Highlights from Discontinued Operations

The following table summarizes the depreciation and amortization, non-cash adjustments, capital expenditures and nuclear fuel purchases of the Company's discontinued operations related to the competitive business:

	Year Ended December 31, 2016
Operating:	
Depreciation and amortization	$ 539
Write-off of intangible and other assets	(45)
Investing:	
Capital expenditures	(230)
Nuclear fuel purchases	(33)
Business combination — net of cash acquired	(1,343)

Discontinued Reorganization Items

The following table presents reorganization items incurred in the year ended December 31, 2016 for discontinued operations:

	Year Ended December 31, 2016
Expenses related to legal advisory and representation services	$ (55)
Expenses related to other professional consulting and advisory services	(39)
Contract claims adjustments	(13)
Other	(9)
Total reorganization items	$ (116)

Discontinued Other Postretirement Employee Benefits (OPEB)

EFH Corp. offers other postretirement employee benefits in the form of health care and life insurance to eligible employees of its subsidiaries and their eligible dependents upon the retirement of such employees. Vistra Energy is the sponsor of an OPEB plan that EFH Corp. participates in. EFH Corp. accounts for its interest in the Vistra OPEB plan as a multiple employer plan, and has a liability in other noncurrent liabilities and deferred credits at December 31, 2016 (see Note 13).

Discontinued Income Taxes

EFH Corp. has recognized a tax benefit of $1.076 billion in discontinued operations, which primarily relates to the nontaxable gain on extinguishment of LSTC.

4. VARIABLE INTEREST ENTITIES

A variable interest entity (VIE) is an entity with which we have a relationship or arrangement that indicates some level of control over the entity or results in economic risks to us. Accounting standards require consolidation of a VIE if we have (a) the power to direct the significant activities of the VIE and (b) the right or obligation to absorb profit and loss from the VIE (i.e., we are the primary beneficiary of the VIE). In determining the appropriateness of consolidation of a VIE, we evaluate its purpose, governance structure, decision making processes and risks that are passed on to its interest holders. We also examine the nature of any related party relationships among the interest holders of the VIE and the nature of any special rights granted to the interest holders of the VIE.

Oncor Holdings, an indirect wholly owned subsidiary of EFH Corp. that holds an approximate 80% interest in Oncor, is not consolidated in EFH Corp.'s financial statements, and instead is accounted for as an equity method investment, because the structural and operational ring-fencing measures discussed in Note 1 prevent us from having power to direct the significant activities of Oncor Holdings or Oncor. In accordance with accounting standards, we account for our investment in Oncor Holdings under the equity method, as opposed to the cost method, based on our level of influence over its activities. See below for additional information about our equity method investment in Oncor Holdings. There are no other material investments accounted for under the equity or cost method. The maximum exposure to loss from our interests in VIEs does not exceed our carrying value.

Non-Consolidation of Oncor and Oncor Holdings

Our investment in unconsolidated subsidiary as presented in the consolidated balance sheet totaled $6.230 billion at December 31, 2016 and consists of our interest in Oncor Holdings, which we account for under the equity method as described above.

See Note 12 for discussion of Oncor Holdings' and Oncor's transactions with EFH Corp. and its other subsidiaries.

Distributions from Oncor Holdings and Related Considerations — Oncor Holdings' distributions of earnings to us totaled $162 million for the year ended December 31, 2016. Distributions may not be paid except to the extent Oncor maintains a required regulatory capital structure as discussed below. At December 31, 2016, $103 million was eligible to be distributed to Oncor's members after taking into account the regulatory capital structure limit, of which approximately 80% relates to our ownership interest in Oncor. The boards of directors of each of Oncor and Oncor Holdings can withhold distributions to the extent the applicable board determines in good faith that it is necessary to retain such amounts to meet expected future requirements of Oncor and/or Oncor Holdings. In March 2017, we received a distribution totaling $61 million from Oncor Holdings.

Oncor's distributions are limited by its regulatory capital structure, which is required to be at or below the assumed debt-to-equity ratio established periodically by the PUCT for ratemaking purposes, which is currently set at 60% debt to 40% equity. At December 31, 2016, Oncor's regulatory capitalization ratio was 59.4% debt and 40.6% equity. For purposes of this ratio, debt is calculated as long-term debt plus unamortized gains on reacquired debt less unamortized issuance expenses, premiums and losses on reacquired debt. Equity is calculated as membership interests determined in accordance with US GAAP, excluding the effects of accounting for the Merger (which included recording the initial goodwill and fair value adjustments and the subsequent related impairments and amortization).

EFH Corp., Oncor Holdings, Oncor and Texas Transmission are parties to a Federal and State Income Tax Allocation Agreement. Additional income tax amounts receivable or payable may arise in the normal course under that agreement.

Oncor Holdings Financial Statements — Condensed statement of consolidated income of Oncor Holdings and its subsidiaries for the year ended December 31, 2016 is presented below:

	Year Ended December 31, 2016
Operating revenues	$ 3,920
Operation and maintenance expenses	(1,648)
Depreciation and amortization	(785)
Taxes other than income taxes	(451)
Other income	2
Other deductions	(17)
Interest expense and related charges	(336)
Income before income taxes	685
Income tax expense	(267)
Net income	418
Net income attributable to noncontrolling interests	(86)
Net income attributable to Oncor Holdings	$ 332

Assets and liabilities of Oncor Holdings at December 31, 2016 are presented below:

	December 31, 2016
ASSETS	
Current assets:	
Cash and cash equivalents	$ 16
Trade accounts receivable — net	545
Income taxes receivable from EFH Corp.	57
Inventories	89
Prepayments and other current assets	100
Total current assets	807
Other investments	100
Property, plant and equipment — net	13,829
Goodwill	4,064
Regulatory assets	1,974
Other noncurrent assets	14
Total assets	$ 20,788
LIABILITIES	
Current liabilities:	
Short-term borrowings	$ 789
Long-term debt due currently	324
Trade accounts payable — nonaffiliates	231
Income taxes payable to EFH Corp.	20
Accrued taxes other than income	182
Accrued interest	83
Other current liabilities	144
Total current liabilities	1,773
Accumulated deferred income taxes	2,102
Long-term debt, less amounts due currently	5,515
Regulatory liabilities	856
Other noncurrent liabilities and deferred credits	2,399
Total liabilities	$ 12,645

5. INCOME TAXES

Income Taxes

EFH Corp. files a US federal income tax return that includes the results of EFIH, Oncor Holdings, EFCH and TCEH. EFH Corp. is the corporate member of the EFH Corp. consolidated group, while each of EFIH, Oncor Holdings, EFCH and TCEH is classified as a disregarded entity for US federal income tax purposes. Oncor is a partnership for US federal income tax purposes and is not a corporate member of the EFH Corp. consolidated group. Pursuant to applicable US Treasury regulations and published guidance of the IRS, corporations that are members of a consolidated group have joint and several liability for the taxes of such group. Subsequent to the TCEH Effective Date, the TCEH Debtors and the Contributed EFH Debtors will no longer be included in the consolidated income tax return and will be included in an income tax return with Vistra Energy.

Prior to the TCEH Effective Date, EFH Corp. and certain of its subsidiaries (including EFCH, EFIH and TCEH, but not including Oncor Holdings and Oncor) were parties to a Federal and State Income Tax Allocation Agreement, which provided, among other things, that any corporate member or disregarded entity in the EFH Corp. group was required to make payments to EFH Corp. in an amount calculated to approximate the amount of tax liability such entity would have owed if it filed a separate corporate tax return. Pursuant to the Plan of Reorganization, the TCEH Debtors and the Contributed EFH Debtors rejected this agreement on the TCEH Effective Date. Additionally, since the date of the Settlement Agreement, no further cash payments among the Debtors were made in respect of federal income taxes. We have elected to continue to allocate federal income taxes among the entities that are parties to the Federal and State Income Tax Allocation Agreement. The Settlement Agreement did not alter the allocation and payment for state income taxes, which continued to be settled prior to the TCEH Effective Date.

EFH Corp., Oncor Holdings, Oncor and Oncor’s minority investors are parties to a separate Federal and State Income Tax Allocation Agreement, which governs the computation of federal income tax liability among such parties, and similarly provides, among other things, that each of Oncor Holdings and Oncor will pay EFH Corp. its share of an amount calculated to approximate the amount of tax liability such entity would have owed if it filed a separate corporate tax return. The Settlement Agreement had no impact on the tax sharing agreement among EFH Corp., Oncor Holdings and Oncor. In March 2017, the Bankruptcy Court approved EFH Corp.’s assumption of the Oncor Tax Sharing Agreement, and as a result, EFH Corp. made a tax payment to Oncor for $135 million in March 2017.

The components of our income tax benefit on continuing operations are as follows:

	Year Ended December 31, 2016
Current:	
US Federal	$ (79)
State	4
Total current	(75)
Deferred:	
US Federal	(330)
State	1
Total deferred	(329)
Total	$ (404)

Reconciliation of income taxes computed at the US federal statutory rate to income tax benefit recorded is as follows:

	Year Ended December 31, 2016
Loss from continuing operations before income taxes and equity in earnings of unconsolidated subsidiaries	$ (1,171)
Income taxes at the US federal statutory rate of 35%	$ (410)
Texas margin tax, net of federal benefit	2
Nondeductible debt restructuring costs	14
Other	(10)
Income tax benefit	$ (404)
Effective tax rate	34.5%

Deferred Income Tax Balances

Deferred income taxes provided for temporary differences based on tax laws in effect at December 31, 2016 are as follows:

	December 31, 2016 Noncurrent
Deferred Income Tax Assets	
Alternative minimum tax credit carryforwards	$ 114
Employee benefit obligations	47
Net operating loss (NOL) carryforwards	749
Commodity contracts and interest rate swaps	3
Impacts of make-whole charges (Note 10)	355
Total	1,268
Deferred Income Tax Liabilities	
Property, plant and equipment	(32)
Debt fair value discounts	(15)
Accrued interest	333
Total	286
Net Accumulated Deferred Income Tax Asset	$ (982)

On October 3, 2016, the TCEH Effective Date, the TCEH Debtors and the Contributed EFH Debtors completed their reorganization under the Bankruptcy Code and emerged from the Chapter 11 Cases as subsidiaries of Vistra Energy. On the TCEH Effective Date, Vistra Energy was spun-off from EFH Corp. in a tax-free transaction to the former first lien creditors of TCEH. The tax-free spin-off generated a taxable gain that has been largely offset with available NOLs, substantially reducing the NOLs that are available to EFH Corp. in the future. The spin-off used $5.478 billion of NOLs to offset the taxable gain to the TCEH Debtors and the Contributed EFH Debtors generated by their emergence from the Chapter 11 Cases.

At December 31, 2016 we had $2.140 billion in net operating loss (NOL) carryforwards for federal income tax purposes that will begin to expire in 2034. Audit settlements reached in 2013 resulted in the elimination of substantially all NOL carryforwards generated through 2013 and available alternative minimum tax (AMT) credits. The NOL carryforwards can be used to offset future taxable income. After analyzing our forecasted tax position at December 31, 2016 we currently expect to utilize all of our NOL carryforwards prior to their expiration dates.

At December 31, 2016 we had $114 million in AMT credit carryforwards available which may, in certain limited circumstances, be used to offset future tax payments. The AMT credit carryforwards have no expiration date, but may be limited in a change of control.

The income tax effects of the components included in accumulated other comprehensive income at December 31, 2016 totaled a net deferred tax asset of $49 million.

Accounting for Uncertainty in Income Taxes

In September 2016, EFH Corp. entered into a settlement agreement with the Texas Comptroller of Public Accounts (Comptroller) whereby the Comptroller agreed to release all claims and liabilities related to the EFH Corp. consolidated group's state taxes, including sales tax, gross receipts utility tax, franchise tax and direct pay tax, through the agreement date, in exchange for a release of all refund claims and a one-time payment of $12 million. This settlement was entered and approved by the Bankruptcy Court in September 2016. As a result of the settlement, we reduced the liability for state uncertain tax positions by $26 million.

In 2014, the IRS filed a claim with the Bankruptcy Court for open tax years through 2013 that was consistent with the settlement we reached with the IRS Appeals for tax years 2003-2006. Since that date, we have also received agreed Revenue Agent Reports for tax years 2007-2014, and we effectively settled all remaining open federal income tax reserves. We have recorded a $48 million payable to the IRS in connection with the conclusion of these open tax years.

At December 31, 2016 we had no amounts accrued related to uncertain tax positions for continuing operations.

Tax Matters Agreement

On the TCEH Effective Date, we entered into a Tax Matters Agreement (the Tax Matters Agreement), with Vistra Energy whereby the parties have agreed to take certain actions and refrain from taking certain actions in order to preserve the intended tax treatment of the Spin-Off and to indemnify the other parties to the extent a breach of such agreement results in additional taxes to the other parties.

Among other things, the Tax Matters Agreement allocates the responsibility for taxes for periods prior to the Spin-Off between EFH Corp. and Vistra Energy. For periods prior to the Spin-Off: (a) Vistra Energy is generally required to reimburse EFH Corp. with respect to any taxes paid by EFH Corp. that are attributable to Vistra Energy and (b) EFH Corp. is generally required to reimburse Vistra Energy with respect to any taxes paid by Vistra Energy that are attributable to EFH Corp.

Vistra Energy is also required to indemnify EFH Corp. against taxes, under certain circumstance, if the IRS or another taxing authority successfully challenges the amount of gain relating to the PrefCo Preferred Stock Sale or the amount or allowance of EFH Corp.'s net operating loss deductions.

Subject to certain exceptions, the Tax Matters Agreement prohibits Vistra Energy from taking certain actions that could reasonably be expected to undermine the intended tax treatment of the Spin-Off or to jeopardize the conclusions of the private letter ruling Vistra Energy obtained from the IRS or opinions of counsel received by Vistra Energy or EFH Corp., in each case, in connection with the Spin-Off. Certain of these restrictions apply for two years after the Spin-Off.

Under the Tax Matters Agreement, Vistra Energy may engage in an otherwise restricted action if (a) Vistra Energy obtains written consent from EFH Corp., (b) such action or transaction is described in or otherwise consistent with the facts in the private letter ruling Vistra Energy obtained from the IRS in connection with the Spin-Off, (c) Vistra Energy obtains a supplemental private letter ruling from the IRS, or (d) Vistra Energy obtains an unqualified opinion of a nationally recognized law or accounting firm that is reasonably acceptable to EFH Corp. that the action will not affect the intended tax treatment of the Spin-Off.

6. INTEREST EXPENSE AND RELATED CHARGES

	Year Ended December 31, 2016
Interest paid/accrued on debtor-in-possession financing	$ 234
Interest paid/accrued on pre-petition debt (a)	150
Total interest expense and related charges	$ 384

(a) For the year ended December 31, 2016, amounts include $150 million related to interest on the EFIH First Lien and EFIH Second Lien Notes make-whole claims, but exclude the charges related to the make-whole premiums that are recorded in other deductions (see Note 13).

The Bankruptcy Code generally restricts payment of interest on pre-petition debt, subject to certain exceptions. Additional interest payments may be made upon approval by the Bankruptcy Court. Other than amounts ordered or approved by the Bankruptcy Court, effective on the Petition Date, we discontinued recording interest expense on outstanding pre-petition debt classified as LSTC. The table below shows contractual interest amounts, which are amounts due under the contractual terms of the outstanding debt, including debt classified as LSTC. Interest expense reported in the statement of consolidated income for the year ended December 31, 2016 does not include $450 million in contractual interest on pre-petition debt classified as LSTC, which has been stayed by the Bankruptcy Court effective on the Petition Date.

	Year Ended December 31, 2016		
Entity:	Contractual Interest on Debt Classified as LSTC	Approved Interest Paid/Accrued (a)	Contractual Interest on Debt Classified as LSTC Not Paid/Accrued
EFH Corp.	$ 44	$ —	$ 44
EFIH	474	68	406
Total	$ 518	$ 68	$ 450

(a) For the year ended December 31, 2016 represents portions of interest related to the EFIH Second Lien Notes that were repaid based on the approval of the Bankruptcy Court; however, excludes $82 million of post-petition interest accrued/paid in 2016 that contractually related to 2014 and default interest (see Note 9).

7. REORGANIZATION ITEMS

Expenses and income directly associated with the Chapter 11 Cases are reported separately in the statement of consolidated income as reorganization items as required by ASC 852, *Reorganizations*. Reorganization items also include adjustments to reflect the carrying value of liabilities subject to compromise (LSTC) at their estimated allowed claim amounts, as such adjustments are determined. The following table presents reorganization items incurred in the year ended December 31, 2016 as reported in the statement of consolidated income:

	Year Ended December 31, 2016
Expenses related to legal advisory and representation services	$ 31
Expenses related to other professional consulting and advisory services	34
Fees associated with extension of EFIH DIP Facility (Note 8)	24
Total reorganization items	$ 89

8. EFIH DEBTOR-IN-POSSESSION FACILITY

As of December 31, 2016, the EFIH DIP Facility provided a $5.475 billion first-lien debtor-in-possession financing facility.

As of December 31, 2016, remaining cash on hand from borrowings under the EFIH DIP Facility, net of fees, totaled approximately $313 million, which was held as cash and cash equivalents. In the December 31, 2016 consolidated balance sheet, the borrowings under the EFIH DIP Facility are reported as current liabilities. The EFIH DIP Facility must be repaid in full prior to the EFIH Debtors' emergence from the Chapter 11 Cases.

In January 2016, the EFIH Debtors paid a $13.5 million extension fee to extend the maturity date of the EFIH DIP Facility to December 2016. The terms of the EFIH DIP Facility were otherwise unchanged. In October 2016, the EFIH DIP Facility was amended, in part, to extend the maturity date of the facility and to increase the borrowings under the facility by $75 million. The EFH Debtors paid fees and expenses of $10 million in connection with the amendment. The EFIH DIP Facility now matures on the earlier of (a) the EFH Effective Date, (b) the sale of substantially all of EFIH's assets or (c) June 2017, subject to the right of the EFH Debtors, upon the payment of certain extension fees, to extend the maturity an additional six months.

The principal amounts outstanding under the EFIH DIP Facility bear interest based on applicable LIBOR rates, subject to a 1% floor, plus 3.25%. At December 31, 2016, outstanding borrowings under the EFIH DIP Facility totaled $5.475 billion at an annual interest rate of 4.25% . The EFIH DIP Facility is a non-amortizing loan that may, subject to certain limitations, be voluntarily prepaid by the EFIH Debtors, in whole or in part, without any premium or penalty.

EFIH's obligations under the EFIH DIP Facility are secured by a first lien covering substantially all of EFIH's assets, rights and properties, subject to certain exceptions set forth in the EFIH DIP Facility. The EFIH DIP Facility provides that all obligations thereunder constitute administrative expenses in the Chapter 11 Cases, with administrative priority and senior secured status under the Bankruptcy Code and, subject to certain exceptions set forth in the EFIH DIP Facility, will have priority over any and all administrative expense claims, unsecured claims and costs and expenses in the Chapter 11 Cases.

The EFIH DIP Facility provides for affirmative and negative covenants applicable to EFIH and EFIH Finance, including affirmative covenants requiring EFIH and EFIH Finance to provide financial information, budgets and other information to the agents under the EFIH DIP Facility, and negative covenants restricting EFIH's and EFIH Finance's ability to incur additional indebtedness, grant liens, dispose of assets, pay dividends or take certain other actions, in each case except as permitted in the EFIH DIP Facility. The EFIH DIP Facility also includes a minimum liquidity covenant pursuant to which EFIH cannot allow the amount of its unrestricted cash (as defined in the EFIH DIP Facility) to be less than $150 million. As of December 31, 2016, EFIH was in compliance with this minimum liquidity covenant. The Oncor Ring-Fenced Entities are not restricted subsidiaries for purposes of the EFIH DIP Facility.

The EFIH DIP Facility provides for certain customary events of default, including events of default resulting from non-payment of principal, interest or other amounts when due, material breaches of representations and warranties, material breaches of covenants in the EFIH DIP Facility or ancillary loan documents, cross-defaults under other agreements or instruments and the entry of material judgments against EFIH. Upon the existence of an event of default, the EFIH DIP Facility provides that all principal, interest and other amounts due thereunder will become immediately due and payable, either automatically or at the election of specified lenders.

The EFIH DIP Facility permits, subject to certain terms, conditions and limitations set forth in the EFIH DIP Facility, EFIH to incur incremental junior lien subordinated debt in an aggregate amount not to exceed $3 billion.

9. LIABILITIES SUBJECT TO COMPROMISE (LSTC)

The amounts classified as LSTC reflect the company's estimate of pre-petition liabilities and other expected allowed claims to be addressed in the Chapter 11 Cases and may be subject to future adjustment as the Chapter 11 Cases proceed. Due to the separation of TCEH from EFH Corp. on the TCEH Effective Date, a claim that was granted as part of the Settlement Agreement due to the TCEH first lien creditors from EFH Corp. was recognized on EFH Corp.'s consolidated balance sheet since it was no longer eliminated due to TCEH's deconsolidation. The following table presents LSTC as reported in the consolidated balance sheet at December 31, 2016:

	December 31, 2016
Notes, loans and other debt per the following table	$ 4,552
Claim owed to the TCEH first lien creditors under the Settlement Agreement	700
Accrued interest on notes, loans and other debt	249
Trade accounts payable and other expected allowed claims	65
Total liabilities subject to compromise	$ 5,566

Pre-Petition Notes, Loans and Other Debt Reported as LSTC

Amounts presented below represent principal amounts of pre-petition notes, loans and other debt reported as LSTC.

	December 31, 2016
EFH Corp. (parent entity)	
9.75% Fixed Senior Notes due October 15, 2019	$ 2
10% Fixed Senior Notes due January 15, 2020	3
10.875% Fixed Senior Notes due November 1, 2017	33
11.25% / 12.00% Senior Toggle Notes due November 1, 2017	27
5.55% Fixed Series P Senior Notes due November 15, 2014	89
6.50% Fixed Series Q Senior Notes due November 15, 2024	198
6.55% Fixed Series R Senior Notes due November 15, 2034	288
Total EFH Corp.	640
EFIH	
6.875% Fixed Senior Secured First Lien Notes due August 15, 2017 (a)	1
10% Fixed Senior Secured First Lien Notes due December 1, 2020 (a)	431
11% Fixed Senior Secured Second Lien Notes due October 1, 2021 (a)	354
11.75% Fixed Senior Secured Second Lien Notes due March 1, 2022 (a)	1,594
11.25% / 12.25% Senior Toggle Notes due December 1, 2018	1,530
9.75% Fixed Senior Notes due October 15, 2019	2
Total EFIH	3,912
Total EFH Corp. consolidated notes, loans and other debt	$ 4,552

(a) For the year ended December 31, 2016, increases represent make-whole premiums, excluding interest, relating to the EFIH First Lien Notes and EFIH Second Lien Notes (see Note 10).

Information Regarding Significant Pre-Petition Debt

EFIH 6.875% Senior Secured Notes — At December 31, 2016, $1 million of make-whole claims were due under the EFIH 6.875% Notes. These notes were initially exchanged or settled in June 2014. The notes bore interest at a fixed rate of 6.875% per annum. The EFIH 6.875% Notes were secured on a first-priority basis by EFIH's pledge of its 100% ownership of the membership interests in Oncor Holdings (the EFIH Collateral) on an equal and ratable basis with the EFIH 10% Notes.

EFIH 10% Senior Secured Notes — At December 31, 2016, $431 million of make-whole claims were due under the EFIH 10% Notes. These notes were initially exchanged or settled in June 2014. The notes bore interest at a fixed rate of 10% per annum. The notes were secured by the EFIH Collateral on an equal and ratable basis with the EFIH 6.875% Notes.

EFIH 11% Senior Secured Second Lien Notes — The principal amount of the EFIH 11% Notes totals $354 million, including $32 million of make-whole claims with interest at a fixed rate of 11% per annum. The EFIH 11% Notes are secured on a second-priority basis by the EFIH Collateral on an equal and ratable basis with the EFIH 11.75% Notes.

The EFIH 11% Notes are senior obligations of EFIH and EFIH Finance and rank equally in right of payment with all senior indebtedness of EFIH and are effectively senior in right of payment to all existing or future unsecured debt of EFIH to the extent of the value of the EFIH Collateral. The notes have substantially the same terms as the EFIH 11.75% Notes discussed below, and the holders of the EFIH 11% Notes will generally vote as a single class with the holders of the EFIH 11.75% Notes.

EFIH 11.75% Senior Secured Second Lien Notes — The principal amount of the EFIH 11.75% Notes totals $1.594 billion, including $205 million of make-whole claims with interest at a fixed rate of 11.75% per annum. The EFIH 11.75% Notes are secured on a second-priority basis by the EFIH Collateral on an equal and ratable basis with the EFIH 11% Notes. The EFIH 11.75% Notes have substantially the same covenants as the EFIH 11% Notes, and the holders of the EFIH 11.75% Notes will generally vote as a single class with the holders of the EFIH 11% Notes.

The EFIH 11.75% Notes were issued in private placements and are not registered under the Securities Act. EFIH had agreed to use its commercially reasonable efforts to register with the SEC notes having substantially identical terms as the EFIH 11.75% Notes (except for provisions relating to transfer restrictions and payment of additional interest) as part of an offer to exchange freely tradable notes for the EFIH 11.75% Notes. Because the exchange offer was not completed, the annual interest rate on the EFIH 11.75% Notes increased by 25 basis points (to 12.00%) in February 2013 and by an additional 25 basis points (to 12.25%) in May 2013.

EFIH 11.25%/12.25% Senior Toggle Notes — The principal amount of the EFIH PIK Notes totals $1.530 billion with interest at a fixed rate of 11.25% per annum for cash interest and 12.25% per annum for PIK Interest. The terms of the EFIH PIK Notes include an election by EFIH, for any interest period until June 1, 2016, to pay interest on the EFIH PIK Notes (i) entirely in cash; (ii) by increasing the principal amount of the notes or by issuing new EFIH PIK Notes (PIK Interest); or (iii) 50% in cash and 50% in PIK Interest. EFIH made its pre-petition interest payments on the EFIH PIK Notes by using the PIK feature of those notes.

The EFIH PIK Notes were issued in private placements and are not registered under the Securities Act. EFIH had agreed to use its commercially reasonable efforts to register with the SEC notes having substantially identical terms as the EFIH PIK Notes (except for provisions relating to transfer restrictions and payment of additional interest) as part of an offer to exchange freely tradable notes for the EFIH PIK Notes. Because the exchange offer was not completed, the annual interest rate on the EFIH PIK Notes increased by 25 basis points (to 11.50%) in December 2013 and by an additional 25 basis points (to 11.75%) in March 2014.

EFH Corp. 10.875% Senior Notes and 11.25%/12.00% Senior Toggle Notes — The collective principal amount of these notes totals $60 million. The notes are fully and unconditionally guaranteed on a joint and several senior unsecured basis by EFCH and EFIH. The notes bore interest at a fixed rate for the 10.875% Notes of 10.875% per annum and at a fixed rate for the Toggle Notes of 11.25% per annum.

Material Cross Default/Acceleration Provisions — Certain of our pre-petition financing arrangements contain provisions that result in an event of default if there were a failure under other financing arrangements to meet payment terms or to observe other covenants that could or does result in an acceleration of payments due. Such provisions are referred to as "cross default" or "cross acceleration" provisions. The Bankruptcy Filing triggered defaults on our pre-petition debt obligations, but pursuant to the Bankruptcy Code, the creditors are stayed from taking any actions against the Debtors as a result of such defaults.

EFIH Collateral Trust Agreement — EFIH entered into a Collateral Trust Agreement, among EFIH, Delaware Trust Company, as First Lien Successor Trustee, the other Secured Debt Representatives named therein and the Collateral Trustee. The Collateral Trust Agreement governing the pledge of collateral generally provides that the holders of a majority of the debt secured by a first priority lien on the collateral, including the notes and other future debt incurred by EFH or EFIH secured by the collateral equally and ratably, have, subject to certain limited exceptions, the exclusive right to manage, perform and enforce the terms of the security documents securing the rights of secured debt holders in the collateral, and to exercise and enforce all privileges, rights and remedies thereunder.

10. COMMITMENTS AND CONTINGENCIES

Guarantees

See Notes 8 and 9 for discussion of guarantees and security of our post-petition and pre-petition debt.

Legal Proceedings

From time to time, we may be involved in various legal and administrative proceedings in the normal course of business, the ultimate resolutions of which, in the opinion of management, should not have a material effect upon its financial condition, results of operations or liquidity.

Make-whole Claims — In May 2014, the indenture trustee for the EFIH First Lien Notes initiated litigation in the Bankruptcy Court seeking, among other things, a declaratory judgment that EFIH is obligated to pay a make-whole premium in connection with the cash repayment of the EFIH First Lien Notes and that such make-whole premium is an allowed secured claim, or in the alternative, an allowed secured or unsecured claim for breach of contract (EFIH First Lien Make-whole Claims). In separate rulings in March and July 2015, the Bankruptcy Court found that no make-whole premium is due with respect to the EFIH First Lien Notes. In February 2016, the US District Court for the District of Delaware affirmed the Bankruptcy Court's rulings. In November 2016, the Third Circuit Court of Appeals reversed lower court rulings disallowing the claims of EFIH's noteholders for make-whole premiums allegedly due under their indentures. Due to that ruling we recorded a charge in the amount of $432 million, excluding accrued interest, related to the EFIH First Lien Make-whole Claims in November 2016 (see Note 13). These claims were settled as described below in January 2017.

In June 2014, the indenture trustee for the EFIH Second Lien Notes initiated litigation in the Bankruptcy Court seeking similar relief as the trustee of the EFIH First Lien Notes with respect to the EFIH Second Lien Notes, including among other things, that EFIH is obligated to pay a make-whole premium in connection with any repayment of the EFIH Second Lien Notes and that such make-whole premium would be an allowed secured claim, or in the alternative, an allowed secured or unsecured claim for breach of contract (the EFIH Second Lien Make-whole Claims). In October 2015, the Bankruptcy Court issued a finding that no make-whole premium is due with respect to the EFIH Second Lien Notes. In April 2016, the US District Court for the District of Delaware issued a ruling and order affirming the Bankruptcy Court's decision. In November 2016, the Third Circuit Court of Appeals reversed lower court rulings disallowing the claims of EFIH's noteholders for make-whole premiums allegedly due under their indentures. Due to that ruling we recorded a charge in the amount of $237 million, excluding accrued interest, related to the EFIH Second Lien Make-whole Claims in November 2016 (see Note 13). These claims were settled as described below in January 2017.

In July 2015, the EFIH Debtors filed a claim objection with the Bankruptcy Court regarding the EFIH PIK noteholders' claims for a redemption or make-whole premium and post-petition interest at the contract rate under the EFIH PIK Notes. In October 2015, the Bankruptcy Court issued opinions in favor of the EFIH Debtors. One opinion found that no make-whole premium is due with respect to the EFIH PIK Notes. The second opinion found that the EFIH PIK noteholders' allowed claim does not, as a matter of law, include post-petition interest whether at the contract rate or the Federal Judgment Rate. This opinion did find, however, that, in connection with the confirmation of a plan of reorganization, the Bankruptcy Court could, at its discretion, grant post-petition interest as part of the EFIH PIK noteholders' allowed claim under general principals of equity and that such grant could be at the contract rate, the Federal Judgment Rate or any other amount that the Bankruptcy Court determines to be equitable. The EFIH PIK noteholders have appealed both rulings to the US District Court for the District of Delaware. The US District Court for the District of Delaware has not scheduled oral arguments or otherwise issued a ruling regarding the make-whole opinion. A status report on the Third Circuit's opinion regarding the EFIH First Lien Make-whole Claims and EFIH Second Lien Make-whole Claims was filed in late January 2017. The appeal of the post-petition interest ruling has been stayed by the US District Court for the District of Delaware pending an equitable proceeding suggested by the Bankruptcy Court's second opinion. Pursuant to the terms of the Plan of Reorganization, the EFIH PIK noteholders' claims described above will be disallowed in full.

In January 2017, the EFH Debtors, certain holders of first lien and second lien secured claims against the EFIH Debtors, and certain EFIH PIK noteholders reached agreement on the settlement of EFIH First Lien Note and EFIH Second Lien Notes claims (including, most significantly, the make-whole claims asserted by those holders). Under the terms of the settlement, on the EFH Effective Date, the make-whole claims of the holders of the EFIH First Lien Notes will be paid at 95% plus accrued interest and the make-whole claims of the holders of the EFIH Second Lien Notes will be paid at 87.5% plus accrued interest. The Bankruptcy Court approved the settlement in March 2017. The make-whole and post-petition interest claims asserted by holders of the EFIH PIK Notes were settled as part of the Plan Support Agreement entered into in January 2017 by the EFH Debtors and the EFIH PIK noteholders holding approximately 67.5% of the EFIH PIK Note claims. The Plan of Reorganization confirmed as to the EFH Debtors disallowed make-whole or redemption premiums asserted by all other creditors. As a result of the Bankruptcy Court approval of the make-whole settlement subsequent to year-end, the Company expects to record a reduction in LSTC in its 2017 financial statements.

11. EQUITY

Equity Issuances and Repurchases

Common stock shares outstanding of approximately 1,670 million of shares have remained unchanged at December 31, 2016.

Dividend Restrictions

EFH Corp. has not declared or paid any dividends since the Merger. The agreement governing the EFIH DIP Facility generally restricts EFIH's ability to make distributions or loans to any of its parent companies or their subsidiaries unless such distributions or loans are expressly permitted under the agreement governing such facility.

Under applicable law, we are prohibited from paying any dividend to the extent that immediately following payment of such dividend, there would be no statutory surplus or we would be insolvent.

Noncontrolling Interests

At December 31, 2016, ownership of Oncor's membership interests was as follows: 80.03% held indirectly by EFH Corp., 0.22% held indirectly by Oncor's management and board of directors and 19.75% held by Texas Transmission. See Note 4 for discussion of the deconsolidation of Oncor effective January 1, 2010.

Accumulated Other Comprehensive Loss

The following table presents the changes to accumulated other comprehensive loss for the year ended December 31, 2016.

	Dedesignated Cash Flow Hedges – Interest Rate Swaps	Pension and Other Postretirement Employee Benefit Liabilities Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2015	$ (50)	$ (76)	$ (126)
Amounts reclassified from accumulated other comprehensive income and reported in:			
Operating costs	—	(4)	(4)
Selling, general and administrative expenses	—	(3)	(3)
Income tax benefit	—	3	3
Equity in earnings of unconsolidated subsidiaries (net of tax)	2	—	2
Income from discontinued operations (net of tax)	32	6	38
Total amount reclassified from accumulated other comprehensive income during the period	34	2	36
Balance at December 31, 2016	$ (16)	$ (74)	$ (90)

Substantially all of the accumulated other comprehensive loss at December 31, 2016 relates to our interest in Oncor Holdings.

12. RELATED PARTY TRANSACTIONS

The following represent our significant related-party transactions. As of the TCEH Effective Date, pursuant to the Plan of Reorganization as it relates to the TCEH Debtors, EFH Corp., EFIH, Oncor Holdings and Oncor ceased being affiliates of the TCEH Debtors, the Contributed EFH Debtors and Vistra Energy.

- We file a consolidated federal income tax return that includes Oncor Holdings' results. Oncor is not a member of our consolidated tax group, but our consolidated federal income tax return includes our portion of Oncor's results due to our equity ownership in Oncor. We also file a consolidated Texas state margin tax return that includes all of Oncor Holdings' and Oncor's results. However, under a Federal and State Income Tax Allocation Agreement, Oncor Holdings' and Oncor's federal income tax and Texas margin tax expense and related balance sheet amounts, including our income taxes receivable from or payable to Oncor Holdings and Oncor, are recorded as if Oncor Holdings and Oncor file their own corporate income tax returns.

  At December 31, 2016, our net current amount payable to Oncor Holdings related to federal and state income taxes (reported in net payables due to unconsolidated subsidiary) totaled $101 million, $106 million of which related to Oncor. The $106 million net payable to Oncor included a $126 million in federal income tax payable and a $20 million state margin tax receivable. In March 2017, the Bankruptcy Court approved EFH Corp.'s assumption of the Oncor Tax Sharing Agreement, and as a result, EFH Corp. made a tax payment to Oncor for $135 million in March 2017.

For the year ended December 31, 2016, EFH Corp. received income tax payments from Oncor Holdings and Oncor totaling $21 million and $20 million, respectively.

- Affiliates of the Sponsor Group have sold or acquired, and in the future may sell or acquire, debt or debt securities issued by us in open market transactions or through loan syndications.
- In December 2012, Oncor became the sponsor of a new pension plan (the Oncor Plan), the participants in which consist of all of Oncor's active employees and all retirees and terminated vested participants of EFH Corp. and its subsidiaries (including discontinued businesses). Oncor had previously agreed to assume responsibility for pension liabilities that are recoverable by Oncor under regulatory rate-setting provisions. As part of the pension plan actions, EFH Corp. fully funded the non-recoverable pension liabilities under the Oncor Plan. After the pension plan actions, participants remaining in the EFH Corp. pension plan consist of active employees under collective bargaining agreements (union employees). After the TCEH Effective Date, the EFH Corp. pension plan was transferred and assigned to Vistra Energy. Oncor continues to be responsible for the recoverable portion of pension obligations to these union employees. Under ERISA, EFH Corp. and Oncor remain jointly and severally liable for the funding of the EFH Corp. and Oncor pension plans.
- In September 2016, a cash contribution totaling $2 million was made to the EFH Corp. retirement plan, all of which was contributed by TCEH, which resulted in the EFH Corp. retirement plan continuing to be fully funded as calculated under the provisions of ERISA. As a result of the Bankruptcy Filing, participants in the EFH Corp. retirement plan who chose to retire would not have been eligible for the lump sum payout option under the retirement plan unless the EFH Corp. retirement plan was fully funded.

13. SUPPLEMENTARY FINANCIAL INFORMATION

Other Income and Deductions

	Year Ended December 31, 2016
Other income:	
All other	$ 3
Total other income	$ 3
Other deductions:	
Make-whole charges on EFIH First and Second Lien Notes (See Note 10)	$ 669
Adjustment of asbestos liability	12
All other	2
Total other deductions	$ 683

Other Investments

	December 31, 2016
Assets related to employee benefits plans, including employee savings programs, net of distributions	$ 26
Total other investments	$ 26

Other Noncurrent Liabilities and Deferred Credits

	December 31, 2016
Other post-retirement and employee benefits	$ 27
Other	48
Total other noncurrent liabilities and deferred credits	$ 75

Fair Value of Debt

	December 31, 2016	
Debt:	Carrying Amount	Fair Value
Borrowings under debtor-in-possession credit facilities (Note 8)	$ 5,475	$5,516

We determine fair value in accordance with accounting standards, and at December 31, 2016, our debt fair value represents Level 2 valuations. We obtain security pricing from an independent party who uses broker quotes and third-party pricing services to determine fair values. Where relevant, these prices are validated through subscription services such as Bloomberg. The fair value estimates of our pre-petition notes, loans and other debt reported as liabilities subject to compromise have been excluded from the table above. As a result of our ongoing Chapter 11 Cases, obtaining the fair value estimates of our pre-petition debt subject to compromise as of December 31, 2016 is impractical, and the fair values will ultimately be decided through the Chapter 11 Cases.

Supplemental Cash Flow Information

	Year Ended December 31, 2016 (a)
Cash payments related to:	
Interest paid (b)	$ 1,266
Capitalized interest	(9)
Interest paid (net of capitalized interest) (b)	$ 1,257
Income taxes	$ 45
Reorganization items (c)	$ 226
Noncash investing and financing activities:	
Construction expenditures	$ 54
Spin-off of Vistra Energy (d)	$ 20,913

(a) Amounts include discontinued operation activity through period ended October 2, 2016.
(b) This amount includes amounts paid for adequate protection.
(c) Represents cash payments for legal and other consulting services.
(d) Represents a reduction in net liabilities of $22.764 billion less the cash transferred of $1.851 billion to Vistra Energy as a result of the spin-off.

ENERGY FUTURE HOLDINGS CORP.

A DEBTOR-IN-POSSESSION

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

AS OF SEPTEMBER 30, 2017 and DECEMBER 31, 2016

AND FOR THE

NINE MONTHS ENDED SEPTEMBER 30, 2017 and 2016

GLOSSARY

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Chapter 11 Cases	Cases being heard in the US Bankruptcy Court for the District of Delaware (Bankruptcy Court) concerning voluntary petitions for relief under Chapter 11 of the US Bankruptcy Code (Bankruptcy Code) filed on April 29, 2014 by the Debtors. On the TCEH Effective Date, the TCEH Debtors (together with the Contributed EFH Debtors) emerged from the Chapter 11 Cases.
Contributed EFH Debtors	Certain Debtors previously owned directly or indirectly by EFH Corp. that became subsidiaries of Vistra Energy on the TCEH Effective Date.
DIP Facility	Refers to the EFIH DIP Facilities. See Note 8 to the Financial Statements
Debtors	EFH Corp. and the substantial majority of its direct and indirect subsidiaries, including EFIH, EFCH and TCEH but excluding the Oncor Ring-Fenced Entities. Prior to the TCEH Effective Date, also included the TCEH Debtors and the Contributed EFH Debtors.
Disclosure Statement	Disclosure Statement for the Debtors' Joint Plan of Reorganization, approved by the Bankruptcy Court in September 2017.
EFH Effective Date	the date of the effective time of the Plan of Reorganization with respect to the EFH Debtors
EFH Corp.	Energy Future Holdings Corp., a holding company, and/or its subsidiaries, depending on context, of which Oncor is the major subsidiary
EFH Debtors	EFH Corp. and its subsidiaries that are Debtors in the Chapter 11 Cases, including EFIH and EFIH Finance Inc., but excluding the TCEH Debtors and the Contributed EFH Debtors
EFIH	Energy Future Intermediate Holding Company LLC, a direct, wholly owned subsidiary of EFH Corp. and the direct parent of Oncor Holdings
EFIH Debtors	EFIH and EFIH Finance
EFIH DIP Facility	Refers to EFIH's debtor-in-possession financing. See Note 8 to the Financial Statements.
EFIH Finance	EFIH Finance, Inc.
EFIH First Lien Notes	EFIH's and EFIH Finance's 6.875% Senior Secured First Lien Notes and 10.000% Senior Secured First Lien Notes, collectively
EFIH Second Lien Notes	EFIH's and EFIH Finance's 11% Senior Secured Second Lien Notes and 11.75% Senior Secured Second Lien Notes, collectively
ERISA	Employee Retirement Income Security Act of 1974, as amended
Federal and State Income Tax Allocation Agreements	EFH Corp. and certain of its subsidiaries (including EFCH, EFIH and TCEH, but not including Oncor Holdings and Oncor) were parties to a Federal and State Income Tax Allocation Agreement, executed on May 15, 2012 but effective as of January 1, 2010. This agreement was rejected by the Debtors on the TCEH Effective Date. EFH Corp., Oncor Holdings, Oncor, Texas Transmission, and Oncor Management Investment LLC are parties to that certain Federal and State Income Tax Allocation Agreement

	dated November 5, 2008. This agreement was assumed by the Debtors on the TCEH Effective Date. See Note 5 to the Financial Statements.
FERC	US Federal Energy Regulatory Commission
IRS	US Internal Revenue Service
LIBOR	London Interbank Offered Rate, an interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market
LSTC	liabilities subject to compromise
Oncor	Oncor Electric Delivery Company LLC, a direct, majority-owned subsidiary of Oncor Holdings and an indirect subsidiary of EFH Corp. that is engaged in regulated electricity transmission and distribution activities
Oncor Holdings	Oncor Electric Delivery Holdings Company LLC, a direct, wholly owned subsidiary of EFIH and the direct majority owner of Oncor, and/or its subsidiaries, depending on context
Oncor Ring-Fenced Entities	Oncor Holdings and its direct and indirect subsidiaries, including Oncor
Plan of Reorganization	the Joint Plan of Reorganization of EFH Corp., EFIH and the EFH Debtors, pursuant to Chapter 11 of the Bankruptcy Code, which was filed with the Bankruptcy Court in July 2017, amended in September 2017, and as may be amended from time to time
PUCT	Public Utility Commission of Texas
SEC	US Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Settlement Agreement	Amended and Restated Settlement Agreement among the Debtors, the Sponsor Group, settling TCEH first lien creditors, settling TCEH second lien creditors, settling TCEH unsecured creditors and the official committee of unsecured creditors of TCEH (collectively, the Settling Parties), filed by the Debtors with the Bankruptcy Court in December 2015. See Note 2 to the Financial Statements.
TCEH	Texas Competitive Electric Holdings Company LLC, a direct, wholly owned subsidiary of EFCH and an indirect subsidiary of EFH Corp., and/or its subsidiaries, depending on context, that prior to the TCEH Effective Date, were engaged in electricity generation and wholesale and retail energy market activities. Subsequent to the TCEH Effective Date, Vistra Energy continued substantially the same operations as TCEH.
TCEH Debtors	the subsidiaries of TCEH that were Debtors in the Chapter 11 Cases
TCEH Effective Date	October 3, 2016, the date the TCEH Debtors and the Contributed EFH Debtors completed their reorganization under the Bankruptcy Code and emerged from the Chapter 11 Cases
US	United States of America
VIE	variable interest entity
Vistra Energy	the entity that emerged after the TCEH Effective Date and which continues substantially the same operations as TCEH and the Contributed EFH Debtors conducted prior to the TCEH Effective Date.

ENERGY FUTURE HOLDINGS CORP. AND SUBSIDIARIES, A DEBTOR-IN-POSSESSION
CONDENSED STATEMENTS OF CONSOLIDATED INCOME (LOSS)
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(millions of dollars)	
Selling, general and administrative expenses	$ (10)	$ (17)
Other income (Note 9)	83	2
Other deductions	(1)	(13)
Interest income	3	—
Interest expense and related charges (Note 6)	(810)	(175)
Reorganization items (Note 7)	(84)	(90)
Loss from continuing operations before income taxes and equity in earnings of unconsolidated subsidiaries	(819)	(293)
Income tax benefit (Note 5)	180	79
Equity in earnings of unconsolidated subsidiaries (net of tax) (Note 4)	265	274
Net income (loss) from continuing operations	(374)	60
Income (loss) from discontinued operations (net of tax) (Note 3)	100	(473)
Net loss attributable to EFH Corp.	$ (274)	$ (413)

See Notes to the Financial Statements.

CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(millions of dollars)	
Components related to continuing operations:		
Net income (loss) from continuing operations	$ (374)	$ 60
Other comprehensive loss, net of tax effects:		
Effects related to pension and other retirement benefit obligations (net of tax)	(2)	(5)
Net effects related to Oncor — reported in equity in earnings of unconsolidated subsidiaries (net of tax)	3	2
Total other comprehensive income (loss)	1	(3)
Comprehensive income (loss) from continuing operations attributable to EFH Corp.	(373)	57
Components related to discontinued operations:		
Income (loss) from discontinued operations	100	(473)
Other comprehensive loss, net of tax effects:		
Cash flow hedges derivative value net loss related to hedged transactions recognized during the period (net of tax)	—	1
Total other comprehensive income	—	1
Comprehensive income (loss) from discontinued operations attributable to EFH Corp.	100	(472)
Comprehensive loss attributable to EFH Corp.	$ (273)	$ (415)

See Notes to the Financial Statements.

ENERGY FUTURE HOLDINGS CORP. AND SUBSIDIARIES, A DEBTOR-IN-POSSESSION
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2017	2016
	(millions of dollars)	
Cash flows — operating activities:		
Net loss	$ (274)	$ (413)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	—	539
Deferred income tax benefit, net	(258)	(215)
Make-whole claim adjustment (Note 9)	(79)	—
Contract claims adjustments	—	13
Unrealized net loss from mark-to-market of commodity positions	—	36
Adjustment to asbestos liability	—	23
Fees paid on EFIH DIP Facility (reported as financing activities) (Note 8)	18	14
Equity in earnings of unconsolidated subsidiaries	(265)	(274)
Distributions of earnings from unconsolidated subsidiaries (Note 4)	170	135
Write-off of intangible and other assets	—	45
Other, net	—	64
Changes in operating assets and liabilities:		
Receivables/payables from/due to unconsolidated subsidiary	(162)	6
Liabilities subject to compromise make-whole settlement (Note 9)	(410)	—
Margin deposits, net	—	(124)
Accrued interest on make-whole claims (Notes 6 and 9)	(115)	—
Accrued post-petition interest (Note 6)	595	—
Other operating assets and liabilities	(2)	(177)
Cash used in operating activities	(782)	(328)
Cash flows — financing activities:		
Borrowings under EFIH, TCEH DIP Facilities and TCEH DIP Roll Facilities (Note 8)	3,348	4,680
Repayments/repurchases of debt	(2,523)	(2,699)
TCEH DIP Roll Facilities financing fees	—	(112)
Fees paid on EFIH DIP Facilities (Note 8)	(18)	(14)
Cash provided by financing activities	807	1,855
Cash flows — investing activities:		
Capital expenditures	—	(230)
Nuclear fuel purchases	—	(33)
Lamar and Forney acquisition — net of cash acquired	—	(1,343)
Other changes in restricted cash	(10)	365
Proceeds from sales of nuclear decommissioning trust fund securities	—	201
Investments in nuclear decommissioning trust fund securities	—	(215)
Other, net	(2)	8
Cash used in investing activities	(12)	(1,247)
Net change in cash and cash equivalents	13	280
Cash and cash equivalents — beginning balance	764	2,286
Cash and cash equivalents — ending balance	$ 777	$ 2,566

See Notes to the Financial Statements.

ENERGY FUTURE HOLDINGS CORP. AND SUBSIDIARIES, A DEBTOR-IN-POSSESSION
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2017	December 31, 2016
	(millions of dollars)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 777	$ 764
Restricted cash	10	—
Trade accounts receivable — net	—	7
Income taxes receivable — net	3	—
Other current assets	3	3
Total current assets	793	774
Investment in unconsolidated subsidiary (Note 4)	6,327	6,230
Other investments	28	26
Accumulated deferred income taxes	1,246	982
Other noncurrent assets	4	7
Total assets	$ 8,398	$ 8,019
LIABILITIES AND EQUITY		
Current liabilities:		
Borrowings under debtor-in-possession credit facilities (Note 8)	$ 6,300	$ 5,475
Net payables due to unconsolidated subsidiary	10	101
Accrued taxes	—	31
Accrued interest	2	40
Other current liabilities	50	74
Total current liabilities	6,362	5,721
Liabilities subject to compromise (Note 9)	5,556	5,566
Other noncurrent liabilities and deferred credits	96	75
Total liabilities	12,014	11,362
Commitments and Contingencies		
Equity:		
Common stock (shares outstanding 2017 — 1,669,861,379; 2016 — 1,669,861,379)	2	2
Additional paid-in capital	7,968	7,968
Retained deficit	(11,497)	(11,223)
Accumulated other comprehensive loss	(89)	(90)
Total equity	(3,616)	(3,343)
Total liabilities and equity	$ 8,398	$ 8,019

See Notes to the Financial Statements.

1. BASIS OF PRESENTATION

The accompanying condensed consolidated balance sheets, statements of net loss and cash flows present results of operations and cash flows of EFH Corp. and its subsidiaries. Adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations and financial position have been included therein. All intercompany items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been omitted. Because the condensed consolidated financial statements do not include all of the information and footnotes required by US GAAP, they should be read in conjunction with the consolidated financial statements and related notes of EFH Corp. included in the 2016 Annual Financial Statements. All dollar amounts in the financial statements and tables in the notes are stated in millions of US dollars unless otherwise indicated. Subsequent events have been evaluated though November 13, 2017, the date these consolidated financial statements were issued.

2. CHAPTER 11 CASES

On April 29, 2014, EFH Corp. and the substantial majority of its direct and indirect subsidiaries, including EFIH, but excluding the Oncor Ring-Fenced Entities, filed voluntary petitions for relief under the Bankruptcy Code in the Bankruptcy Court. The TCEH Debtors and the EFH Contributed Debtors emerged from the Chapter 11 Cases on the TCEH Effective Date. Only the EFH Debtors remain in the Chapter 11 Cases. During the pendency of the Chapter 11 Cases, the EFH Debtors will continue to operate their business as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code.

Termination of NEE Merger Agreement

In July 2016, EFH Corp. and EFIH entered into an Agreement and Plan of Merger (NEE Merger Agreement) with NEE and a wholly-owned subsidiary of NEE. Pursuant to the NEE Merger Agreement, NEE would have acquired the EFH Debtors (as reorganized). The NEE Merger Agreement was approved by the Bankruptcy Court in September 2016 and was subject to a number of closing conditions, including the consent of the PUCT.

In October 2016, NEE and Oncor filed a joint merger approval application with the PUCT. In April 2017, the PUCT issued an order that determined that the transactions proposed by the NEE Merger Agreement were not in the public interest. In May 2017, NEE filed a motion for rehearing with the PUCT with respect to the order. Following this motion, in June 2017, the PUCT re-issued its order with certain clarifications and re-affirmed its earlier determination that the transactions proposed by the NEE Merger Agreement were not in the public interest. In June 2017, NEE filed a second motion for rehearing with the PUCT and in late June 2017, the PUCT again denied the motion.

In July 2017, EFH Corp. and EFIH terminated the NEE Merger Agreement. In July 2017, (a) NEE filed an application for payment of a $275 million termination fee pursuant to the terms of the NEE Merger Agreement as an administrative claim with the Bankruptcy Court and (b) certain creditors of EFIH filed a motion with the Bankruptcy Court for reconsideration of the Bankruptcy Court’s prior order approving the termination fee. In August 2017, the EFH Debtors filed an adversary proceeding in the Bankruptcy Court seeking a declaratory judgment that the termination fee was not payable and a motion to consolidate the application and motion described above in the adversary proceeding. In September 2017, the Bankruptcy Court entered an order finding that the termination fee did not meet the standard for approval, thereby effectively finding that NEE was not currently entitled to the termination fee. As a result of this ruling, the parties agreed to stay the adversary proceeding. In November 2017, NEE filed an appeal of the Bankruptcy Court's September 2017 ruling. The EFH Debtors intend to vigorously defend their position under the NEE Merger Agreement. The timing or outcome of this litigation is uncertain. In the event such termination fee was payable, it would be paid upon the consummation of an alternative transaction by the EFH Debtors, including the transactions with Sempra Energy (Sempra) described below. The allocation of such fee between EFH Corp. and EFIH would be subject to a separate order of the Bankruptcy Court.

Entry into and Termination of Berkshire Merger Agreement

Immediately following termination of the NEE Merger Agreement, on July 7, 2017, EFH and EFIH entered into a merger agreement with Berkshire Hathaway Energy Company (BHE) and filed the Plan of Reorganization and related Disclosure Statement.

On August 21, 2017, and in connection with the execution of the transactions described below with Sempra, EFH and EFIH terminated the BHE merger agreement. No termination fee is due under the terms of the BHE merger agreement.

Sempra Merger Agreement (and related Plan Support Agreement)

On August 21, 2017, following termination of the BHE merger agreement, EFH Corp. and EFIH entered into an Agreement and Plan of Merger (Sempra Merger Agreement) with Sempra and a wholly-owned subsidiary of Sempra. Pursuant to the Sempra Merger Agreement, on the EFH Effective Date, Sempra will acquire the EFH Debtors (as reorganized). The consideration payable by Sempra pursuant to the Sempra Merger Agreement consists of cash and, if required by the Internal Revenue Service in order to obtain certain tax rulings, common stock of Sempra.

The Sempra Merger Agreement contains representations and warranties and interim operating covenants that are customary for an agreement of this nature. The Sempra Merger Agreement also includes various conditions precedent to consummation of the transactions, including a condition that certain approval and ruling are obtained, including from the PUCT, the FERC and the IRS. Sempra will not be required to consummate the transactions, if among other things, the PUCT approval is obtained but with conditions, commitments or requirements that impose a Burdensome Condition (as defined in the Sempra Merger Agreement).

In October 2017, Sempra and Oncor filed a joint change of control application with the PUCT as contemplated by the Sempra Merger Agreement. Following the filing, the PUCT has 180 days (subject to certain rights to extend) to approve the application. Sempra's obligations under the Sempra Merger Agreement are not subject to any financing condition.

Until confirmation of the Plan of Reorganization, EFH Corp. and EFIH may continue to have discussions or negotiations with respect to acquisition proposals for the EFIH Debtors (a) with persons that were in active negotiation at the time of approval of the Sempra Merger Agreement by the Bankruptcy Court and (b) with persons that submit an unsolicited acquisition proposal that is, or is reasonably likely to lead to, a Superior Proposal (as defined in the Sempra Merger Agreement). If the Sempra Merger Agreement is terminated for certain reasons set forth therein and an alternative transaction is consummated by EFH Corp. or EFIH, EFH Corp. and/or EFIH may be required to pay a termination fee of $190 million to Sempra (although the allocation between EFH Corp. and EFIH of such fee would be subject to a separate order of the Bankruptcy Court).

The Sempra Merger Agreement may be terminated upon certain events, including, among other things:

- by either party, if the transactions contemplated by the Sempra Merger Agreement, are not consummated by April 18, 2018, subject to a 90 day extension under certain conditions, or

- by EFH Corp. or EFIH, until the entry of the confirmation order of the Plan of Reorganization, if their respective board of directors or managers determinate, after consultation with its independent financial advisors and outside legal counsel, and based on advice of such counsel, that the failure to terminate the Sempra Merger Agreement is inconsistent with its fiduciary duties; provided that a material breach of EFH Corp.'s or EFIH's obligations under certain provisions of the Sempra Merger Agreement has not provided the basis for such determination.

In connection with the execution of the Sempra Merger Agreement, EFH Corp., EFIH, and Sempra entered into a plan support agreement with Elliott Capital Management (Elliott), a large creditor of each of EFH Corp. and EFIH, pursuant to which Elliott agreed to vote its claims in favor of a plan of reorganization reflecting the transaction contemplated by the Sempra Merger Agreement (Sempra Plan Support Agreement). The EFH Debtors also filed a revised form of the Plan of Reorganization and Disclosure Statement, reflecting the transactions contemplated by the Sempra Merger Agreement.

On September 6, 2017, the Bankruptcy Court approved (a) entry by EFH and EFIH into the Sempra Merger Agreement; (b) entry by EFH and EFIH into the Sempra Plan Support Agreement; and (c) the Disclosure Statement reflecting the Sempra Merger Agreement.

Plan of Reorganization and Disclosure Statement

As described above, in August 2017, the EFH Debtors filed the Plan of Reorganization and the related Disclosure Statement reflecting the transactions contemplated by the Sempra Merger Agreement. The Bankruptcy Court approved the Disclosure Statement in September 2017. The Plan of Reorganization and the Sempra Merger Agreement, subject to certain conditions and certain regulatory approvals, provides for, among other things, the acquisition by affiliates of Sempra of the EFH Debtors (as reorganized). The Plan of Reorganization has not been approved by the Bankruptcy Court to date. The Sempra Plan Support Agreement requires the EFH Debtors to obtain entry of an order approving the Plan of Reorganization within 30 days of obtaining PUCT approval of the transactions contemplated by the Sempra Merger Agreement.

The EFH Debtors have not yet completed their Chapter 11 Cases. The EFH Debtors will emerge from bankruptcy if and when certain conditions to the effectiveness of the Plan of Reorganization are satisfied. Such conditions include, among other things, the receipt of all necessary tax opinions and regulatory approvals and all conditions to the completion of the transactions contemplated by the Sempra Merger Agreement and the Plan or Reorganization having been satisfied. Additional disclosures regarding the conditions precedent to the consummation of the Plan of Reorganization are set forth in the Disclosure Statement approved by the Bankruptcy Court in September 2017.

3. DISCONTINUED OPERATIONS

On the TCEH Effective Date, a plan of reorganization with respect to the TCEH Debtors and Contributed EFH Debtors became effective, and the TCEH Debtors and Contributed EFH Debtors consummated their reorganization under the Bankruptcy Code and emerged from the Chapter 11 Cases.

As a result of the emergence of the TCEH Debtors and Contributed EFH Debtors from the Chapter 11 Cases, the competitive businesses previously owned by EFH Corp. are no longer indirect wholly owned subsidiaries of EFH Corp., and EFH Corp. is no longer the parent holding company of the competitive businesses.

Income (Loss) on Discontinued Operations

The emergence of the TCEH Debtors and the Contributed EFH Debtors from the Chapter 11 Cases as subsidiaries of Vistra Energy represented a strategic shift in our business. For this reason, our competitive businesses' results for all periods prior to the October 3, 2016 spin-off are classified as discontinued operations. Income/(Loss) on discontinued operations for the nine months ended September 30, 2017 and 2016 are presented below:

	Nine Months Ended September 30,	
	2017	2016
Operating revenues	$ —	$ 3,973
Fuel, purchased power costs and delivery fees	—	(2,082)
Net gain from commodity hedging and trading activities	—	282
Operating costs	—	(664)
Depreciation and amortization	—	(467)
Selling, general and administrative expenses	—	(470)
Other income (deductions) and interest income	—	(49)
Interest expense and related charges	—	(1,057)
Reorganization items	—	(116)
Income (loss) on discontinued operations before income taxes	$ —	$ (650)
Income tax benefit (a)	100	177
Income (loss) on discontinued operations	$ 100	$ (473)

(a) Discontinued income tax benefit for 2017 results from a change in estimate related to the tax impacts of the 2016 separation of Vistra Energy as reported in EFH Corp.'s recent tax filing.

Cash Flow Highlights from Discontinued Operations

The following table summarizes the depreciation and amortization, non-cash adjustments, capital expenditures and nuclear fuel purchases of the Company's discontinued operations related to the competitive business:

	September 30, 2016
Operating:	
Depreciation and amortization	$ 539
Write-off of intangible and other assets	(45)
Investing:	
Capital expenditures	(230)
Nuclear fuel purchases	(33)
Business combination — net of cash acquired	(1,343)

Discontinued Other Postretirement Employee Benefits (OPEB)

EFH Corp. offers other postretirement employee benefits in the form of health care and life insurance to eligible employees of its subsidiaries and their eligible dependents upon the retirement of such employees. Vistra Energy is the sponsor of an OPEB plan that EFH Corp. participates in. EFH Corp. accounts for its interest in the Vistra OPEB plan as a multiple employer plan, and has a liability in other noncurrent liabilities and deferred credits at September 30, 2017.

4. VARIABLE INTEREST ENTITIES

A variable interest entity (VIE) is an entity with which we have a relationship or arrangement that indicates some level of control over the entity or results in economic risks to us. Accounting standards require consolidation of a VIE if we have (a) the power to direct the significant activities of the VIE and (b) the right or obligation to absorb profit and loss from the VIE (i.e., we are the primary beneficiary of the VIE). In determining the appropriateness of consolidation of a VIE, we evaluate its purpose, governance structure, decision making processes and risks that are passed on to its interest holders. We also examine the nature of any related party relationships among the interest holders of the VIE and the nature of any special rights granted to the interest holders of the VIE.

Oncor Holdings, an indirect wholly owned subsidiary of EFH Corp. that holds an approximate 80% interest in Oncor, is not consolidated in EFH Corp.'s financial statements, and instead is accounted for as an equity method investment, because of the structural and operational ring-fencing measures in place that prevent us from having power to direct the significant activities of Oncor Holdings or Oncor. In accordance with accounting standards, we account for our investment in Oncor Holdings under the equity method, as opposed to the cost method, based on our level of influence over its activities. See below for additional information about our equity method investment in Oncor Holdings. There are no other material investments accounted for under the equity or cost method. The maximum exposure to loss from our interests in VIEs does not exceed our carrying value.

Non-Consolidation of Oncor and Oncor Holdings

Our investment in unconsolidated subsidiary as presented in the condensed consolidated balance sheets totaled $6.327 billion and $6.230 billion at September 30, 2017 and December 31, 2016, respectively, and consists of our interest in Oncor Holdings, which we account for under the equity method as described above.

Distributions from Oncor Holdings and Related Considerations — Oncor Holdings' distributions of earnings to us totaled $170 million for the nine months ended September 30, 2017. Distributions may not be paid except to the extent Oncor maintains a required regulatory capital structure as discussed below. At September 30, 2017, $25 million was eligible to be distributed to Oncor's members after taking into account the regulatory capital structure limit, of which approximately 80% relates to our ownership interest in Oncor. The boards of directors of each of Oncor and Oncor Holdings can withhold distributions to the extent the applicable board determines in good faith that it is necessary to retain such amounts to meet expected future requirements of Oncor and/or Oncor Holdings. In October 2017, Oncor's board of directors declared a contingent cash distribution of $32 million to be paid to its members within one business day after an additional equity contribution is made to Oncor from its members totaling approximately $250 million. In the event the additional equity contribution is not received by Oncor on or before the date of the closing of the Sempra Merger Agreement, no distribution is payable.

In October 2017, Oncor Holdings' board of directors declared a contingent cash distribution to be paid to EFIH upon Oncor Holdings' receipt of their portion of the contingent Oncor distribution described above, in an amount equal to the amount received from Oncor minus Oncor Holdings' expected tax liability to EFH Corp. for the quarter ended September 30, 2017 under the tax sharing agreement discussed in Note 11. No distribution is payable to EFIH in the event the Oncor distribution is not received.

Oncor's distributions are limited by its regulatory capital structure, which is required to be at or below the assumed debt-to-equity ratio established periodically by the PUCT for ratemaking purposes, which is currently set at 60% debt to 40% equity. At September 30, 2017, Oncor's regulatory capitalization ratio was 59.9% debt and 40.1% equity. As of November 27, 2017, subject to certain conditions, the PUCT has approved a change in Oncor's regulatory capitalization ratio for ratemaking purposes to 57.5% debt and 42.5% equity. For purposes of this ratio, debt is calculated as long-term debt plus unamortized gains on reacquired debt less unamortized issuance expenses, premiums and losses on reacquired debt. Equity is calculated as membership interests determined in accordance with US GAAP, excluding the effects of accounting for the Merger (which included recording the initial goodwill and fair value adjustments and the subsequent related impairments and amortization).

EFH Corp., Oncor Holdings, Oncor and Texas Transmission are parties to a Federal and State Income Tax Allocation Agreement. Additional income tax amounts receivable or payable may arise in the normal course under that agreement.

Oncor Holdings Financial Statements — Condensed statements of consolidated income of Oncor Holdings and its subsidiaries for the nine months ended September 30, 2017 are presented below:

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Operating revenues	$ 2,967	$ 2,962
Operation and maintenance expenses	(1,242)	(1,206)
Depreciation and amortization	(581)	(593)
Taxes other than income taxes	(340)	(338)
Other income and (deductions) — net	(12)	(11)
Interest expense and related charges	(257)	(252)
Income before income taxes	535	562
Income tax expense	(202)	(217)
Net income	333	345
Net income attributable to noncontrolling interests	(68)	(71)
Net income attributable to Oncor Holdings	$ 265	$ 274

Assets and liabilities of Oncor Holdings at September 30, 2017 and December 31, 2016 are presented below:

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5	$ 16
Trade accounts receivable — net	634	545
Income taxes receivable from EFH Corp.	26	57
Inventories	92	89
Prepayments and other current assets	97	100
Total current assets	854	807
Other investments	109	100
Property, plant and equipment — net	14,587	13,829
Goodwill	4,064	4,064
Regulatory assets	1,967	1,974
Other noncurrent assets	16	14
Total assets	$ 21,597	$ 20,788
LIABILITIES		
Current liabilities:		
Short-term borrowings	$ 917	$ 789
Long-term debt due currently	550	324
Trade accounts payable — nonaffiliates	216	231
Income taxes payable to EFH Corp.	16	20
Accrued taxes other than income	156	182
Accrued interest	85	83
Other current liabilities	159	144
Total current liabilities	2,099	1,773
Accumulated deferred income taxes	2,290	2,102
Long-term debt, less amounts due currently	5,566	5,515
Regulatory liabilities	1,009	856
Other noncurrent liabilities and deferred credits	2,292	2,399
Total liabilities	$ 13,256	$ 12,645

5. INCOME TAXES

The calculation of our effective tax rate is as follows:

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Loss from continuing operations before income taxes and equity in earnings of unconsolidated subsidiaries	$(819)	$ (293)
Income tax benefit	$ 180	$ 79
Effective tax rate	22.0%	27.0%

For the nine months ended September 30, 2017, the effective tax rate of 22.0% related to our income tax benefit was lower than the US Federal statutory rate of 35% due primarily to the nondeductible legal and other professional services fees related to the Chapter 11 Cases, a deferred tax adjustment related to 2016 and a change in estimate related to the tax impacts of the 2016 separation of Vistra Energy as reported in EFH Corp.'s recent tax filing. For the nine months ended September 30, 2016, the effective tax rate of 27.0% related to our income tax benefit was lower than the US Federal statutory rate of 35% due primarily to the nondeductible legal and other professional services fees related to the Chapter 11 Cases.

EFH Corp. files a US federal income tax return that includes the results of EFIH, Oncor and Oncor Holdings. EFH Corp. is the corporate member of the EFH Corp. consolidated group, while each of EFIH and Oncor Holdings is classified as a disregarded entity for US federal income tax purposes. Oncor is a partnership for US federal income tax purposes and is not a corporate member of the EFH Corp. consolidated group. Pursuant to applicable US Treasury regulations and published guidance of the IRS, corporations that are members of a consolidated group have joint and several liability for the taxes of such group. Subsequent to the TCEH Effective Date, the TCEH Debtors and the Contributed EFH Debtors are no longer included in the consolidated income tax return and will be included in an income tax return with Vistra Energy.

Upon the Effective Date, Vistra Energy separated from EFH Corp. pursuant to a tax-free spin-off transaction that was part of a series of transactions that included a taxable component. The taxable portion of the transaction generated a taxable gain that resulted in no regular tax liability due to available net operating loss carryforwards of EFH Corp. The transaction did result in an alternative minimum tax liability of approximately $14 million payable by EFH Corp. to the IRS. Pursuant to the tax matters agreement between EFH Corp. and Vistra Energy, Vistra Energy had an obligation to reimburse EFH Corp. 50% of the estimated alternative minimum tax, and approximately $7 million was reimbursed during the nine months ended September 30, 2017. In October 2017, the 2016 federal tax return that included the results of EFCH, EFIH, Oncor Holdings and TCEH was filed with the IRS and resulted in a $3 million obligation by EFH Corp. to reimburse Vistra Energy. In addition to the Plan of Reorganization, the separation was effectuated, in part, pursuant to the terms of a separation agreement, a transition services agreement and a tax matters agreement.

Prior to the TCEH Effective Date, EFH Corp. and certain of its subsidiaries (including EFCH, EFIH and TCEH, but not including Oncor Holdings and Oncor) were parties to a Federal and State Income Tax Allocation Agreement, which provided, among other things, that any corporate member or disregarded entity in the EFH Corp. group was required to make payments to EFH Corp. in an amount calculated to approximate the amount of tax liability such entity would have owed if it filed a separate corporate tax return. Pursuant to the plan of reorganization approved by the Bankruptcy Court in August 2016 (and which went effective in October 2016), the TCEH Debtors and the Contributed EFH Debtors rejected this agreement on the TCEH Effective Date.

EFH Corp., Oncor Holdings, Oncor and Oncor's minority investors are parties to a separate Federal and State Income Tax Allocation Agreement, which governs the computation of federal income tax liability among such parties, and similarly provides, among other things, that each of Oncor Holdings and Oncor will pay EFH Corp. its share of an amount calculated to approximate the amount of tax liability such entity would have owed if it filed a separate corporate tax return. The Settlement Agreement had no impact on the tax sharing agreement among EFH Corp., Oncor Holdings and Oncor. In March 2017, the Bankruptcy Court approved EFH Corp.'s assumption of the Oncor Tax Sharing Agreement, and as a result, EFH Corp. made a tax payment to Oncor for $135 million in March 2017.

6. INTEREST EXPENSE AND RELATED CHARGES

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest paid/accrued on debtor-in-possession financing	$ 184	$ 175
Post-petition interest on EFIH Second Lien Notes (a)	595	—
Make-whole interest on EFIH First Lien Notes and EFIH Second Lien Notes (b)	31	—
Total interest expense and related charges	$ 810	$ 175

(a) In March 2017, the Bankruptcy Court ruled that post-petition interest and make-whole interest be allowed claims for the EFIH First and Second Lien Notes at 95% and 87.5% of par, respectively. For the nine months ended September 30, 2017, amount represents $595 million in post-petition interest related to the EFIH Second Lien Notes (see Note 10).
(b) For the nine months ended September 30, 2017, amount includes $8 million in make-whole interest on the EFIH Second Lien Notes and $23 million in make-whole interest on the EFIH First Lien Notes.

The Bankruptcy Code generally restricts payment of interest on pre-petition debt, subject to certain exceptions. Other than amounts ordered or approved by the Bankruptcy Court, effective on the Petition Date, we discontinued recording interest expense on outstanding pre-petition debt classified as LSTC. The table below shows contractual interest amounts, which are amounts due under the contractual terms of the outstanding debt, including debt classified as LSTC. Interest expense reported in the condensed statements of consolidated income (loss) does not include contractual interest on pre-petition debt classified as LSTC totaling $183 million and $337 million for the nine months ended September 30, 2017 and 2016, respectively, which has been stayed by the Bankruptcy Court effective on the Petition Date.

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
Entity:	**Contractual Interest on Debt Classified as LSTC**	**Approved Interest Paid/Accrued (a)**	**Contractual Interest on Debt Classified as LSTC Not Paid/Accrued**	**Contractual Interest on Debt Classified as LSTC**	**Approved Interest Paid/Accrued**	**Contractual Interest on Debt Classified as LSTC Not Paid/Accrued**
EFH Corp.	$ 33	$ —	$ 33	$ 33	$ —	$ 33
EFIH	374	(224)	150	304	—	304
Total	$ 407	$ (224)	$ 183	$ 337	$ —	$ 337

(a) Represents portion of interest related to the EFIH Second Lien Notes that was accrued based on the approval of the Bankruptcy Court; however, excludes $441 million of post-petition interest accrued for the nine months ended September 30, 2017 that contractually related to March 2015 to December 2016.

7. REORGANIZATION ITEMS

Expenses and income directly associated with the Chapter 11 Cases are reported separately in the condensed statements of consolidated income (loss) as reorganization items as required by ASC 852, *Reorganizations*. Reorganization items also include adjustments to reflect the carrying value of LSTC at their estimated allowed claim amounts, as such adjustments are determined. The following table presents reorganization items incurred in the nine months ended September 30, 2017 and 2016 as reported in the condensed statements of consolidated income (loss):

	Nine Months Ended September 30,	
	2017	**2016**
Expenses related to legal advisory and representation services	$ 44	$ 46
Expenses related to other professional consulting and advisory services	18	31
Fees associated with extension of EFIH DIP Facility	18	14
Other	4	(1)
Total reorganization items	$ 84	$ 90

8. EFIH DEBTOR-IN-POSSESSION FACILITY

In June 2017, with the Bankruptcy Court's approval, the existing EFIH debtor-in-possession credit facility was refinanced. The new EFIH debtor-in-possession credit facility (EFH DIP Facility) consists of $5.475 billion of Term Loan Commitments plus up to $825 million of Delayed Draw Term Loans. On the refinancing date, EFIH borrowed $6.075 billion under the EFH DIP Facility. Approximately $5.475 billion was used to pay the outstanding principal balance under the existing EFIH DIP Facility and approximately $600 million was used to repay outstanding amounts related to the EFIH First Lien claims that were allowed by the Bankruptcy Court in March 2017. With cash on hand, the EFH Debtors paid fees and expenses of approximately $17 million in connection with the refinancing. The new EFH DIP Facility lenders repaid the outstanding balance of the old EFIH DIP Facility directly to the old EFIH DIP Facility lenders, as a result, the repayment has been presented as a noncash financing transaction in our condensed statements of consolidated cash flows. In September 2017, EFIH borrowed the remaining capacity under the Incremental Term Loan facility of $225 million. With cash on hand, the EFH Debtors paid fees and expenses of approximately $1 million in connection with the additional borrowing. The EFIH DIP Facility generally matures on the earlier of June 30, 2018 (subject to a permitted six month extension) or the EFH Effective Date.

As of September 30, 2017, remaining cash on hand from borrowings under the EFIH DIP Facility, net of fees, totaled approximately $424 million, which was held as cash and cash equivalents. In the September 30, 2017 and December 31, 2016 condensed consolidated balance sheets, the borrowings under the EFIH DIP Facility are reported as current liabilities. The EFIH DIP Facility must be repaid in full prior to the EFIH Debtors' emergence from the Chapter 11 Cases.

In January 2016, the EFIH Debtors paid a $13.5 million extension fee to extend the maturity date of the then existing EFIH DIP Facility to December 2016.

The principal amounts outstanding under the EFIH DIP Facility bear interest based on applicable LIBOR rates, subject to a 1% floor, plus 3.00%. At September 30, 2017 and December 31, 2016, outstanding borrowings under the EFIH DIP Facility totaled $6.3 billion at an annual interest rate of 4.24% and $5.475 billion at an annual interest rate of 4.25%. respectively. The EFIH DIP Facility is a non-amortizing loan that may, subject to certain limitations, be voluntarily prepaid by the EFIH Debtors, in whole or in part, without any premium or penalty.

EFIH's obligations under the EFIH DIP Facility are secured by a first lien covering substantially all of EFIH's assets, rights and properties, subject to certain exceptions set forth in the EFIH DIP Facility. The EFIH DIP Facility provides that all obligations thereunder constitute administrative expenses in the Chapter 11 Cases, with administrative priority and senior secured status under the Bankruptcy Code and, subject to certain exceptions set forth in the EFIH DIP Facility, will have priority over any and all administrative expense claims, unsecured claims and costs and expenses in the Chapter 11 Cases.

The EFIH DIP Facility provides for affirmative and negative covenants applicable to EFIH and EFIH Finance, including affirmative covenants requiring EFIH and EFIH Finance to provide financial information, budgets and other information to the agents under the EFIH DIP Facility, and negative covenants restricting EFIH's and EFIH Finance's ability to incur additional indebtedness, grant liens, dispose of assets, pay dividends or take certain other actions, in each case except as permitted in the EFIH DIP Facility. The EFIH DIP Facility also includes a minimum liquidity covenant pursuant to which EFIH cannot allow the amount of its unrestricted cash (as defined in the EFIH DIP Facility) to be less than $100 million. As of September 30, 2017, EFIH was in compliance with this minimum liquidity covenant. The Oncor Ring-Fenced Entities are not restricted subsidiaries for purposes of the EFIH DIP Facility.

The EFIH DIP Facility provides for certain customary events of default, including events of default resulting from non-payment of principal, interest or other amounts when due, material breaches of representations and warranties, material breaches of covenants in the EFIH DIP Facility or ancillary loan documents, cross-defaults under other agreements or instruments and the entry of material judgments against EFIH. Upon the existence of an event of default, the EFIH DIP Facility provides that all principal, interest and other amounts due thereunder will become immediately due and payable, either automatically or at the election of specified lenders.

The EFIH DIP Facility permits, subject to certain terms, conditions and limitations, EFIH to incur incremental junior lien subordinated debt in an aggregate amount not to exceed $6 billion.

9. LIABILITIES SUBJECT TO COMPROMISE (LSTC)

The amounts classified as LSTC reflect the company's estimate of pre-petition liabilities and other expected allowed claims to be addressed in the Chapter 11 Cases and may be subject to future adjustment as the Chapter 11 Cases proceed. Due to the separation of TCEH from EFH Corp. on the TCEH Effective Date, a claim that was granted as part of the Settlement Agreement, the proceeds of which are due to the TCEH first lien creditors from EFH Corp. was recognized on EFH Corp.'s consolidated balance sheet in its 2016 Annual Financial Statements since it was no longer eliminated due to TCEH's deconsolidation. The following table presents LSTC as reported in the condensed consolidated balance sheets at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Notes, loans and other debt per the following table	$ 4,063	$ 4,552
Claim owed to the TCEH first lien creditors under the Settlement Agreement	700	700
Accrued interest on notes, loans and other debt	728	249
Trade accounts payable and other expected allowed claims	65	65
Total liabilities subject to compromise	$ 5,556	$ 5,566

Pre-Petition Notes, Loans and Other Debt Reported as LSTC

Amounts presented below represent principal amounts of pre-petition notes, loans and other debt reported as LSTC.

	September 30, 2017	December 31, 2016
EFH Corp. (parent entity)		
9.75% Fixed Senior Notes due October 15, 2019	$ 2	$ 2
10% Fixed Senior Notes due January 15, 2020	3	3
10.875% Fixed Senior Notes due November 1, 2017	33	33
11.25% / 12.00% Senior Toggle Notes due November 1, 2017	27	27
5.55% Fixed Series P Senior Notes due November 15, 2014	89	89
6.50% Fixed Series Q Senior Notes due November 15, 2024	198	198
6.55% Fixed Series R Senior Notes due November 15, 2034	288	288
Total EFH Corp.	640	640
EFIH		
6.875% Fixed Senior Secured First Lien Notes due August 15, 2017 (a)	—	1
10% Fixed Senior Secured First Lien Notes due December 1, 2020 (a) (b)	—	431
11% Fixed Senior Secured Second Lien Notes due October 1, 2021 (b)	345	354
11.75% Fixed Senior Secured Second Lien Notes due March 1, 2022 (b)	1,546	1,594
11.25% / 12.25% Senior Toggle Notes due December 1, 2018	1,530	1,530
9.75% Fixed Senior Notes due October 15, 2019	2	2
Total EFIH	3,423	3,912
Total EFH Corp. consolidated notes, loans and other debt	$ 4,063	$ 4,552

(a) In June 2017, $1 million of the 6.875% Senior Secured Notes and $409 million of the 10% Senior Secured Notes related to the EFIH First Lien claims were repaid.

(b) For the nine months ended September 30, 2017, decreases include $79 million in reductions for make-whole adjustments, excluding interest, relating to the EFIH First Lien Notes and EFIH Second Lien Notes.

Information Regarding Significant Pre-Petition Debt

EFIH 6.875% Senior Secured Notes — As of September 30, 2017, all make-whole claims that were due and allowed under the EFIH 6.875% Notes were repaid. The notes were initially exchanged or settled in June 2014. The notes bore interest at a fixed rate of 6.875% per annum. The EFIH 6.875% Notes were secured on a first-priority basis by EFIH’s pledge of its 100% ownership of the membership interests in Oncor Holdings (the EFIH Collateral) on an equal and ratable basis with the EFIH 10% Notes.

EFIH 10% Senior Secured Notes — As of September 30, 2017, all make-whole claims that were due and allowed under the EFIH 10% Notes were repaid. The notes were initially exchanged or settled in June 2014. The notes bore interest at a fixed rate of 10% per annum. The notes were secured by the EFIH Collateral on an equal and ratable basis with the EFIH 6.875% Notes.

EFIH 11% Senior Secured Second Lien Notes — The principal amount of the EFIH 11% Notes totals $345 million, including $23 million of make-whole claims with interest at a fixed rate of 11% per annum. The EFIH 11% Notes are secured on a second-priority basis by the EFIH Collateral on an equal and ratable basis with the EFIH 11.75% Notes.

The EFIH 11% Notes are senior obligations of EFIH and EFIH Finance and rank equally in right of payment with all senior indebtedness of EFIH and are effectively senior in right of payment to all existing or future unsecured debt of EFIH to the extent of the value of the EFIH Collateral. The notes have substantially the same terms as the EFIH 11.75% Notes discussed below, and the holders of the EFIH 11% Notes will generally vote as a single class with the holders of the EFIH 11.75% Notes.

EFIH 11.75% Senior Secured Second Lien Notes — The principal amount of the EFIH 11.75% Notes totals $1.546 billion, including $157 million of make-whole claims with interest at a fixed rate of 11.75% per annum. The EFIH 11.75% Notes are secured on a second-priority basis by the EFIH Collateral on an equal and ratable basis with the EFIH 11% Notes. The EFIH 11.75% Notes have substantially the same covenants as the EFIH 11% Notes, and the holders of the EFIH 11.75% Notes will generally vote as a single class with the holders of the EFIH 11% Notes.

The EFIH 11.75% Notes were issued in private placements and are not registered under the Securities Act. EFIH had agreed to use its commercially reasonable efforts to register with the SEC notes having substantially identical terms as the EFIH 11.75% Notes (except for provisions relating to transfer restrictions and payment of additional interest) as part of an offer to exchange freely tradable notes for the EFIH 11.75% Notes. Because the exchange offer was not completed, the annual interest rate on the EFIH 11.75% Notes increased by 25 basis points (to 12.00%) in February 2013 and by an additional 25 basis points (to 12.25%) in May 2013.

EFIH 11.25%/12.25% Senior Toggle Notes — The principal amount of the EFIH PIK Notes totals $1.530 billion with interest at a fixed rate of 11.25% per annum for cash interest and 12.25% per annum for PIK Interest. The terms of the EFIH PIK Notes include an election by EFIH, for any interest period until June 1, 2016, to pay interest on the EFIH PIK Notes (i) entirely in cash; (ii) by increasing the principal amount of the notes or by issuing new EFIH PIK Notes (PIK Interest); or (iii) 50% in cash and 50% in PIK Interest. EFIH made its pre-petition interest payments on the EFIH PIK Notes by using the PIK feature of those notes.

The EFIH PIK Notes were issued in private placements and are not registered under the Securities Act. EFIH had agreed to use its commercially reasonable efforts to register with the SEC notes having substantially identical terms as the EFIH PIK Notes (except for provisions relating to transfer restrictions and payment of additional interest) as part of an offer to exchange freely tradable notes for the EFIH PIK Notes. Because the exchange offer was not completed, the annual interest rate on the EFIH PIK Notes increased by 25 basis points (to 11.50%) in December 2013 and by an additional 25 basis points (to 11.75%) in March 2014.

EFH Corp. 10.875% Senior Notes and 11.25%/12.00% Senior Toggle Notes — The collective principal amount of these notes totals $60 million. The notes are fully and unconditionally guaranteed on a senior unsecured basis by EFIH. The notes bore interest at a fixed rate for the 10.875% Notes of 10.875% per annum and at a fixed rate for the Toggle Notes of 11.25% per annum.

Material Cross Default/Acceleration Provisions — Certain of our pre-petition financing arrangements contained provisions that result in an event of default if there were a failure under other financing arrangements to meet payment terms or to observe other covenants that could or does result in an acceleration of payments due. Such provisions are referred to as “cross default” or “cross acceleration” provisions. The Bankruptcy Filing triggered defaults on our pre-petition debt obligations, but pursuant to the Bankruptcy Code, the creditors are stayed from taking any actions against the EFH Debtors as a result of such defaults.

EFIH Collateral Trust Agreement — EFIH entered into a Collateral Trust Agreement, among EFIH, Delaware Trust Company, as First Lien Successor Trustee, the other Secured Debt Representatives named therein and the Collateral Trustee. The Collateral Trust Agreement governing the pledge of collateral generally provides that the holders of a majority of the debt secured by a first priority lien on the collateral, including the notes and other future debt incurred by EFH or EFIH secured by the collateral equally and ratably, have, subject to certain limited exceptions, the exclusive right to manage, perform and enforce the terms of the security documents securing the rights of secured debt holders in the collateral, and to exercise and enforce all privileges, rights and remedies thereunder.

Repayment of EFIH First Lien Note Claims

In June 2017, with the approval of the Bankruptcy Court, EFIH used cash on hand to repay (the Repayment) $556 million of claims (primarily make-whole claims based on the settlement described above), including interest at contractual rates, in amounts outstanding under EFIH's pre-petition 6.875% Fixed Senior Secured First Lien Notes due August 15, 2017 (6.875% Notes) and 10% Fixed Senior Secured First Lien Notes due December 1, 2020 (10.00% Notes) and $39 million in certain fees and expenses related thereto. The Repayment resulted in a $1 million reduction in the principal amount of the 6.875% Notes, a $409 million reduction in the principal amount of the 10.00% Notes and the payment of $146 million of accrued pre-petition interest at contractual rates.

10. COMMITMENTS AND CONTINGENCIES

Guarantees

See Notes 8 and 9 for discussion of guarantees and security of our post-petition and pre-petition debt.

Legal Proceedings

From time to time, we may be involved in various legal and administrative proceedings in the normal course of business, the ultimate resolutions of which, in the opinion of management, should not have a material effect upon its financial condition, results of operations or liquidity.

Make-whole Claims — In May 2014, the indenture trustee for the EFIH First Lien Notes initiated litigation in the Bankruptcy Court seeking, among other things, a declaratory judgment that EFIH is obligated to pay a make-whole premium in connection with the cash repayment of the EFIH First Lien Notes and that such make-whole premium is an allowed secured claim, or in the alternative, an allowed secured or unsecured claim for breach of contract (EFIH First Lien Make-whole Claims). In separate rulings in March and July 2015, the Bankruptcy Court found that no make-whole premium is due with respect to the EFIH First Lien Notes. In February 2016, the US District Court for the District of Delaware affirmed the Bankruptcy Court's rulings. In November 2016, the Third Circuit Court of Appeals reversed lower court rulings disallowing the claims of EFIH's noteholders for make-whole premiums allegedly due under their indentures. Due to that ruling we recorded a charge in the amount of $432 million, excluding accrued interest, related to the EFIH First Lien Make-whole Claims in November 2016. These claims were settled as described below in February 2017 and approved by the Bankruptcy Court in March 2017.

In June 2014, the indenture trustee for the EFIH Second Lien Notes initiated litigation in the Bankruptcy Court seeking similar relief as the trustee of the EFIH First Lien Notes with respect to the EFIH Second Lien Notes, including among other things, that EFIH is obligated to pay a make-whole premium in connection with any repayment of the EFIH Second Lien Notes and that such make-whole premium would be an allowed secured claim, or in the alternative, an allowed secured or unsecured claim for breach of contract (the EFIH Second Lien Make-whole Claims). In October 2015, the Bankruptcy Court issued a finding that no make-whole premium is due with respect to the EFIH Second Lien Notes. In April 2016, the US District Court for the District of Delaware issued a ruling and order affirming the Bankruptcy Court's decision. In November 2016, the Third Circuit Court of Appeals reversed lower court rulings disallowing the claims of EFIH's noteholders for make-whole premiums allegedly due under their indentures. Due to that ruling we recorded a charge in the amount of $237 million, excluding accrued interest, related to the EFIH Second Lien Make-whole Claims in November 2016. These claims were settled as described below in February 2017 and approved by the Bankruptcy Court in March 2017.

In July 2015, the EFIH Debtors filed a claim objection with the Bankruptcy Court regarding the EFIH PIK noteholders' claims for a redemption or make-whole premium and post-petition interest at the contract rate under the EFIH PIK Notes. In October 2015, the Bankruptcy Court issued opinions in favor of the EFIH Debtors. One opinion found that no make-whole premium is due with respect to the EFIH PIK Notes. The second opinion found that the EFIH PIK noteholders' allowed claim does not, as a matter of law, include post-petition interest whether at the contract rate or the Federal Judgment Rate. This opinion did find, however, that, in connection with the confirmation of a plan of reorganization, the Bankruptcy Court could, at its discretion, grant post-petition interest as part of the EFIH PIK noteholders' allowed claim under general principals of equity and that such grant could be at the contract rate, the Federal Judgment Rate or any other amount that the Bankruptcy Court determines to be equitable. The EFIH PIK noteholders have appealed both rulings to the US District Court for the District of Delaware. The US District Court for the District of Delaware has not scheduled oral arguments or otherwise issued a ruling regarding the make-whole opinion. A status report on the Third Circuit's opinion regarding the EFIH First Lien Make-whole Claims and EFIH Second Lien Make-whole Claims was filed in late January 2017. The appeal of the post-petition interest ruling has been stayed by the US District Court for the District of Delaware pending an equitable proceeding suggested by the Bankruptcy Court's second opinion. Pursuant to the terms of the Plan of Reorganization, the EFIH PIK noteholders' claims described above will be disallowed in full.

In February 2017, the EFH Debtors, certain holders of first lien and second lien secured claims against the EFIH Debtors, and certain EFIH PIK noteholders reached agreement on the settlement of EFIH First Lien Note and EFIH Second Lien Notes claims (including, most significantly, the make-whole claims asserted by those holders). Under the terms of the settlement, on the EFH Effective Date, the make-whole claims of the holders of the EFIH First Lien Notes will be paid at 95% plus accrued interest and the make-whole claims of the holders of the EFIH Second Lien Notes will be paid at 87.5% plus accrued interest. The Bankruptcy Court approved the settlement in March 2017. The Plan of Reorganization seeks to disallow make-whole or redemption premiums asserted by all other creditors. As a result of the Bankruptcy Court's approval of the make-whole settlement subsequent to year-end, we recorded a reduction in LSTC of $79 million with the offset to other income in our financial statements.

Earnings and Profits Tax Dispute — In October 2017, EFH Corp. filed an adversary complaint in the Bankruptcy Court against Vistra Energy arising out of a dispute over the Tax Matters Agreement between EFH Corp. and Vistra Energy that was executed at the TCEH Effective Date. The dispute involves the allocation of earnings and profits (E&P) of EFH Corp. that arose prior to the TCEH Effective Date. In addition to the adversary complaint, EFH Corp. sought a temporary restraining order and preliminary injunction to prevent Vistra Energy from filing its 2016 tax return in a manner that would have allocated no E&P to Vistra Energy. Following these filings, EFH Corp. and Vistra Energy negotiated a stipulation and order, providing for the selection of an independent professor to determine the proper E&P allocation, and the Bankruptcy Court has approved the stipulation and order. EFH Corp. intends to vigorously contest the matters with respect to this dispute. However, we cannot predict the outcome of this proceeding or the determination by the independent professor.

Post-Petition Interest on EFIH Second Lien Note Claim — Based on the approval of the Bankruptcy Court, EFH Corp. recorded $595 million in post-petition interest for the nine months ended September 30, 2017 that contractually related to March 2015 to September 2017.

11. RELATED PARTY TRANSACTIONS

The following represent our significant related-party transactions. As of the TCEH Effective Date, pursuant to the Plan of Reorganization as it relates to the TCEH Debtors, EFH Corp., EFIH, Oncor Holdings and Oncor ceased being affiliates of the TCEH Debtors, the Contributed EFH Debtors and Vistra Energy.

- EFH Corp. charged Oncor for certain administrative services at cost. Oncor's payments to EFH Corp. for administrative services totaled less than $1 million for the nine months ended September 30, 2016.

EFH Corp. and Oncor also charged each other for shared facilities at cost. Oncor's payments to EFH Corp. for shared facilities totaled $3 million for the nine months ended September 30, 2016. Payments EFH Corp. made to Oncor related to shared facilities totaled $1 million for the nine months ended September 30, 2016.

- We file a consolidated federal income tax return that includes Oncor Holdings' results. Oncor is not a member of our consolidated tax group, but our consolidated federal income tax return includes our portion of Oncor's results due to our equity ownership in Oncor. We also file a consolidated Texas state margin tax return that includes all of Oncor Holdings' and Oncor's results. However, under a Federal and State Income Tax Allocation Agreement, Oncor Holdings' and Oncor's federal income tax and Texas margin tax expense and related balance sheet amounts, including our income taxes receivable from or payable to Oncor Holdings and Oncor, are recorded as if Oncor Holdings and Oncor file their own corporate income tax returns.

  At September 30, 2017, our net current amount payable to Oncor Holdings related to federal and state income taxes (reported in net payables due to unconsolidated subsidiary) totaled $10 million, $14 million of which related to Oncor. The $14 million net payable to Oncor included a $30 million federal income tax payable and a $16 million state margin tax receivable. At December 31, 2016, our net current amount payable to Oncor Holdings related to federal and state income taxes (reported in net payables due to unconsolidated subsidiary) totaled $101 million, $106 million of which related to Oncor. The $106 million net payable to Oncor included a $126 million in federal income tax payable and a $20 million state margin tax receivable. In March 2017, the Bankruptcy Court approved EFH Corp.'s assumption of the Oncor Tax Sharing Agreement, and as a result, EFH Corp. made a tax payment to Oncor for $135 million in March 2017.

  For the nine months ended September 30, 2017, EFH Corp. made net income tax payments to Oncor Holdings and Oncor totaling $63 and $82 million, respectively. For the nine months ended September 30, 2016, EFH Corp. received income tax payments from Oncor Holdings and Oncor totaling $16 million and $20 million, respectively.

- Affiliates of the Sponsor Group have sold or acquired, and in the future may sell or acquire, debt or debt securities issued by us in open market transactions or through loan syndications.

- In December 2012, Oncor became the sponsor of a new pension plan (the Oncor Plan), the participants in which consist of all of Oncor's active employees and all retirees and terminated vested participants of EFH Corp. and its subsidiaries (including discontinued businesses). Oncor had previously agreed to assume responsibility for pension liabilities that are recoverable by Oncor under regulatory rate-setting provisions. As part of the pension plan actions, EFH Corp. fully funded the non-recoverable pension liabilities under the Oncor Plan. After the pension plan actions, participants remaining in the EFH Corp. pension plan consist of active employees under collective bargaining agreements (union employees). After the TCEH Effective Date, the EFH Corp. pension plan was transferred and assigned to Vistra Energy. Oncor continues to be responsible for the recoverable portion of pension obligations to these union employees. Under ERISA, EFH Corp. and Oncor remain jointly and severally liable for the funding of the EFH Corp. and Oncor pension plans.

- In September 2016, a cash contribution totaling $2 million was made to the EFH Corp. retirement plan, all of which was contributed by TCEH, which resulted in the EFH Corp. retirement plan continuing to be fully funded as calculated under the provisions of ERISA. As a result of the Bankruptcy Filing, participants in the EFH Corp. retirement plan who chose to retire would not have been eligible for the lump sum payout option under the retirement plan unless the EFH Corp. retirement plan was fully funded.

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC

AN ENERGY FUTURE HOLDINGS CORP. ENTERPRISE

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

AND

INDEPENDENT AUDITOR'S REPORT

GLOSSARY

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

acquisition accounting	The acquisition method of accounting for a business combination as prescribed by GAAP, whereby the cost or "acquisition price" of a business combination, including the amount paid for the equity and direct transaction costs, are allocated to identifiable assets and liabilities (including intangible assets) based upon their fair values. The excess of the purchase price over the fair values of assets and liabilities is recorded as goodwill.
AMS	advanced metering system
Bondco	Refers to Oncor Electric Delivery Transition Bond Company LLC, a former wholly-owned consolidated bankruptcy-remote financing subsidiary of Oncor that had issued securitization (transition) bonds to recover certain regulatory assets and other costs. Bondco was dissolved effective December 29, 2016.
Contributed EFH Debtors	Certain EFH Debtors that became subsidiaries of Vistra and emerged from Chapter 11 at the time of the Vistra Spin-Off.
Debtors	EFH Corp. and the majority of its direct and indirect subsidiaries, including EFIH, EFCH and TCEH but excluding the Oncor Ring-Fenced Entities. Prior to the Vistra Spin-Off, also included the TCEH Debtors.
Deed of Trust	Deed of Trust, Security Agreement and Fixture Filing, dated as of May 15, 2008, made by Oncor to and for the benefit of The Bank of New York Mellon Trust Company, N.A. (as successor to The Bank of New York Mellon, formerly The Bank of New York), as collateral agent, as amended
EFCH	Refers to Energy Future Competitive Holdings Company LLC, a direct, wholly-owned subsidiary of EFH Corp. and, prior to the Vistra Spin-Off, the parent of TCEH, and/or its subsidiaries, depending on context.
EFH Bankruptcy Proceedings	Refers to voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code filed in U.S. Bankruptcy Court for the District of Delaware on April 29, 2014 (EFH Petition Date) by EFH Corp. and the substantial majority of its direct and indirect subsidiaries, including EFIH, EFCH and TCEH. The Oncor Ring-Fenced Entities are not parties to the EFH Bankruptcy Proceedings.
EFH Corp.	Refers to Energy Future Holdings Corp., a holding company, and/or its subsidiaries, depending on context. Its major subsidiaries include Oncor and TCEH.
EFH Debtors	EFH Corp. and its subsidiaries that are Debtors in the EFH Bankruptcy Proceedings, excluding the TCEH Debtors
EFH OPEB Plan	Refers to an EFH Corp. sponsored plan (in which Oncor participated prior to July 1, 2014) that offers certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees from the company. Effective July 1, 2014, Oncor ceased participation in the EFH OPEB Plan and established its own OPEB plan.
EFH Petition Date	April 29, 2014. See EFH Bankruptcy Proceedings above.

EFIH	Refers to Energy Future Intermediate Holding Company LLC, a direct, wholly-owned subsidiary of EFH Corp. and the direct parent of Oncor Holdings.
GAAP	generally accepted accounting principles of the U.S.
Investment LLC	Refers to Oncor Management Investment LLC, a limited liability company and minority membership interest owner (approximately 0.22%) of Oncor, whose managing member is Oncor and whose Class B Interests are owned by certain members of the management team and independent directors of Oncor.
LIBOR	London Interbank Offered Rate, an interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market
Luminant	Refers to subsidiaries of Vistra (which, prior to the Vistra Spin-Off, were subsidiaries of TCEH) engaged in competitive market activities consisting of electricity generation and wholesale energy sales and purchases as well as commodity risk management and trading activities, all largely in Texas.
Oncor	Refers to Oncor Electric Delivery Company LLC, a direct, majority-owned subsidiary of Oncor Holdings, and/or its former wholly-owned consolidated bankruptcy-remote financing subsidiary, Bondco, depending on context.
Oncor Holdings	Refers to Oncor Electric Delivery Holdings Company LLC, a direct, wholly-owned subsidiary of EFIH and the direct majority owner (approximately 80.03%) of Oncor, and/or its subsidiaries, depending on context.
Oncor OPEB Plan	Refers to a plan sponsored by Oncor (effective July 1, 2014) that offers certain postretirement health care and life insurance benefits to eligible current and former Oncor employees, certain eligible current and former EFH Corp. employees, and their eligible dependents.
Oncor Retirement Plan	Refers to a defined benefit pension plan sponsored by Oncor (effective January 1, 2013).
Oncor Ring-Fenced Entities	Refers to Oncor Holdings and its direct and indirect subsidiaries, including Oncor.
OPEB	other postretirement employee benefits
PUCT	Public Utility Commission of Texas
REP	retail electric provider
Sponsor Group	Refers collectively to certain investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., TPG Global, LLC (together with its affiliates, TPG) and GS Capital Partners, an affiliate of Goldman, Sachs & Co., that have an ownership interest in Texas Holdings.
TCEH	Refers to Texas Competitive Electric Holdings Company LLC, a direct, wholly-owned subsidiary of EFCH and, prior to the Vistra Spin-Off, the parent company of the TCEH Debtors (other than the Contributed EFH Debtors), depending on the context, that were engaged in electricity generation and wholesale and retail energy market activities, and whose major subsidiaries included Luminant and TXU Energy. Subsequent to the Vistra Spin-Off, Vistra continued substantially the same operations as TCEH.

Texas Holdings	Refers to Texas Energy Future Holdings Limited Partnership, a limited partnership controlled by the Sponsor Group that owns substantially all of the common stock of EFH Corp.
Texas Holdings Group	Refers to Texas Holdings and its direct and indirect subsidiaries other than the Oncor Ring-Fenced Entities.
Texas margin tax	A privilege tax imposed on taxable entities chartered/organized or doing business in the State of Texas that, for accounting purposes, is reported as an income tax.
Texas Transmission	Refers to Texas Transmission Investment LLC, a limited liability company that owns a 19.75% equity interest in Oncor. Texas Transmission is an entity indirectly owned by a private investment group led by OMERS Administration Corporation, acting through its infrastructure investment entity, OMERS Infrastructure Management Inc. (formerly Borealis Infrastructure Management Inc.), and the Government of Singapore Investment Corporation, acting through its private equity and infrastructure arm, GIC Special Investments Pte Ltd. Texas Transmission is not affiliated with EFH Corp., any of EFH Corp.'s subsidiaries or any member of the Sponsor Group.
TXU Energy	Refers to TXU Energy Retail Company LLC, a direct, wholly-owned subsidiary of Vistra (and, prior to the Vistra Spin-Off, a direct subsidiary of TCEH) engaged in the retail sale of electricity to residential and business customers. TXU Energy is a REP in competitive areas of ERCOT.
U.S.	United States of America
Vistra	Refers to Vistra Energy Corp. (formerly TCEH Corp.), and/or its subsidiaries, depending on context. On October 3, 2016, the TCEH Debtors emerged from bankruptcy and became subsidiaries of TCEH Corp. Subsequent to the Vistra Spin-Off, Vistra continued substantially the same operations as TCEH.
Vistra Retirement Plan	Refers to the Vistra Energy Retirement Plan (formerly EFH Retirement Plan), a defined benefit pension plan sponsored by a subsidiary of Vistra, in which Oncor participates. See Oncor Retirement Plan above.
Vistra Spin-Off	Refers to the completion of the TCEH Debtors' reorganization under the Bankruptcy Code and emergence from the EFH Bankruptcy Proceedings effective October 3, 2016

These consolidated financial statements occasionally make references to Oncor Holdings or Oncor when describing actions, rights or obligations of their respective subsidiaries. References to “we,” “our,” “us” and “the company” are to Oncor Holdings and/or its direct or indirect subsidiaries as apparent in the context. These references reflect the fact that the subsidiaries are consolidated with their respective parent companies for financial reporting purposes. However, these references should not be interpreted to imply that the parent company is actually undertaking the action or has the rights or obligations of the relevant subsidiary company or that the subsidiary company is undertaking an action or has the rights or obligations of its parent company or any other affiliate.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Member of
Oncor Electric Delivery Holdings Company LLC
Dallas, Texas

We have audited the accompanying consolidated financial statements of Oncor Electric Delivery Holdings Company LLC and its subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, membership interests, and cash flows for the year ended December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oncor Electric Delivery Holdings Company LLC and its subsidiary as of December 31, 2016, and the results of their operations and their cash flows for the year ended December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company has implemented certain ring-fencing measures which management believes mitigate the Company's potential exposure to the EFH Bankruptcy Proceedings. Our opinion is not modified with respect to this matter.

/s/ Deloitte & Touche LLP

Dallas, Texas
November 13, 2017

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC
STATEMENT OF CONSOLIDATED INCOME

	Year Ended December 31, 2016
	(millions of dollars)
Operating revenues:	
Nonaffiliates	$ 3,205
Affiliates	715
Total operating revenues	3,920
Operating expenses:	
Wholesale transmission service	894
Operation and maintenance (Note 13)	754
Depreciation and amortization	785
Income taxes (Note 1, 4, 13)	259
Taxes other than amounts related to income taxes	451
Total operating expenses	3,143
Operating income	777
Other income and (deductions) — net (Note 14)	(15)
Nonoperating income taxes	8
Interest expense and related charges (Note 14)	336
Net income	418
Net income attributable to noncontrolling interests	(86)
Net income attributable to Oncor Holdings	$ 332

See Notes to Financial Statements.

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC
STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Year Ended December 31, 2016 (millions of dollars)
Net income	$ 418
Other comprehensive income:	
Cash flow hedges — derivative value net loss recognized in net income (net of tax expense of $1) (Note 1)	2
Total other comprehensive income	2
Comprehensive income	420
Comprehensive income attributable to noncontrolling interests	(86)
Comprehensive income attributable to Oncor Holdings	$ 334

See Notes to Financial Statements.

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC
STATEMENT OF CONSOLIDATED CASH FLOWS

	Year Ended December 31, 2016 (millions of dollars)
Cash flows — operating activities:	
Net income	$ 418
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and amortization	833
Deferred income taxes — net	169
Other — net	(5)
Changes in operating assets and liabilities:	
Accounts receivable — trade (including affiliates)	(34)
Inventories	(7)
Accounts payable — trade (including affiliates)	14
Regulatory accounts related to reconcilable tariffs (Note 5)	(55)
Other — assets	40
Other — liabilities	33
Cash provided by operating activities	1,406
Cash flows — financing activities:	
Issuances of long-term debt (Note 7)	175
Repayments of long-term debt (Note 7)	(41)
Net (decrease) increase in short-term borrowings (Note 6)	(51)
Distributions to parent (Note 9)	(162)
Distributions to noncontrolling interests	(46)
Debt discount, premium, financing and reacquisition costs — net	10
Cash used in financing activities	(115)
Cash flows — investing activities:	
Capital expenditures (Note 13)	(1,352)
Other — net	51
Cash used in investing activities	(1,301)
Net change in cash and cash equivalents	(10)
Cash and cash equivalents — beginning balance	26
Cash and cash equivalents — ending balance	$ 16

See Notes to Financial Statements.

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC
CONSOLIDATED BALANCE SHEET

	At December 31, 2016 (millions of dollars)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 16
Trade accounts receivable from nonaffiliates — net (Note 14)	545
Income taxes receivable from EFH Corp. (Note 13)	57
Materials and supplies inventories — at average cost	89
Prepayments and other current assets	100
Total current assets	807
Investments and other property (Note 14)	100
Property, plant and equipment — net (Note 14)	13,829
Goodwill (Note 1 and 14)	4,064
Regulatory assets (Note 5)	1,974
Other noncurrent assets	14
Total assets	$ 20,788
LIABILITIES AND MEMBERSHIP INTERESTS	
Current liabilities:	
Short-term borrowings (Note 6)	$ 789
Long-term debt due currently (Note 7)	324
Trade accounts payable (Note 13)	231
Income taxes payable to EFH Corp. (Note 13)	20
Accrued taxes other than income taxes	182
Accrued interest	83
Other current liabilities	144
Total current liabilities	1,773
Long-term debt, less amounts due currently (Note 7)	5,515
Accumulated deferred income taxes (Note 1, 4, 13)	2,102
Regulatory liabilities (Note 5)	856
Employee benefit obligations and other (Notes 13 and 14)	2,399
Total liabilities	12,645
Commitments and contingencies (Note 8)	
Membership interests (Note 9):	
Capital account	6,320
Accumulated other comprehensive loss	(89)
Oncor Holdings membership interest	6,231
Noncontrolling interests in subsidiary	1,912
Total membership interests	8,143
Total liabilities and membership interests	$ 20,788

See Notes to Financial Statements.

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC
STATEMENT OF CONSOLIDATED MEMBERSHIP INTERESTS

	Year Ended December 31, 2016
	(millions of dollars)
Capital account:	
Balance at beginning of period	$ 6,150
Net income attributable to Oncor Holdings	332
Distributions to parent	(162)
Balance at end of period	6,320
Accumulated other comprehensive income (loss), net of tax effects:	
Balance at beginning of period	(91)
Net effects of cash flow hedges (net of tax expense of $1)	2
Balance at end of period	(89)
Oncor Holdings membership interests at end of period	$ 6,231
Noncontrolling interests in subsidiary (Note 10):	
Balance at beginning of period	1,803
Net income attributable to noncontrolling interests	86
Distributions to noncontrolling interests	(46)
Change related to future tax distributions from Oncor	69
Noncontrolling interests in subsidiary at end of period	1,912
Total membership interests at end of period	$ 8,143

See Notes to Financial Statements.

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

References in this report to "we," "our," "us" and "the company" are to Oncor Holdings and/or its direct or indirect subsidiaries as apparent in the context. The financial statements are comprised almost entirely of the operations of Oncor; consequently, there are no separate reportable business segments. See "Glossary" for definition of terms and abbreviations.

We are a Dallas, Texas-based holding company whose financial statements are comprised almost entirely of the operations of our direct, majority (approximately 80%) owned subsidiary, Oncor. Oncor is a regulated electricity transmission and distribution company principally engaged in providing delivery services to REPs that sell power in the north-central, eastern and western parts of Texas. Revenues from REP subsidiaries of Vistra (formerly subsidiaries of TCEH) represented 23% of our total operating revenues for the year ended December 31, 2016. We are a direct, wholly-owned subsidiary of EFIH, a direct, wholly-owned subsidiary of EFH Corp. EFH Corp. is a subsidiary of Texas Holdings, which is controlled by the Sponsor Group.

Our consolidated financial statements include our former indirect, bankruptcy-remote financing subsidiary, Bondco, a variable interest entity through December 29, 2016, at which time it was dissolved. This financing subsidiary was organized for the limited purpose of issuing certain transition bonds in 2003 and 2004. Bondco issued transition bonds to recover generation-related regulatory asset stranded costs and other qualified costs under an order issued by the PUCT in 2002. Bondco issued an aggregate $1.3 billion principal amount of transition bonds during 2003 and 2004. The 2003 Series transition bonds matured and were paid in full in 2015. The 2004 Series transition bonds matured and were paid in full in May 2016. Final true-up proceedings and refunds of over-collected transition charges for the 2004 Bonds transition bonds were conducted by Oncor and the PUCT during 2016 and had no material net income impact.

Various "ring-fencing" measures have been taken to enhance the separateness between the Oncor Ring-Fenced Entities and the Texas Holdings Group and our credit quality. These measures serve to mitigate our and Oncor's credit exposure to the Texas Holdings Group and to reduce the risk that our assets and liabilities or those of Oncor would be substantively consolidated with the assets and liabilities of the Texas Holdings Group in connection with a bankruptcy of one or more of those entities. Such measures include, among other things: Oncor's sale of a 19.75% equity interest to Texas Transmission in November 2008; maintenance of separate books and records for the Oncor Ring-Fenced Entities; our board of directors and Oncor's board of directors being comprised of a majority of independent directors; and prohibitions on the Oncor Ring-Fenced Entities providing credit support to, or receiving credit support from, any member of the Texas Holdings Group. The assets and liabilities of the Oncor Ring-Fenced Entities are separate and distinct from those of the Texas Holdings Group. None of the assets of the Oncor Ring-Fenced Entities are available to satisfy the debt or contractual obligations of any member of the Texas Holdings Group. We and Oncor do not bear any liability for debt or contractual obligations of the Texas Holdings Group, and vice versa. Accordingly, our operations are conducted, and our cash flows are managed, independently from the Texas Holdings Group.

EFH Corp. Bankruptcy Proceedings

On the EFH Petition Date, the Debtors commenced proceedings under Chapter 11 of the U.S. Bankruptcy Code. The Oncor Ring-Fenced Entities are not parties to the EFH Bankruptcy Proceedings. We believe the "ring-fencing" measures discussed above mitigate our and Oncor's potential exposure to the EFH Bankruptcy Proceedings. See Note 2 for a discussion of the potential impacts of the EFH Bankruptcy Proceedings on our financial statements.

Basis of Presentation

Our consolidated financial statements have been prepared in accordance with GAAP. All dollar amounts in the financial statements and tables in the notes are stated in millions of U.S. dollars unless otherwise indicated. Subsequent events have been evaluated through November 13, 2017, the date these consolidated financial statements were available to be issued.

Use of Estimates

Preparation of our financial statements requires management to make estimates and assumptions about future events that affect the reporting of assets and liabilities at the balance sheet date and the reported amounts of revenue and expense, including fair value measurements. In the event estimates and/or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. No material adjustments were made to previous estimates or assumptions during the current year.

Revenue Recognition

General

Oncor's revenue is billed under tariffs approved by the PUCT and the majority of revenues are related to providing electric delivery service to consumers. Tariff rates are designed to recover the cost of providing electric delivery service including a reasonable rate of return on invested capital. Revenues are generally recognized when the underlying service has been provided in an amount prescribed by the related tariff.

Reconcilable Tariffs

The PUCT has designated certain tariffs (TCRF, EECRF surcharges, AMS surcharges and charges related to transition bonds) as reconcilable, which means the differences between amounts billed under these tariffs and the related incurred costs are deferred as either regulatory assets or regulatory liabilities. Accordingly, at prescribed intervals, future tariffs are adjusted to either repay regulatory liabilities or collect regulatory assets. See "Regulatory Assets and Liabilities" below.

Impairment of Long-Lived Assets and Goodwill

We evaluate long-lived assets (including intangible assets with finite lives) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

We also evaluate goodwill for impairment annually (at December 1) and whenever events or changes in circumstances indicate that an impairment may exist. The determination of the existence of these and other indications of impairment involves judgments that are subjective in nature and may require the use of estimates in forecasting future results and cash flows.

If at the assessment date our carrying value exceeds our estimated fair value (enterprise value), then the estimated enterprise value is compared to the estimated fair values of our operating assets (including identifiable intangible assets) and liabilities at the assessment date. The resultant implied goodwill amount is compared to the recorded goodwill amount. Any excess of the recorded goodwill amount over the implied goodwill amount is written off as an impairment charge.

The goodwill impairment tests performed in 2016 was based on a qualitative assessment in which we considered macroeconomic conditions, industry and market considerations, cost factors, overall financial performance and other relative factors. Based on tests results, no impairment was recognized in 2016.

Income Taxes

Effective with the November 2008 sale of equity interests in Oncor, Oncor became a partnership for US federal income tax purposes, and subsequently only EFH Corp.'s share of partnership income is included in its consolidated federal income tax return. Our tax sharing agreement with Oncor and EFH Corp. was amended in November 2008 to include Texas Transmission and Investment LLC. The tax sharing agreement provides for the calculation of tax liability substantially as if we and Oncor file our own income tax returns, and requires tax payments to members determined on that basis (without duplication for any income taxes paid by our subsidiaries). Deferred income taxes are provided for temporary differences between our book and tax bases of assets and liabilities.

Amounts of deferred income tax assets and liabilities, as well as current and noncurrent accruals, are determined in accordance with the provisions of accounting guidance for income taxes and for uncertainty in income taxes. The accounting guidance for rate-regulated enterprises requires the recognition of regulatory assets or liabilities if it is probable such deferred tax amounts will be recovered from, or returned to customers in future rates. Investment tax credits are amortized to income over the estimated lives of the related properties.

We classify interest and penalties expense related to uncertain tax positions as current income taxes as discussed in Note 4.

Defined Benefit Pension Plans and OPEB Plans

Oncor has liabilities under pension plans that offer benefits based on either a traditional defined benefit formula or a cash balance formula and an OPEB plan that offers certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees from the company. Costs of pension and OPEB plans are dependent upon numerous factors, assumptions and estimates. See Note 11 for additional information regarding pension and OPEB plans.

Contingencies

We evaluate and account for contingencies using the best information available. A loss contingency is accrued and disclosed when it is probable that an asset has been impaired or a liability incurred and the amount of the loss can be reasonably estimated. If a range of probable loss is established, the minimum amount in the range is accrued, unless some other amount within the range appears to be a better estimate. If the probable loss cannot be reasonably estimated, no accrual is recorded, but the loss contingency is disclosed to the effect that the probable loss cannot be reasonably estimated. A loss contingency will be disclosed when it is reasonably possible that an asset has been impaired or a liability incurred. If the likelihood that an impairment or incurrence is remote, the contingency is neither accrued nor disclosed. Gain contingencies are recognized upon realization.

System of Accounts

Our accounting records have been maintained in accordance with the US Federal Energy Regulatory Commission Uniform System of Accounts as adopted by the PUCT.

Property, Plant and Equipment

Properties are stated at original cost. The cost of self-constructed property additions includes materials and both direct and indirect labor and applicable overhead and an allowance for funds used during construction.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated service lives of the properties based on depreciation rates approved by the PUCT. As is common in the industry, depreciation expense is recorded using composite depreciation rates that reflect blended estimates of the lives of major asset groups as compared to depreciation expense calculated on a component asset-by-asset basis. Depreciation rates include plant removal costs as a component of depreciation expense, consistent with regulatory treatment. Actual removal costs incurred are charged to accumulated depreciation. When accrued removal costs exceed incurred removal costs, the difference is reclassified as a regulatory liability to retire assets in the future.

Regulatory Assets and Liabilities

Our financial statements reflect regulatory assets and liabilities under cost-based rate regulation in accordance with accounting standards related to the effect of certain types of regulation. Regulatory decisions can have an impact on the recovery of costs, the rate earned on invested capital and the timing and amount of assets to be recovered by rates. See Note 5 for details of regulatory assets and liabilities.

Franchise Taxes

Franchise taxes are assessed to Oncor by local governmental bodies, based on kilowatt-hours delivered and are the principal component of taxes other than income taxes as reported in the income statement. Franchise taxes are not a "pass through" item. Rates charged to customers by Oncor are intended to recover the franchise taxes, but Oncor is not acting as an agent to collect the taxes from customers.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a regulatory cost accounting procedure whereby both interest charges on borrowed funds and a return on equity capital used to finance construction are included in the recorded cost of utility plant and equipment being constructed. AFUDC is capitalized on all projects involving construction periods lasting greater than thirty days. The equity portion, if any, of capitalized AFUDC is accounted for as other income. See Note 14 for detail of amounts charged to interest expense.

Cash and Cash Equivalents

For purposes of reporting cash and cash equivalents, temporary cash investments purchased with a remaining maturity of three months or less are considered to be cash equivalents.

Fair Value of Nonderivative Financial Instruments

The carrying amounts for financial assets classified as current assets and the carrying amounts for financial liabilities classified as current liabilities approximate fair value due to the short maturity of such instruments. The fair values of other financial instruments, for which carrying amounts and fair values have not been presented, are not materially different than their related carrying amounts. The following discussion of fair value accounting standards applies primarily to our determination of the fair value of assets in the pension and OPEB plans trusts (see Note 11) and long-term debt (see Note 7).

Accounting standards related to the determination of fair value define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use a "mid-market" valuation convention (the mid-point price between bid and ask prices) as a practical expedient to measure fair value for the majority of our assets and liabilities subject to fair value measurement on a recurring basis. We primarily use the market approach for recurring fair value measurements and use valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs.

We categorize our assets and liabilities recorded at fair value based upon the following fair value hierarchy:

- Level 1 valuations use quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 valuations use inputs that, in the absence of actively quoted market prices, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, (c) inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves observable at commonly quoted intervals and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Our Level 2 valuations utilize over-the-counter broker quotes, quoted prices for similar assets or liabilities that are corroborated by correlations or other mathematical means and other valuation inputs.
- Level 3 valuations use unobservable inputs for the asset or liability. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. We use the most meaningful information available from the market combined with internally developed valuation methodologies to develop our best estimate of fair value.

We utilize several different valuation techniques to measure the fair value of assets and liabilities, relying primarily on the market approach of using prices and other market information for identical and/or comparable assets and liabilities for those items that are measured on a recurring basis.

The fair value of certain investments is measured using the net asset value (NAV) per share as a practical expedient. Such investments measured at NAV are not required to be categorized within the fair value hierarchy. See “Changes in Accounting Standards” below.

Consolidation of Variable Interest Entities

A VIE is an entity with which we have a relationship or arrangement that indicates some level of control over the entity or results in economic risks to us. We consolidate a VIE if we have: a) the power to direct the significant activities of the VIE and b) the right or obligation to absorb profit and loss from the VIE (primary beneficiary).

Derivative Instruments and Mark-to-Market Accounting

Oncor has from time-to-time entered into derivative instruments to hedge interest rate risk. If the instrument meets the definition of a derivative under accounting standards related to derivative instruments and hedging activities, the fair value of each derivative is recognized on the balance sheet as a derivative asset or liability and changes in the fair value are recognized in net income, unless criteria for certain exceptions are met. This recognition is referred to as “mark-to-market” accounting.

Changes in Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-2 which created FASB Topic 842, *Leases* (Topic 842). Topic 842 amends previous GAAP to require the balance sheet recognition of lease assets and liabilities for operating leases. Operating lease liabilities will not be classified as debt for GAAP purposes under Topic 842 and will not be treated as debt for regulatory purposes. At this time, all of Oncor’s existing leases meet the definition of an operating lease liability. Under the new rules, the recognition of any finance leases (currently known as capital leases) on the balance sheet would be classified as debt for GAAP purposes and are expected to be defined as debt for our regulatory capital structure purposes (see Note 8 for details) similar to the current capital lease treatment. We will be required to adopt Topic 842 by January 1, 2019 and do not expect to early adopt. Retrospective application to the 2017 and 2018 comparative periods presented will be required in the year of adoption. The initial adoption of Topic 842 will affect our balance sheet, as leased buildings and vehicles are recognized as operating lease liabilities. Subsequent to adoption, to the extent Oncor enters into finance leases, its credit facility covenants and capitalization ratios could be impacted. We continue to evaluate the potential impact of Topic 842 on our financial statements.

Since May 2014, the FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers* along with other supplemental guidance (together, Topic 606). Topic 606 introduces new, increased requirements for disclosure of revenue in financial statements and guidance that are intended to eliminate inconsistencies in the recognition of revenue. We are required to adopt Topic 606 by January 1, 2018 and expect to adopt at that time using the modified retrospective approach. Our revenues from customers are tariff-based and are designed to recover the cost of providing electric delivery service to customers including a reasonable rate of return on invested capital. Revenues are generally recognized when the underlying service has been provided in an amount prescribed by the related tariff. At this time, we do not expect the new guidance to change this pattern of recognition and therefore it is not expected to have a material effect on our reported results of operations, financial position or cash flows. We continue to evaluate the application of the new guidance.

In March 2017, the FASB issued ASU 2017-07 *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, an amendment to Topic 715, *Compensation — Retirement Benefits* (Topic 715). Topic 715, as amended, will require the non-service cost components of net retirement benefit plan costs be presented as non-operating in the income statement. In addition, only the service cost component of net retirement benefit plan cost will be eligible for capitalization as part of inventory or property, plant and equipment. We are required to adopt the amendment effective January 1, 2018. The income statement presentation requirement must be applied on a retrospective basis while the capitalization eligibility requirement is applied on a prospective basis. For cash flow purposes on a prospective basis, non-service costs will be reflected as a reduction to operating cash flows, offset by lower cash used in investing activities (lower capital expenditures). At this time, we do not expect the new guidance to have a material effect on our rate-making process, our results of operations, financial position or net change in total cash flows but continue to evaluate for potential impacts.

In May 2015, the FASB issued a new accounting standards update (ASU 2015-07), which removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 is effective for fiscal years beginning after December 15, 2015 and was retrospectively adopted effective December 31, 2016. The adoption impacted fair value measurement disclosures related to our pension and OPEB plans. See Note 11—Pension and OPEB Plans.

2. EFH BANKRUPTCY PROCEEDINGS

On the EFH Petition Date, EFH Corp. and the substantial majority of its direct and indirect subsidiaries at the time, including EFIH, EFCH and TCEH, commenced proceedings under Chapter 11 of the U.S. Bankruptcy Code. The Oncor Ring-Fenced Entities are not parties to the EFH Bankruptcy Proceedings. We believe the “ring-fencing” measures discussed above mitigate our and Oncor’s potential exposure to the EFH Bankruptcy Proceedings. See Note 1 and below for further information regarding the EFH Bankruptcy Proceedings and the proposed change in control of our indirect majority owner in connection with such proceedings.

The U.S. Bankruptcy Code automatically enjoined, or stayed, us from judicial or administrative proceedings or filing of other actions against our affiliates or their property to recover, collect or secure our claims arising prior to the EFH Petition Date. Following the EFH Petition Date, EFH Corp. received approval from the bankruptcy court to pay or otherwise honor certain prepetition obligations generally designed to stabilize its operations. Included in the approval were the obligations owed to Oncor representing prepetition electricity delivery fees. Oncor has collected substantially all of the prepetition receivables from the Texas Holdings Group. As discussed below, the 2016 Plan of Reorganization (defined below) provided for a spin-off of the TCEH Debtors from EFH Corp. As a result of this spin-off (Vistra Spin-Off), Vistra and its subsidiaries, including Luminant and TXU Energy, ceased to be affiliates of ours as of October 3, 2016.

The EFH Bankruptcy Proceedings continue to be a complex litigation matter and the full extent of potential impacts on us remain unknown. Bankruptcy courts have broad equitable powers, and as a result, outcomes in bankruptcy proceedings are inherently difficult to predict. We will continue to evaluate our affiliate transactions and contingencies throughout the EFH Bankruptcy Proceedings to determine any risks and resulting impacts on our and Oncor's results of operations, financial statements and cash flows.

See Note 13 for details of Oncor's related-party transactions with members of the Texas Holdings Group.

Potential Change in Indirect Ownership of Oncor and Oncor Holdings

Below is a summary of certain matters relating to the potential change in indirect ownership of us and Oncor that may arise as a result of the EFH Bankruptcy Proceedings.

In May 2016, the Debtors filed a joint Plan of Reorganization (2016 Plan of Reorganization) pursuant to Chapter 11 of the U.S. Bankruptcy Code and a related disclosure statement with the bankruptcy court. The 2016 Plan of Reorganization provided that the confirmation and effective date of the 2016 Plan of Reorganization with respect to the TCEH Debtors may occur separate from, and independent of, the confirmation and effective date of the 2016 Plan of Reorganization with respect to the EFH Debtors. In this regard, the bankruptcy court confirmed the 2016 Plan of Reorganization with respect to the TCEH Debtors in August 2016, and it became effective by its terms, and the Vistra Spin-Off occurred, effective October 3, 2016.

Prior Merger Agreements

The following merger agreements relating to a potential change in indirect ownership of us and Oncor were entered into in connection with the EFH Bankruptcy Proceedings. Each of these prior merger agreements has been terminated in accordance with their respective terms.

- In December 2015, the EFH Debtors filed their sixth amended plan of reorganization (Sixth Amended Plan of Reorganization) and entered into a merger and purchase agreement (Hunt Merger Agreement) with an investor group consisting of certain unsecured creditors of TCEH and an affiliate of Hunt Consolidated, Inc., as well as certain other investors designated by Hunt Consolidated, Inc. (collectively, the Hunt Investor Group), that would have led to a significant change in the indirect equity ownership of us and Oncor. In September 2015, Oncor and the Hunt Investor Group filed a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by the Sixth Amended Plan of Reorganization. The PUCT issued an order conditionally approving the joint application in March 2016 and in April 2016 the Hunt Investor Group and certain intervenors filed motions for rehearing. As discussed under "Regulatory Matters Related to the EFH Bankruptcy Proceedings" below, in May 2016, the PUCT denied the motions for rehearing in PUCT Docket No. 45188 and the Hunt Merger Agreement was terminated, and in June 2016 the Hunt Investor Group filed a petition with the Travis County District Court seeking review of the order.
- Following the termination of the Hunt Merger Agreement, in July 2016, the EFH Debtors entered into a Plan Support Agreement (NEE Plan Support Agreement) with NextEra Energy, Inc. (NEE) to effect an agreed upon restructuring of the EFH Debtors pursuant to an amendment (NEE Amendment) to the 2016 Plan of Reorganization (as amended by the NEE Amendment and as subsequently amended, NEE Plan) and EFH Corp. and EFIH entered into an Agreement and Plan of Merger (NEE Merger Agreement) with NEE and EFH Merger Co., LLC, a wholly-owned subsidiary of NEE. Additionally, in October 2016, an affiliate of NEE entered into an Agreement and Plan of Merger (the TTI Merger Agreement) with Texas Transmission Holdings Corporation (the parent of Texas Transmission) and certain of its affiliates to purchase Texas Transmission's 19.75% equity interest in Oncor for approximately $2.4 billion. The bankruptcy court approved EFH Corp. and EFIH's entry into the NEE Merger Agreement and the NEE Plan Support Agreement in September 2016 and confirmed the NEE Plan in February 2017. The consummation of the transactions contemplated by the NEE Plan, the NEE

Merger Agreement and the TTI Merger Agreement was subject to various conditions precedent, including the approval of the PUCT. Oncor and NEE filed a joint application seeking certain regulatory approvals with respect to the NEE Merger Agreement and the TTI Merger Agreement in October 2016. The PUCT denied the application in April 2017, issued an order on rehearing in June 2017 and denied NEE's second motion for rehearing in June 2017. Following these developments, on July 6, 2017, EFH and EFIH delivered a notice terminating the NEE Merger Agreement, which caused the NEE Plan to be null and void. As discussed under "Regulatory Matters Related to the EFH Bankruptcy Proceedings" below, on July 13, 2017, NEE filed a petition with the Travis County District Court seeking review of the PUCT order (PUCT NEE Plan Order). We cannot assess the impact of the termination of the NEE Merger Agreement on the results of the review or ultimate disposition of the PUCT NEE Plan Order, or any associated impacts of such termination and matters relating to the PUCT NEE Plan Order on the TTI Merger Agreement and the transactions contemplated thereby.

- Following the termination of the NEE Merger Agreement, on July 7, 2017, EFH Corp. and EFIH executed a merger agreement (BHE Merger Agreement) with Berkshire Hathaway Energy Company (BHE) and certain of its subsidiaries. The BHE Merger Agreement provided for the acquisition by BHE of the 80.03% of Oncor's membership interests owned indirectly by EFH Corp. and EFIH. In connection with the execution of the BHE Merger Agreement, on July 7, 2017, the EFH Debtors filed their joint plan of reorganization (BHE Plan) and a related disclosure statement. The EFH Debtors terminated the BHE Merger Agreement on August 21, 2017 in connection with their entry into the Sempra Merger Agreement (as defined below), which caused the BHE Plan to become null and void. Further, by order dated September 7, 2017, the bankruptcy court ordered that the BHE Merger Agreement was terminated and not approved.

Sempra Merger Agreement

On August 15, 2017, the EFH Debtors received an alternative proposal from Sempra Energy (Sempra) that largely followed the structure of the BHE Plan. Following negotiations, on August 21, 2017, EFH Corp. and EFIH entered into an Agreement and Plan of Merger (Sempra Merger Agreement) with Sempra and one of its wholly-owned subsidiaries (collectively, the Sempra Parties). Similar to the BHE Merger Agreement, the Sempra Merger Agreement does not impose any conditions on the EFH Debtors regarding TTI's minority interest in Oncor. Accordingly, the Sempra Merger Agreement provides for the acquisition by Sempra of the 80.03% of Oncor's membership interests owned indirectly by EFH Corp. and EFIH.

Following the execution and delivery of the Sempra Merger Agreement, EFIH requested, pursuant to the Sempra Merger Agreement, that Oncor Holdings and Oncor enter into a letter agreement (Sempra Letter Agreement) with the Sempra Parties. The Sempra Letter Agreement was executed on August 25, 2017 and sets forth certain rights and obligations of the Oncor Ring-Fenced Entities and the Sempra Parties to cooperate in the manner set forth therein with respect to initial steps to be taken in connection with the acquisition of Reorganized EFH and the other transactions described in the Sempra Merger Agreement. Pursuant to the terms of the Sempra Letter Agreement, the Oncor Ring-Fenced Entities are to conduct, in all material respects, their businesses in the ordinary course of business and materially consistent with the plan for 2017 and 2018 contained in Oncor's long-range business plan. The Sempra Letter Agreement also provides that the Oncor Ring-Fenced Entities will cooperate with the Sempra Parties to prepare and file all necessary applications for governmental approvals of the transactions contemplated by the Sempra Merger Agreement, including PUCT and FERC approvals. The Sempra Letter Agreement is not intended to give the Sempra Parties, directly or indirectly, the right to control or direct the operations of any of the Oncor Ring-Fenced Entities.

In connection with the execution of the Sempra Merger Agreement, on September 5, 2017, the EFH Debtors filed an amended joint plan of reorganization (Sempra Plan) and a related disclosure statement (Sempra Disclosure Statement). On September 6, 2017, the bankruptcy court authorized the EFH Debtors' entry into the Sempra Merger Agreement, approved the Sempra Disclosure Statement and authorized the EFH Debtors to solicit votes on the Sempra Plan. The Sempra Merger Agreement contemplates that Oncor and the Sempra Parties will file a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by the Sempra Plan, and that filing was made on October 5, 2017 in PUCT Docket No. 47675. The EFH Debtors have indicated that they will not seek bankruptcy court confirmation of the Sempra Plan unless and until the PUCT approves the transactions contemplated by the Sempra Plan.

We cannot predict the ultimate outcome of the EFH Bankruptcy Proceedings, including whether the transactions contemplated by the Sempra Plan, including the Sempra Merger Agreement, will (or when they will) close. There remain conditions and uncertainties relating to the Sempra Plan becoming effective and the consummation of the transactions contemplated by the Sempra Merger Agreement, including, without limitation, the ability to obtain required regulatory approvals from the PUCT, as described below under “Regulatory Matters Related to EFH Bankruptcy Proceedings.” As a result, we remain unable to predict how any reorganization of the EFH Debtors ultimately will impact Oncor or what form any change in indirect ownership of Oncor may take. In this regard, we are unable to predict the ultimate impact of the termination of the NEE Merger Agreement and matters relating to the PUCT NEE Plan Order or the TTI Merger Agreement, including the ultimate disposition, if any, of Texas Transmission’s 19.75% equity stake in Oncor.

Regulatory Matters Related to EFH Bankruptcy Proceedings

In September 2015, Oncor and the Hunt Investor Group filed in PUCT Docket No. 45188 a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by a plan of reorganization in the EFH Bankruptcy Proceedings. In March 2016, the PUCT issued an order conditionally approving the joint application. In April 2016, the Hunt Investor Group and certain interveners in PUCT Docket No. 45188 filed motions for rehearing and in May 2016, the PUCT denied such motions and the order became final. In May 2016, the plan of reorganization and related merger and purchase agreement that contemplated the transactions in PUCT Docket No. 45188 were terminated. The Hunt Investor Group filed a petition with the Travis County District Court in June 2016 seeking review of the order. We cannot predict the results of the review or the ultimate disposition of PUCT Docket No. 45188, particularly in light of the termination of the Hunt Merger Agreement.

In connection with PUCT Docket No. 45188, certain cities that have retained original jurisdiction over electric utility rates passed resolutions directing Oncor to file rate review proceedings. In connection with those resolutions, counsel for those cities notified Oncor that they expected Oncor to make a rate filing to comply with their resolutions on or before March 17, 2017. That filing was made with the PUCT and original jurisdiction cities on March 17, 2017 in PUCT Docket No. 46957. In July 2017, Oncor and certain parties to the rate review agreed to a settlement of that rate review, and on August 2, 2017 a settlement agreement was filed that settled all issues in the docket. On October 13, 2017, the PUCT issued an order approving the settlement agreement. For more information, see Note 3 — “2017 Rate Review (PUCT Docket No. 46957).”

The NEE Merger Agreement contemplated that Oncor and NEE file a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by the Amended EFH Debtor Plan. Oncor and NEE filed that joint application in PUCT Docket No. 46238 in October 2016. The PUCT denied the application on April 13, 2017. The PUCT issued an Order on Rehearing on June 7, 2017 and denied NEE’s Second Motion for Rehearing on June 29, 2017. On July 13, 2017, NEE filed a petition with the Travis County District Court seeking review of the PUCT order. We cannot predict the results of the review or the ultimate disposition of PUCT Docket No. 46238, particularly in light of the termination of the NEE Merger Agreement.

On July 28, 2017, Texas Transmission Holdings Corporation (TTHC) and NEE filed in PUCT Docket No. 47453 a joint application with the PUCT seeking certain regulatory approvals with respect to NEE’s proposed acquisition of the 19.75 percent minority interest in Oncor that is indirectly held by TTHC. The application requested that the PUCT issue an order disclaiming jurisdiction over the transaction or finding that the transaction is in the public interest and approved. On September 14, 2017, Oncor filed a motion to intervene as a party, but not an applicant, in PUCT Docket No. 47453. On October 26, 2017, the PUCT voted to dismiss the application without prejudice on jurisdictional grounds and ordered that any future filing of the application must include the affected utility (in this case Oncor) as an applicant. The PUCT further ordered that in any such filing Oncor is not required to seek approval of the application or any other specific relief. On October 30, 2017, TTHC notified the PUCT that it had terminated the merger agreement with NEE that was the subject of PUCT Docket No. 47453.

Oncor and the Sempra Parties filed a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by the Sempra Plan on October 5, 2017 in PUCT Docket No. 47675.

Settlement Agreement

In connection with the EFH Bankruptcy Proceedings, the EFH Debtors and various creditor parties entered into a settlement agreement (the Settlement Agreement) in August 2015 (as amended in September 2015) to compromise and settle, among other things (i) intercompany claims among the EFH Debtors, (ii) claims and causes of actions against holders of first lien claims against TCEH and the agents under the TCEH Senior Secured Facilities, (iii) claims and causes of action against holders of interests in EFH Corp. and certain related entities and (iv) claims and causes of action against each of the EFH Debtors' current and former directors, the Sponsor Group, managers and officers and other related entities. The Settlement Agreement contemplates a release of such claims upon approval of the Settlement Agreement by the bankruptcy court, which approval was obtained in December 2015.

The Settlement Agreement settles substantially all inter-debtor claims through the effective date of the Settlement Agreement. These settled claims include potentially contentious inter-debtor claims, including various potential avoidance actions and claims arising under numerous debt agreements, tax sharing agreements, and contested property transfers. The release provisions of the Settlement Agreement took effect immediately upon the entry of the bankruptcy court order approving the Settlement Agreement. In this regard, substantially all of the potential affiliate claims, derivative claims and other types of disputes among affiliates (including claims against Oncor) have been resolved by bankruptcy court order. Accordingly, we believe the Settlement Agreement resolves all affiliate claims against Oncor and its assets existing as of the effective date of the Settlement Agreement.

3. REGULATORY MATTERS

Change in Control Reviews

See "Regulatory Matters Related to EFH Bankruptcy Proceedings" in Note 2.

City Rate Reviews

Oncor received resolutions passed by 58 cities with original jurisdiction over electric utility rates directing Oncor to file rate review proceedings. The resolutions passed required Oncor to file a rate review with each city by September 1, 2016 based on a January 1, 2015 to December 31, 2015 test year. However, Oncor was subsequently notified by counsel representing these cities that these rate review proceedings had been suspended indefinitely, pending resolution of Oncor ownership issues. The notice provided that if and when the cities desire to proceed with a rate inquiry, cities would notify Oncor in writing and inform Oncor of a precise date of the rate case. On November 17, 2016, counsel representing these cities notified Oncor that the cities were lifting that suspension and expect Oncor to make a rate filing to comply with their resolutions on or before March 17, 2017. The notice requires that Oncor's rate filing be based on an historical test year consisting of the most recent period for which data is available.

Subsequent Events — 2017 Rate Review (PUCT Docket No. 46957)

In response to resolutions passed by numerous cities with original jurisdiction over electric utility rates in 2016, Oncor filed rate review proceedings with the PUCT and original jurisdiction cities in our service territory on March 17, 2017 based on a January 1, 2016 to December 31, 2016 test year. In July 2017, Oncor and certain parties to the rate review agreed to a settlement of that rate review, and on August 2, 2017 a settlement agreement was filed that settled all issues in the docket. On October 13, 2017, the PUCT issued an order approving the settlement of the rate review. The order became final and non-appealable on November 7, 2017. The order provides for new rates to take effect on November 27, 2017, contingent upon the closing of the transactions discussed below under "Sharyland Transaction." The order further provides, among other items, that Oncor's base rate revenue requirement before intercompany eliminations would be approximately $4.3 billion, Oncor's authorized return on equity would be 9.8%, and Oncor's authorized regulatory capital structure would be 57.5% debt and 42.5% equity. Oncor's current authorized return on equity is 10.25% and the current authorized regulatory capital structure is 60% debt and 40% equity. The order provides for the use of a regulatory liability and bill credit mechanism until the new authorized regulatory capital structure is met following the effective date for new rates to reflect Oncor's actual capitalization prior to achieving the authorized capital structure.

Subsequent Events — Sharyland Transaction

On July 21, 2017, Oncor entered into an agreement (Sharyland Agreement) with Sharyland Distribution & Transmission Services, L.L.C., a Texas limited liability company (SDTS), Sharyland Utilities, L.P., a Texas limited partnership (SU), and certain of their subsidiaries.

The Sharyland Agreement provides that pursuant to separate mergers (collectively, Sharyland Mergers), (i) Oncor will receive certain of the electricity distribution-related assets and liabilities of SDTS and SU (constituting substantially all of the electricity distribution business of SDTS and SU) and certain transmission assets (collectively, Sharyland Distribution Business and the portion held by SDTS, the SDTS Merger Assets), (ii) SDTS will receive portions of certain of Oncor's electricity transmission-related assets and liabilities (Oncor Merger Assets) and cash, and (iii) SU will receive cash. The transaction for assets between Oncor and SDTS is structured to qualify, in part, as a simultaneous tax deferred like kind exchange of assets to the extent that the assets exchanged are of "like kind" (within the meaning of Section 1031 of the Internal Revenue Code).

On August 4, 2017, Oncor, SDTS and SU filed a joint application for sale, transfer, or merger in PUCT Docket No. 47469 requesting PUCT approvals of the transactions contemplated by the Sharyland Agreement. On October 13, 2017, the PUCT issued an order approving the Sharyland Agreement in Docket No. 47469. The transactions contemplated by the Sharyland Agreement closed on November 9, 2017. The actual assets exchanged and cash received pursuant to the Sharyland Mergers is based on the difference between the current net book value of the Oncor Merger Assets and/or the actual net book value of the Sharyland Distribution Business as of closing, as provided in the Sharyland Agreement. At closing of the transactions, the net book value of the Oncor Merger Assets was approximately $383 million and the net book value of the SDTS Merger Assets was approximately $401 million. Based on these net book values, Oncor paid SDTS approximately $18 million in cash and SU approximately $7 million in cash.

We do not expect the Sharyland transaction to have a material effect on our and Oncor's results of operations, financial position or cash flows.

2008 Rate Review

In August 2009, the PUCT issued a final order with respect to Oncor's June 2008 rate review filing with the PUCT and 204 cities based on a test year ended December 31, 2007 (PUCT Docket No. 35717), and new rates were implemented in September 2009. Oncor and four other parties appealed various portions of the rate review final order to a state district court. In January 2011, the district court signed its judgment reversing the PUCT with respect to two issues: the PUCT's disallowance of certain franchise fees and the PUCT's decision that PURA no longer requires imposition of a rate discount for state colleges and universities. Oncor filed an appeal with the Texas Third Court of Appeals (Austin Court of Appeals) in February 2011 with respect to the issues Oncor appealed to the district court and did not prevail upon, as well as the district court's decision to reverse the PUCT with respect to discounts for state colleges and universities. In early August 2014, the Austin Court of Appeals reversed the district court and affirmed the PUCT with respect to the PUCT's disallowance of certain franchise fees and the PUCT's decision that PURA no longer requires imposition of a rate discount for state colleges and universities. The Austin Court of Appeals also reversed the PUCT and district court's rejection of a proposed consolidated tax savings adjustment arising out of EFH Corp.'s ability to offset Oncor's taxable income against losses from other investments and remanded the issue to the PUCT to determine the amount of the consolidated tax savings adjustment. In late August 2014, Oncor filed a motion on rehearing with the Austin Court of Appeals with respect to certain appeal issues on which it was not successful, including the consolidated tax savings adjustment. In December 2014, the Austin Court of Appeals issued its opinion, clarifying that it was rendering judgment on the rate discount for state colleges and universities issue (affirming that PURA no longer requires imposition of the rate discount) rather than remanding it to the PUCT, and dismissing the motions for rehearing regarding the franchise fee issue and the consolidated tax savings adjustment. Oncor filed a petition for review with the Texas Supreme Court in February 2015. The Texas Supreme Court granted the petition for review and heard oral arguments in September 2016. On January 6, 2017, the Texas Supreme Court issued its opinion, unanimously ruling as follows on the three issues before it:

- Consolidated tax savings adjustment — The Supreme Court reversed the Court of Appeals and upheld the PUCT's decision not to make a consolidated tax savings adjustment, concluding that the PUCT had properly applied PURA Section 36.060 and that Oncor no longer met the statutory criteria for imposition of such an adjustment.
- State colleges and universities rate discount — The Supreme Court upheld the Court of Appeals' and the PUCT's decisions that no such discount was proper, concluding that PURA Section 36.351 requires a discount only for the provision of electric service and that, upon the start of retail competition, electric service is provided to end-use customers by REPs and not TDUs.
- Municipal franchise fees — The Supreme Court reversed the Court of Appeals' and the PUCT's disallowance of certain franchise fees, ruling that the relevant PURA provision did not limit negotiated franchise fees to a one-time opportunity upon the expiration of a franchise that was in effect on September 1, 1999, but that such renegotiations may take place at any time.

The Texas Supreme Court issued its mandate on February 16, 2017. On February 17, 2017, Oncor filed a tariff modification with the PUCT to immediately remove the state colleges and universities discount rider, and on February 23, 2017, the PUCT opened Docket No. 46884 to consider the remand from the Texas Supreme Court. That docket considered recovery of municipal franchise fees, as well as a cash working capital issue that Oncor prevailed upon at the Court of Appeals and which was not appealed to the Texas Supreme Court, and in September 2017, the PUCT approved the recovery of those items.

Oncor is involved in various other regulatory proceedings in the normal course of business, the ultimate resolution of which, in the opinion of management, should not have a material effect upon our and Oncor's financial position, results of operations or cash flows.

4. INCOME TAXES

The components of our income tax expense (benefit) are as follows:

	Year Ended December 31, 2016
Reported in operating expenses:	
Current:	
US federal	$ 60
State	20
Deferred:	
US federal	181
State	—
Amortization of investment tax credits	(2)
Total reported in operating expenses	259
Reported in other income and deductions:	
Current:	
US federal	20
State	—
Deferred federal	(12)
Total reported in other income and deductions	8
Total provision in lieu of income taxes	$ 267

Reconciliation of income taxes computed at the U.S. federal statutory rate to income taxes:

	Year Ended December 31, 2016
Income before income taxes	$ 685
Income taxes at the US federal statutory rate of 35%	$ 239
Amortization of investment tax credits — net of deferred tax effect	(2)
Amortization (under regulatory accounting) of statutory tax rate changes	(1)
Amortization of Medicare subsidy regulatory asset	—
Texas margin tax, net of federal tax benefit	13
Nondeductible losses (gains) on benefit plan investments	—
Other, including audit settlements	18
Income tax expense	$ 267
Effective rate	39.0%

At December 31, 2016, a net amount of $2.1 billion was reported in the balance sheet as accumulated deferred income taxes. This amount includes $2.2 billion related to our 80.03% investment in the Oncor partnership. Additionally, at December 31, 2016, we have net deferred tax asset of $126 million related to our outside basis differences in the partnership and $3 million related to our other temporary differences.

Accounting For Uncertainty in Income Taxes

EFH Corp. and its subsidiaries file or have filed income tax returns in US federal, state and foreign jurisdictions and are subject to examinations by the IRS and other taxing authorities. The examination and appeals process of EFH Corp. and its subsidiaries' federal income tax returns for the years ending prior to January 1, 2016 are complete. Texas margin tax returns are open for examination for tax years beginning after 2014.

There were no changes to the uncertain tax positions, reported in other noncurrent liabilities in our consolidated balance sheet, during the year ended December 31, 2016. The $3 million balance represents tax positions for which the uncertainty relates to the timing of recognition for tax purposes. The disallowance of such positions would not affect the effective tax rate, but would accelerate the payment of cash under the tax sharing agreement to an earlier period. Noncurrent liabilities included no accrued interest related to uncertain tax positions at December 31, 2016 and there were no amounts recorded related to interest and penalties in the year ended December 31, 2016. Federal income tax benefits on interest accrued on uncertain tax positions, if any, is recorded as accumulated deferred income taxes. In the first quarter 2017, EFH Corp. settled all open tax claims with the IRS. As a result, we reduced the liability for uncertain tax positions by $3 million. This reduction is reported as a decrease in income taxes in 2017.

5. REGULATORY ASSETS AND LIABILITIES

Recognition of regulatory assets and liabilities and the periods which they are to be recovered or refunded through rate regulation are determined by the PUCT. Components of the regulatory assets and liabilities and the remaining periods as of December 31, 2016 are provided in the table below. Amounts not earning a return through rate regulation are noted.

	Remaining Rate Recovery/Amortization Period at December 31, 2016	Carrying Amount At December 31, 2016
Regulatory assets:		
Employee retirement costs being amortized	3 years	$ 23
Unrecovered employee retirement costs incurred since the last rate review period (b)	To be determined	327
Employee retirement liability (a)(b)(c)	To be determined	849
Self-insurance reserve (primarily storm recovery costs) being amortized	3 years	64
Unrecovered self-insurance reserve incurred since the last rate review period (b)	To be determined	367
Securities reacquisition costs (post-industry restructure)	Lives of related debt	13
Recoverable amounts in lieu of deferred income taxes	Life of related asset or liability	2
Deferred conventional meter and metering facilities depreciation	Largely 4 years	78
Under-recovered AMS costs	To be determined	205
Energy efficiency performance bonus (a)	1 year or less	10
Other regulatory assets	Various	36
Total regulatory assets		1,974
Regulatory liabilities:		
Estimated net removal costs	Lives of related assets	819
Investment tax credit and protected excess deferred taxes	Various	10
Over-recovered wholesale transmission service expense (a)	1 year or less	10
Other regulatory liabilities	Various	17
Total regulatory liabilities		856
Net regulatory asset (d)		$ 1,118

(a) Not earning a return in the regulatory rate-setting process.
(b) Recovery is specifically authorized by statute or by the PUCT, subject to reasonableness review.
(c) Represents unfunded liabilities recorded in accordance with pension and OPEB accounting standards.
(d) For year-end 2016, regulatory assets and liabilities are presented gross on the balance sheet.

In August 2011, the PUCT issued a final order in Oncor’s rate review filed in January 2011. The rate review included a determination of the recoverability of regulatory assets at June 30, 2010, including the recoverability period of those assets deemed allowable by the PUCT.

In accordance with the PUCT’s August 2009 order in Oncor’s rate review, the remaining net book value and the approved amount of removal cost of existing conventional meters that were replaced by advanced meters are being charged to depreciation and amortization expense over an 11-year cost recovery period.

In September 2008, the PUCT approved a settlement for Oncor to recover our estimated future investment for advanced metering deployment. We began billing the AMS surcharge in the January 2009 billing month cycle. The surcharge is expected to total $1.023 billion over the 11-year recovery period and includes a cost recovery factor of $2.19 per month per residential retail customer and $2.39 to $5.15 per month for non-residential retail customers. Oncor accounts for the difference between the surcharge billings for advanced metering facilities and the allowable revenues under the surcharge provisions, which are based on expenditures and an allowed return, as a regulatory asset or liability. Such differences arise principally as a result of timing of expenditures or cost increases. As indicated in the table above, the regulatory asset at December 31, 2016 totaled $205 million .

As a result of acquisition accounting, in 2007 the carrying value of certain generation-related regulatory assets securitized by transition bonds, which have been reviewed and approved by the PUCT for recovery but without earning a rate of return, was reduced by $213 million. This amount was being accreted to other income over the recovery period that was remaining at October 10, 2007 (approximately nine years) which ended in 2016.

6. SHORT-TERM BORROWINGS

At December 31, 2016, Oncor had a $2.0 billion secured revolving credit facility to be used for working capital and general corporate purposes, issuances of letters of credit and support for any commercial paper issuances. In October 2016, Oncor exercised the second of two one-year extensions available to them and extended the term of the revolving credit facility to October 2018. The terms of the revolving credit facility allow Oncor to request an increase in borrowing capacity of $100 million in the aggregate provided certain conditions are met, including lender approval.

Borrowings under the revolving credit facility are classified as short-term on the balance sheet and are secured equally and ratably with all of Oncor’s other secured indebtedness by a first priority lien on property Oncor acquired or constructed for the transmission and distribution of electricity. The property is mortgaged under the Deed of Trust.

At December 31, 2016, Oncor had outstanding borrowings under the revolving credit facility totaling $789 million with an interest rate of 1.72% and outstanding letters of credit totaling $7 million.

Borrowings under the revolving credit facility bear interest at per annum rates equal to, at Oncor’s option, (i) LIBOR plus a spread ranging from 1.00% to 1.75% depending on credit ratings assigned to Oncor’s senior secured non-credit enhanced long-term debt or (ii) an alternate base rate (the highest of (1) the prime rate of JPMorgan Chase, (2) the federal funds effective rate plus 0.50%, and (3) daily one-month LIBOR plus 1.00%) plus a spread ranging from 0.00% to 0.75% depending on credit ratings assigned to Oncor’s senior secured non-credit enhanced long-term debt. At December 31, 2016, all outstanding borrowings bore interest at LIBOR plus 1.00%. Amounts borrowed under the revolving credit facility, once repaid, can be borrowed again from time to time.

An unused commitment fee is payable quarterly in arrears and upon termination or commitment reduction at a rate equal to 0.100% to 0.275% (such spread depending on certain credit ratings assigned to Oncor’s senior secured debt) of the daily unused commitments under the revolving credit facility. Letter of credit fees on the stated amount of letters of credit issued under the revolving credit facility are payable to the lenders quarterly in arrears and upon termination at a rate per annum equal to the spread over adjusted LIBOR. Customary fronting and administrative fees are also payable to letter of credit fronting banks. At December 31, 2016, letters of credit bore interest at 1.20%, and a commitment fee (at a rate of 0.10% per annum) was payable on the unfunded commitments under the revolving credit facility, each based on Oncor’s current credit ratings.

Under the terms of the revolving credit facility, the commitments of the lenders to make loans to Oncor are several and not joint. Accordingly, if any lender fails to make loans to us, our available liquidity could be reduced by an amount up to the aggregate amount of such lender’s commitments under the facility.

Subject to the limitations described below, borrowing capacity available under the revolving credit facility at December 31, 2016 was $1.204 billion. Generally, Oncor's indentures and revolving credit facility limit the incurrence of other secured indebtedness except for indebtedness secured equally and ratably with the indentures and revolving credit facility and certain permitted exceptions. As described further in Note 7, the Deed of Trust permits Oncor to secure indebtedness (including borrowings under its revolving credit facility) with the lien of the Deed of Trust. At December 31, 2016, the available borrowing capacity of the revolving credit facility could be fully drawn.

The revolving credit facility contains customary covenants for facilities of this type, restricting, subject to certain exceptions, Oncor and its subsidiaries from, among other things: incurring additional liens; entering into mergers and consolidations; and sales of substantial assets. In addition, the revolving credit facility requires that Oncor maintain a consolidated senior debt-to-capitalization ratio of no greater than 0.65 to 1.00 and observe certain customary reporting requirements and other affirmative covenants. For purposes of the ratio, debt is calculated as indebtedness defined in the revolving credit facility (principally, the sum of long-term debt, any capital leases, short-term debt and debt due currently in accordance with GAAP). The debt calculation excludes any transition bonds issued by Bondco, but includes any unamortized fair value discount related to Bondco. Capitalization is calculated as membership interests determined in accordance with GAAP plus indebtedness described above. At December 31, 2016, Oncor was in compliance with this covenant and with all other covenants.

7. LONG-TERM DEBT

Oncor's long-term debt at December 31, 2016 was secured by a first priority lien on certain transmission and distribution assets equally and ratably with all of Oncor's other secured indebtedness. See "Deed of Trust" below for additional information. According to our organizational documents, Oncor Holdings (parent) is prohibited from directly incurring indebtedness for borrowed money. At December 31, 2016, long-term debt consisted of the following:

	December 31, 2016
5.000% Fixed Senior Notes due September 30, 2017	$ 324
6.800% Fixed Senior Notes due September 1, 2018	550
2.150% Fixed Senior Notes due June 1, 2019	250
5.750% Fixed Senior Notes due September 30, 2020	126
4.100% Fixed Senior Notes due June 1, 2022	400
7.000% Fixed Debentures due September 1, 2022	800
2.950% Fixed Senior Notes due April 1, 2025	350
7.000% Fixed Senior Notes due May 1, 2032	500
7.250% Fixed Senior Notes due January 15, 2033	350
7.500% Fixed Senior Notes due September 1, 2038	300
5.250% Fixed Senior Notes due September 30, 2040	475
4.550% Fixed Senior Notes due December 1, 2041	400
5.300% Fixed Senior Notes due June 1, 2042	500
3.750% Fixed Senior Notes due April 1, 2045	550
Unamortized discount and debt issuance costs	(36)
Less amount due currently	(324)
Long-term debt, less amounts due currently	$ 5,515

Debt-Related Activity in 2016

Debt Repayments

Repayments of long-term debt in 2016 totaled $41 million, representing the final transition bond principal payment at the scheduled maturity date.

Issuance of Senior Secured Notes

In August 2016, we completed the sale of $175 million aggregate principal amount of 3.75% senior secured notes maturing in April 2045 (Additional 2045 Notes). The Additional 2045 Notes were an additional issuance of our 3.75% senior secured notes maturing in April 2045, $375 million aggregate principal amount of which were previously issued in March 2015 (2045 Notes). The Additional 2045 Notes were issued as part of the same series as the 2045 Notes. We used the net proceeds of approximately $185 million from the sale of the Additional 2045 Notes to repay borrowings under our revolving credit facility and for general corporate purposes. The Additional 2045 Notes and 2045 Notes are secured by the first priority lien and are secured equally and ratably with all of our other secured indebtedness as discussed below.

Interest on the Additional 2045 Notes is payable in cash semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2016. We may at our option redeem the Additional 2045 Notes, in whole or in part, at any time, at a price equal to 100% of their principal amount, plus accrued and unpaid interest and, until October 1, 2044, a make-whole premium. The Additional 2045 Notes also contain customary events of default, including failure to pay principal or interest on the notes when due.

The Additional 2045 Notes were issued in a private placement. In January 2017, we completed an offering with the holders of the Additional 2045 Notes to exchange their respective Additional 2045 Notes for notes that have terms identical in all material respects to the Additional 2045 Notes (Exchange Notes), except that the Exchange Notes do not contain terms with respect to transfer restrictions, registration rights and payment of additional interest for failure to observe certain obligations in a certain registration rights agreement. The Exchange Notes were registered on a Form S-4, which was declared effective in December 2016.

Deed of Trust

Oncor’s secured indebtedness, including the revolving credit facility described in Note 6, is secured equally and ratably by a first priority lien on property Oncor acquired or constructed for the transmission and distribution of electricity. The property is mortgaged under the Deed of Trust. The Deed of Trust permits Oncor to secure indebtedness (including borrowings under our revolving credit facility) with the lien of the Deed of Trust up to the aggregate of (i) the amount of available bond credits, and (ii) 85% of the lower of the fair value or cost of certain property additions that could be certified to the Deed of Trust collateral agent. At December 31, 2016, the amount of available bond credits was approximately $2.625 billion and the amount of future debt Oncor could secure with property additions, subject to those property additions being certified to the Deed of Trust collateral agent, was $1.739 billion.

Maturities

Long-term debt maturities at December 31, 2016, are as follows:

Year	Amount
2017	$ 324
2018	550
2019	250
2020	126
2021	—
Thereafter	4,625
Unamortized discount and debt issuance costs	(36)
Total	$ 5,839

Fair Value of Long-Term Debt

At December 31, 2016, the estimated fair value of our long-term debt (including current maturities) totaled $6.751 billion and the carrying amount totaled $5.839 billion. The fair value is estimated using observable market data, representing Level 2 valuations under accounting standards related to the determination of fair value.

Subsequent Events- Debt-Related Activity in 2017

Debt Repayments

On September 29, 2017, we redeemed $324 million aggregate principal amount of 5.00% senior secured notes due September 30, 2017 (2017 Notes).

Issuance of Senior Secured Notes

In September 2017, Oncor issued $325 million aggregate principal amount of 3.80% senior secured notes due September 2047 (2047 Notes). Oncor used the proceeds (net of the initial purchasers' discount, fees and expenses) of $321 million from the sale of the 2047 Notes for general corporate purposes, including repayment of borrowings under the revolving credit facility, and payment of a portion of the redemption price for the 2017 Notes. The 2047 Notes are secured by a first priority lien, and are secured equally and ratably with all of our other secured indebtedness.

Interest on the 2047 Notes is payable in cash semiannually on March 30 and September 30 of each year, beginning on March 30, 2018. Prior to March 30, 2047, Oncor may at its option at any time redeem all or part of the 2047 Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a make-whole premium. On and after March 30, 2047, Oncor may redeem the 2047 Notes at any time, in whole or in part, at a redemption price equal to 100% of the principal amount of such 2047 Notes, plus accrued and unpaid interest. The 2047 Notes also contain customary events of default, including failure to pay principal or interest on the Notes when due.

The 2047 Notes were issued in a private placement and were not registered under the Securities Act. Oncor has agreed, subject to certain exceptions, to register with the SEC notes having substantially identical terms as the 2047 Notes (except for provisions relating to the transfer restriction and payment of additional interest) as part of an offer to exchange freely tradable exchange notes for the 2047 Notes. Oncor has agreed to use commercially reasonable efforts to cause the exchange offer to be completed within 315 days after the issue date of the 2047 Notes. If a registration statement for the exchange offer is not declared effective by the SEC within 270 days after the issue date of the 2047 Notes or the exchange offer is not completed within 315 days after the issue date of the 2047 Notes (an exchange default), then the annual interest rate on the 2047 Notes will increase 50 basis points per annum until the earlier of the expiration of the exchange default or the second anniversary of the issue date of the Notes.

Term Loan Credit Agreement

On September 26, 2017, Oncor entered into a term loan credit agreement that provides for a springing-lien term loan credit facility in an aggregate principal amount of $275 million. On December 31, 2017, if (i) the obligations under the term loan credit agreement are outstanding as of such date and (ii) the obligations under Oncor's our revolving credit facility (as amended, restated, supplemented, refinanced, replaced or otherwise modified) are secured as of such date, then the obligations under the term loan credit agreement will become secured indebtedness under the lien of our Deed of Trust.

The term loan credit agreement has an 18 month term maturing on March 26, 2019, and contains optional prepayment provisions as well as mandatory prepayment provisions that require prepayment in the event of certain specified debt issuances or certain specified asset dispositions.

At November 13, 2017, Oncor had outstanding borrowings of $275 million under the term loan credit agreement with an interest rate of 2.140%.

Loans under the term loan credit agreement bear interest at per annum rates equal to, at our option, (i) LIBOR plus a spread ranging from 0.80%-0.90%, depending on whether the loan has become secured, or (ii) an alternate base rate (the highest of (1) the prime rate of Wells Fargo Bank, National Association, (2) the federal funds effective rate plus 0.50%, and (3) daily one-month LIBOR plus 1.00%).

The term loan credit agreement contains customary covenants for facilities of this type, restricting, subject to certain exceptions, Oncor and its subsidiaries from, among other things, incurring additional liens, entering into mergers and consolidations, and sales of substantial assets.

In addition, the term loan credit agreement requires that Oncor maintain a consolidated senior debt to capitalization ratio of no greater than 0.65 to 1.00 and observe certain customary reporting requirements and other affirmative covenants.

The term loan credit agreement also contains customary events of default for facilities of this type the occurrence of which would allow the lenders to accelerate all outstanding loans and terminate their commitments, including certain changes in control of Oncor that are not permitted transactions under the term loan credit agreement, cross-default provisions in the event Oncor or any of its subsidiaries defaults on indebtedness in a principal amount in excess of $100 million or receives judgments for the payment of money in excess of $50 million that are not discharged within 60 days.

8. COMMITMENTS AND CONTINGENCIES

EFH Bankruptcy Proceedings

On the EFH Petition Date, the Debtors commenced the EFH Bankruptcy Proceedings. The Oncor Ring-Fenced Entities are not parties to the EFH Bankruptcy Proceedings. See Notes 2 and 13 for a discussion of the potential impacts on us as a result of the EFH Bankruptcy Proceedings and our related-party transactions involving members of the Texas Holdings Group, respectively.

Leases

At December 31, 2016, future minimum lease payments under operating leases (with initial or remaining noncancelable lease terms in excess of one year) were as follows:

Year	Amount
2017	$ 6
2018	1
2019	1
2020	—
2021	—
Thereafter	—
Total future minimum lease payments	$ 8

Rent charged to operation and maintenance expense totaled $9 million for the year ended December 31, 2016.

Efficiency Spending

Oncor is required to annually invest in programs designed to improve customer electricity demand efficiencies to satisfy ongoing regulatory requirements. The 2017 requirement is $49 million which is recoverable in rates.

Legal/Regulatory Proceedings

We are involved in other various legal and administrative proceedings in the normal course of business, the ultimate resolution of which, in the opinion of management, should not have a material effect upon our financial position, results of operations or cash flows. See Note 3 for additional information regarding contingencies.

Labor Contracts

At December 31, 2016, approximately 19% of Oncor's full time employees were represented by a labor union. Such employees are covered by a collective bargaining agreement with an expiration date of October 25, 2018.

Environmental Contingencies

Oncor must comply with environmental laws and regulations applicable to the handling and disposal of hazardous waste. Oncor is in compliance with all current laws and regulations; however, the impact, if any, of changes to existing regulations or the implementation of new regulations is not determinable. The costs to comply with environmental regulations can be significantly affected by the following external events or conditions:

- changes to existing state or federal regulation by governmental authorities having jurisdiction over control of toxic substances and hazardous and solid wastes, and other environmental matters, and
- the identification of additional sites requiring clean-up or the filing of other complaints in which Oncor may be asserted to be a potential responsible party.

9. MEMBERSHIP INTERESTS

While there are no direct restrictions on our ability to distribute our net income that are currently material, substantially all of our net income is derived from Oncor. Our board of directors and Oncor's board of directors, which are composed of a majority of independent directors, can withhold distributions to the extent such board determines that it is necessary to retain such amounts to meet the respective company's expected future requirements. The PUCT has the authority to determine what types of debt and equity are included in a utility's debt-to-equity ratio. For purposes of this ratio, debt is calculated as long-term debt including capital leases plus unamortized gains on reacquired debt less unamortized issuance expenses, premiums and losses on reacquired debt. The debt calculation excludes any transition bonds issued by Bondco. Equity is calculated as membership interests determined in accordance with US GAAP, excluding the effects of acquisition accounting (which included recording the initial goodwill and fair value adjustments and subsequent related impairments and amortization).

Oncor's distributions are limited by its required regulatory capital structure to be at or below the assumed debt-to-equity ratio established periodically by the PUCT for ratemaking purposes, which is currently set at 60% debt to 40% equity. At December 31, 2016, of its total net assets, $103 million was available for distribution to Oncor's members as Oncor's regulatory capitalization ratio was 59.4% debt and 40.6% equity, of which approximately 80% relates to our ownership interest. The PUCT authorized capital structure will be 57.5% debt and 42.5% equity effective November 27, 2017 contingent upon the PUCT order issued in PUCT Docket No. 46957 becoming final and taking effect (see Note 3 for more details). To obtain the additional 2.5% equity capitalization, Oncor anticipates that approximately $250 million of equity will be needed. The PUCT order provides for the use of a regulatory liability and bill credit mechanism until the new authorized regulatory capital structure is met following the effective date for new rates to reflect Oncor's actual capitalization prior to achieving the authorized capital structure.

During 2016, our board of directors declared, and we paid the following cash distributions to EFIH:

Declaration Date	Payment Date	Amount
October 26, 2016	October 27, 2016	$ 28
July 27, 2016	August 11, 2016	$ 49
April 27, 2016	May 11, 2016	$ 46
February 24, 2016	February 25, 2016	$ 40

Accumulated Other Comprehensive Income (Loss)

The following tables present the changes to accumulated other comprehensive income (loss) for the year ended December 31, 2016:

	Cash Flow Hedges – Interest Rate Swap	Defined Benefit Pension and OPEB Plans	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2015	$ (18)	$ (73)	$ (91)
Defined benefit pension plans (net of tax)	—	—	—
Amounts reclassified from accumulated other comprehensive income (loss) and reported in interest expense and related charges	2	—	2
Balance at December 31, 2016	$ (16)	$ (73)	$ (89)

10. NONCONTROLLING INTERESTS

At December 31, 2016, Oncor's ownership was as follows: 80.03% held by us, 19.75% held by Texas Transmission and 0.22% held indirectly by certain current and former members of Oncor's management team and board of directors. The book value of the noncontrolling interests exceeds its ownership percentage due to the portion of Oncor's deferred taxes not attributable to the noncontrolling interests.

11. PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFITS (OPEB) PLANS

Regulatory Recovery of Pension and OPEB Costs

PURA provides for Oncor's recovery of pension and OPEB costs applicable to services of its active and retired employees, as well as services of other EFH Corp. active and retired employees prior to the deregulation and disaggregation of EFH Corp.'s electric utility businesses effective January 1, 2002 (recoverable service). Accordingly, Oncor entered into an agreement with EFH Corp. whereby we assumed responsibility for applicable pension and OPEB costs related to those personnel's recoverable service.

Oncor is authorized to establish a regulatory asset or liability for the difference between the amounts of pension and OPEB costs approved in current billing rates and the actual amounts that would otherwise have been recorded as charges or credits to earnings related to recoverable service. Amounts deferred are ultimately subject to regulatory approval. At December 31, 2016, Oncor had recorded regulatory assets totaling $1.199 billion related to pension and OPEB costs, including amounts related to deferred expenses as well as amounts related to unfunded liabilities that otherwise would be recorded as other comprehensive income.

Oncor has also assumed primary responsibility for pension benefits of a closed group of retired and terminated vested plan participants not related to our regulated utility business (non-recoverable service) in a 2012 transaction. Any retirement costs associated with non-recoverable service is not recoverable through rates.

Pension Plans

Oncor sponsors the Oncor Retirement Plan and also has liabilities under the Vistra Retirement Plan (formerly EFH Retirement Plan), both of which are qualified pension plans under Section 401(a) of the Internal Revenue Code of 1986, as amended (Code), and are subject to the provisions of ERISA. Employees do not contribute to either plan. These pension plans provide benefits to participants under one of two formulas: (i) a Cash Balance Formula under which participants earn monthly contribution credits based on their compensation and a combination of their age and years of service, plus monthly interest credits or (ii) a Traditional Retirement Plan Formula based on years of service and the average earnings of the three years of highest earnings. The interest component of the Cash Balance Formula is variable and is determined using the yield on 30-year Treasury bonds. Under the Cash Balance Formula, future increases in earnings will not apply to prior service costs.

All eligible employees hired after January 1, 2001 participate under the Cash Balance Formula. Certain employees, who, prior to January 1, 2002, participated under the Traditional Retirement Plan Formula, continue their participation under that formula. It is the sponsors' policy to fund the plans on a current basis to the extent required under existing federal tax and ERISA regulations.

Oncor also has the Oncor Supplemental Retirement Plan for certain employees whose retirement benefits cannot be fully earned under the qualified retirement plan, the information for which is included below.

OPEB Plan

Until July 1, 2014, Oncor participated with EFH Corp. and other subsidiaries of EFH Corp. to offer certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees (EFH OPEB Plan). As discussed below, Oncor ceased participation in the EFH OPEB Plan and established its own OPEB plan for Oncor's eligible retirees, certain eligible retirees of EFH Corp. for whom we have OPEB liability with respect to their regulated service, and their dependents (Oncor OPEB Plan). For employees retiring on or after January 1, 2002, the retiree contributions required for such coverage vary based on a formula depending on the retiree's age and years of service.

In April 2014, Oncor entered into an agreement with EFH Corp. (subsequently assigned to Vistra) in which it agreed to transfer to the Oncor OPEB Plan effective July 1, 2014, the assets and liabilities related to its eligible current and future retirees as well as certain eligible retirees of EFH Corp. whose employment included service with both Oncor (or a predecessor regulated electric business) and a non-regulated business of EFH Corp. Pursuant to the agreement, Vistra will retain its portion of the liability for retiree benefits related to those retirees. As Oncor is not responsible for Vistra's portion of the Oncor OPEB Plan's unfunded liability totaling $85 million as of December 31, 2016, that amount is not reported on our balance sheet.

Pension and OPEB Costs

Pension and OPEB amounts provided herein include amounts related only to Oncor's portion of the various plans based on actuarial computations and reflect Oncor's employee and retiree demographics as described above. Oncor's net costs related to pension and OPEB plans for the year ended December 31, 2016 were comprised of the following:

	Year Ended December 31, 2016
Pension costs	$ 76
OPEB costs	62
Total benefit costs	138
Less amounts recognized principally as property or a regulatory asset	(100)
Net amounts recognized as expense	$ 38

The calculated value method is used to determine the market-related value of the assets held in the trust for purposes of calculating pension costs. Realized and unrealized gains or losses in the market-related value of assets are included over a rolling four-year period. Each year, 25% of such gains and losses for the current year and for each of the preceding three years is included in the market-related value. Each year, the market-related value of assets is increased for contributions to the plan and investment income and is decreased for benefit payments and expenses for that year.

The fair value method is used to determine the market-related value of the assets held in the trust for purposes of calculating OPEB cost.

Detailed Information Regarding Pension and OPEB Benefits

The following pension and OPEB information is based on a December 31, 2016 measurement date:

	Pension Plans Year Ended December 31, 2016	OPEB Plan Year Ended December 31, 2016
Assumptions Used to Determine Net Periodic Pension and OPEB Costs:		
Discount rate	4.30%	4.60%
Expected return on plan assets	5.54%	6.30%
Rate of compensation increase	3.29%	—
Components of Net Pension and OPEB Costs:		
Service cost	$ 23	$ 7
Interest cost	134	49
Expected return on assets	(122)	(9)
Amortization of prior service cost (credit)	—	(20)
Amortization of net loss	41	35
Net periodic pension and OPEB costs	$ 76	$ 62
Other Changes in Plan Assets and Benefit Obligations Recognized as Regulatory Assets or in Other Comprehensive Income:		
Net loss (gain)	$ 41	$ 10
Amortization of net loss	(41)	(35)
Amortization of prior service (cost) credit	—	20
Total recognized as regulatory assets or other comprehensive income	—	(5)
Total recognized in net periodic pension and OPEB costs and as regulatory assets or other comprehensive income	$ 76	$ 57

	Pension Plans Year Ended December 31, 2016	OPEB Plan Year Ended December 31, 2016
Assumptions Used to Determine Benefit Obligations at Period End:		
Discount rate	4.05%	4.35%
Rate of compensation increase	3.33%	—

	Pension Plans Year Ended December 31, 2016	OPEB Plan Year Ended December 31, 2016
Change in Projected Benefit Obligation:		
Projected benefit obligation at beginning of year	$ 3,201	$ 1,088
Service cost	23	7
Interest cost	134	49
Participant contributions	—	17
Assumption of liabilities	—	7
Actuarial (gain) loss	106	10
Benefits paid	(157)	(62)
Projected benefit obligation at end of year	$ 3,307	$ 1,116
Accumulated benefit obligation at end of year	$ 3,213	$ —
Change in Plan Assets:		
Fair value of assets at beginning of year	$ 2,252	$ 141
Actual return (loss) on assets	188	9
Employer contributions	4	31
Assets related to assumed liabilities	—	7
Participant contributions	—	17
Benefits paid	(157)	(62)
Fair value of assets at end of year	$ 2,287	$ 143
Funded Status:		
Projected benefit obligation at end of year	$ (3,307)	$ (1,116)
Fair value of assets at end of year	2,287	143
Funded status at end of year	$ (1,020)	$ (973)

	Pension Plans Year Ended December 31, 2016	OPEB Plan Year Ended December 31, 2016
Amounts Recognized in the Balance Sheet Consist of:		
Liabilities:		
Other current liabilities	$ (4)	$ —
Other noncurrent liabilities	(1,016)	(973)
Net liability recognized	$ (1,020)	$ (973)
Regulatory assets:		
Net loss	$ 583	$ 296
Prior service cost (credit)	—	(30)
Net regulatory asset recognized	$ 583	$ 266
Accumulated other comprehensive net loss	$ 136	$ 4

The following tables provide information regarding the assumed health care cost trend rates.

	Year Ended December 31, 2016
Assumed Health Care Cost Trend Rates — Not Medicare Eligible:	
Health care cost trend rate assumed for next year	5.80%
Rate to which the cost trend is expected to decline (the ultimate trend rate)	5.00%
Year that the rate reaches the ultimate trend rate	2024
Assumed Health Care Cost Trend Rates — Medicare Eligible:	
Health care cost trend rate assumed for next year	5.70%
Rate to which the cost trend is expected to decline (the ultimate trend rate)	5.00%
Year that the rate reaches the ultimate trend rate	2024

	1-Percentage Point Increase
Sensitivity Analysis of Assumed Health Care Cost Trend Rates:	
Effect on accumulated postretirement obligation	$ 152
Effect on postretirement benefits cost	8

The following table provides information regarding pension plans with projected benefit obligations (PBO) and accumulated benefit obligations (ABO) in excess of the fair value of plan assets.

	At December 31, 2016
Pension Plan with PBO and ABO in Excess of Plan Assets:	
Projected benefit obligations	$ 3,137
Accumulated benefit obligations	3,051
Plan assets	2,112

Pension and OPEB Plans Investment Strategy and Asset Allocations

Oncor’s investment objective for the retirement plans is to invest in a suitable mix of assets to meet the future benefit obligations at an acceptable level of risk, while minimizing the volatility of contributions. Equity securities are held to achieve returns in excess of passive indexes by participating in a wide range of investment opportunities. International equity, real estate securities and credit strategies (high yield bonds, emerging market debt and bank loans) are used to further diversify the equity portfolio. International equity securities may include investments in both developed and emerging international markets. Fixed income securities include primarily corporate bonds from a diversified range of companies, U.S.Treasuries and agency securities and money market instruments. The investment strategy for fixed income investments is to maintain a high grade portfolio of securities, which assists Oncor in managing the volatility and magnitude of plan contributions and expense while maintaining sufficient cash and short-term investments to pay near-term benefits and expenses.

The Oncor Retirement Plan’s investments are managed in two pools: one pool associated with the recoverable service portion of plan obligations related to Oncor’s regulated utility business, and a second pool associated with the non-recoverable service portion of plan obligations not related to Oncor’s regulated utility business. Each pool is invested in a broadly diversified portfolio as shown below. The second pool represents about 34% of total investments at December 31, 2016.

The target asset allocation ranges of the pension plans investments by asset category are as follows:

Asset Category	Target Allocation Ranges Recoverable	Nonrecoverable
International equities	14% - 18%	5% - 9%
U.S. equities	17% - 21%	6% - 10%
Real estate	4% - 5%	—
Credit strategies	6% - 8%	4% - 6%
Fixed income	48% - 60%	76% -84%

The investment objective for the OPEB plan primarily follows the objectives of the pension plans discussed above, while maintaining sufficient cash and short-term investments to pay near-term benefits and expenses. The actual amounts at December 31, 2016 provided below are consistent with the asset allocation targets.

Fair Value Measurement of Pension Plans Assets

At December 31, 2016, pension plans assets measured at fair value on a recurring basis consisted of the following:

Asset Category	At December 31, 2016 Level 1	Level 2	Level 3	Total
Interest-bearing cash	$ —	$ 14	$ —	$ 14
Equity securities:				
U.S.	193	3	—	196
International	225	—	—	225
Fixed income securities:				
Corporate bonds (a)	—	1,089	—	1,089
U.S. Treasuries	—	223	—	223
Other (b)	—	40	—	40
Real estate	—	—	5	5
Total assets in the fair value hierarchy	$ 418	$1,369	$ 5	1,792
Total assets measured at net asset value (c)				495
Total fair value of plan assets				$2,287

(a) Substantially all corporate bonds are rated investment grade by a major ratings agency such as Moody’s.
(b) Other consists primarily of municipal bonds, emerging market debt, bank loans and fixed income derivative instruments.
(c) Fair value was measured using the net asset value (NAV) per share as a practical expedient as the investments did not have a readily determinable fair value and are not required to be classified in the fair value hierarchy. The NAV fair value amounts presented here are intended to permit a reconciliation to the total fair value of plan assets.

There was no significant change in the fair value of Level 3 assets in the periods presented.

Fair Value Measurement of OPEB Plan Assets

At December 31, 2016, OPEB plan assets measured at fair value on a recurring basis consisted of the following:

	At December 31, 2016			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest-bearing cash	$ 2	$ —	$ —	$ 2
Equity securities:				
U.S.	41	—	—	41
International	28	—	—	28
Fixed income securities:				
Corporate bonds (a)	—	28	—	28
U.S. Treasuries	—	2	—	2
Other (b)	28	—	—	28
Total assets in the fair value hierarchy	$ 99	$ 30	$ —	129
Total assets measured at net asset value (c)				14
Total fair value of plan assets				$143

(a) Substantially all corporate bonds are rated investment grade by a major ratings agency such as Moody's.
(b) Other consists primarily of diversified bond mutual funds.
(c) Fair value was measured using the net asset value (NAV) per share as a practical expedient as the investments did not have a readily determinable fair value and are not required to be classified in the fair value hierarchy. The NAV fair value amounts presented here are intended to permit a reconciliation to the total fair value of plan assets.

Expected Long-Term Rate of Return on Assets Assumption

The retirement plans' strategic asset allocation is determined in conjunction with the plans' advisors and utilizes a comprehensive Asset-Liability modeling approach to evaluate potential long-term outcomes of various investment strategies. The modeling incorporates long-term rate of return assumptions for each asset class based on historical and future expected asset class returns, current market conditions, rate of inflation, current prospects for economic growth, and taking into account the diversification benefits of investing in multiple asset classes and potential benefits of employing active investment management.

Pension Plans		OPEB Plan	
Asset Class	**Expected Long-Term Rate of Return**	**Asset Class**	**Expected Long-Term Rate of Return**
International equity securities	6.98%	401(h) accounts	6.60%
U.S. equity securities	6.40%	Life insurance VEBA	6.01%
Real estate	5.00%	Union VEBA	6.01%
Credit strategies	5.22%	Non-union VEBA	2.20%
Fixed income securities	4.50%	Weighted average	6.10%
Weighted average (a)	5.46%		

(a) The 2017 expected long-term rate of return for the nonregulated portion of the Oncor Retirement Plan is 4.62% and 5.13% for Oncor's portion of the Vistra Retirement Plan.

Significant Concentrations of Risk

The plans' investments are exposed to risks such as interest rate, capital market and credit risks. Oncor seeks to optimize return on investment consistent with levels of liquidity and investment risk which are prudent and reasonable, given prevailing capital market conditions and other factors specific to participating employers. While Oncor recognizes the importance of return, investments will be diversified in order to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to do so. There are also various restrictions and guidelines in place including limitations on types of investments allowed and portfolio weightings for certain investment securities to assist in the mitigation of the risk of large losses.

Assumed Discount Rate

For the Oncor retirement plans at December 31, 2016, Oncor selected the assumed discount rate using the Aon Hewitt AA-AAA Bond Universe yield curve, which is based on corporate bond yields and at December 31, 2016 consisted of 1,217 corporate bonds with an average rating of AA and AAA using Moody's, S&P and Fitch ratings. For the Oncor OPEB Plan at December 31, 2016, Oncor selected the assumed discount rate using the Aon Hewitt AA Above Median yield curve, which is based on corporate bond yields and at December 31, 2016 consisted of 489 corporate bonds with an average rating of AA using Moody's, S&P and Fitch ratings.

Amortization in 2017

In 2017, amortization of the net actuarial loss and prior service credit for the defined benefit pension plans from regulatory assets and other comprehensive income into net periodic benefit cost is expected to be $46 million and zero, respectively. Amortization of the net actuarial loss and prior service credit for the OPEB plan from regulatory assets into net periodic benefit cost is expected to be $32 million and a $20 million credit, respectively.

Pension and OPEB Plans Cash Contributions

Oncor's contributions to the benefit plans were as follows:

	Year Ended December 31, 2016
Pension plans contributions	$ 4
OPEB plan contributions	31
Total contributions	$ 35

Oncor's funding for the pension plans and the Oncor OPEB Plan is expected to total $149 million and $31 million, respectively, in 2017 and approximately $564 million and $153 million, respectively, in the 2017 to 2021 period.

Future Benefit Payments

Estimated future benefit payments to participants are as follows:

	2017	2018	2019	2020	2021	2022-26
Pension plans	$173	$179	$184	$190	$195	$1,032
OPEB plan	$ 52	$ 55	$ 57	$ 60	$ 63	$ 338

Thrift Plan

Oncor employees are eligible to participate in a qualified savings plan, a participant-directed defined contribution plan intended to qualify under Section 401(a) of the Code, and is subject to the provisions of

ERISA. Under the plan, employees may contribute, through pre-tax salary deferrals and/or after-tax applicable payroll deductions, a portion of their regular salary or wages as permitted under law. Employer matching contributions are made in an amount equal to 100% of the first 6% of employee contributions for employees who are covered under the Cash Balance Formula of the Oncor Retirement Plan, and 75% of the first 6% of employee contributions for employees who are covered under the Traditional Retirement Plan Formula of the Oncor Retirement Plan. Employer matching contributions are made in cash and may be allocated by participants to any of the plan's investment options.

Contributions to the Oncor Thrift Plan totaled $15 million for the year ended December 31, 2016.

12. STOCK-BASED COMPENSATION

Oncor currently does not offer stock-based compensation to its employees or directors. In 2008, Oncor established the SARs Plan under which certain of its executive officers and key employees were granted stock appreciation rights payable in cash, or in some circumstances, Oncor membership interests. In February 2009, Oncor established the Oncor Electric Delivery Company LLC Director Stock Appreciation Rights Plan (the Director SARs Plan) under which certain non-employee members of its board of directors and other persons having a relationship with Oncor were granted SARs payable in cash, or in some circumstances, Oncor membership interests.

In November 2012, Oncor accepted the early exercise of all outstanding SARs (both vested and unvested) issued to date pursuant to both SARs Plans. As part of the 2012 early exercise of SARs Oncor began accruing interest on dividends declared with respect to the SARs. Under both SARs plans, dividends that were paid in respect of Oncor membership interests while the SARs were outstanding were credited to the SARs holder's account as if the SARs were units, payable upon the earliest to occur of death, disability, separation from service, unforeseeable emergency, a change in control, or the occurrence of an event triggering SAR exercisability pursuant to Section 5(c)(ii) of the SARs Plan. As a result, at December 31, 2016, Oncor has recorded a liability of approximately $11 million relating to SARS dividend accruals. For accounting purposes, the liability is discounted based on an employee's or director's expected retirement date. Oncor recognized approximately $1 million in accretion and interest with respect to such dividends in 2016.

13. RELATED-PARTY TRANSACTIONS

The following represent our significant related-party transactions and related matters. See Note 2 for additional information regarding related-party contingencies resulting from the EFH Bankruptcy Proceedings and information regarding the Vistra Spin-Off. As a result of the Vistra Spin-Off, Vistra and its subsidiaries, including Luminant and TXU Energy, ceased to be related parties as of October 3, 2016.

- Oncor recorded revenue from TCEH, principally for electricity delivery fees, which totaled $715 million for the period ended January 1, 2016 through October 2, 2016. The fees are based on rates regulated by the PUCT that apply to all REPs.

  Trade accounts and other receivables from affiliates at December 31, 2016 was zero as a result of the Vistra Spin-Off.

- EFH Corp. subsidiaries charge Oncor for certain administrative services at cost. Oncor's payments to EFH Corp. subsidiaries for administrative services, which are primarily reported in operation and maintenance expenses, totaled $1 million for the year ended December 31, 2016. Oncor and EFH Corp. also charge each other for shared facilities at cost. Oncor's payments to EFH Corp. for shared facilities totaled $3 million for the year ended December 31, 2016. Payments Oncor received from EFH Corp. subsidiaries related to shared facilities totaled $1 million for the year ended December 31, 2016.

- We are a member of EFH Corp.'s consolidated tax group, though Oncor is not, and EFH Corp.'s consolidated federal income tax return includes our results. Under the terms of a tax sharing agreement, we are obligated to make payments to EFH Corp. in an aggregate amount that is substantially equal to the amount of federal income taxes that we would have been required to pay if we were filing our own corporate income tax return. Also under the terms of the tax sharing agreement, Oncor makes similar payments to Texas Transmission and Investment LLC, pro rata in accordance with their respective membership interests in Oncor, in an aggregate amount that is substantially equal to the amount of federal income taxes that Oncor would have been required to pay if it were filing its own corporate income tax return. EFH Corp. also includes Oncor's results in its consolidated Texas state margin tax return, and consistent with the tax sharing agreement, Oncor remits to EFH Corp. Texas margin tax payments, which are accounted for as income taxes and calculated as if Oncor was filing its own return. Our results are also included in the consolidated Texas state margin tax return filed by EFH Corp. See discussion in Note 1 to Financial Statements under "Income Taxes."

Amounts payable to (receivable from) EFH Corp. related to income taxes under the agreement and reported on our balance sheet consisted of the following:

	At December 31, 2016
Federal income taxes payable (receivable)	$ (57)
Texas margin taxes payable	20
Total payable (receivable)	$ (37)

Cash payments made to (received from) EFH Corp. related to income taxes consisted of the following:

	Year Ended December 31, 2016
Federal income taxes	$ 21
Texas margin taxes	20
Total payments (receipts)	$ 41

- Certain transmission and distribution utilities in Texas have tariffs in place to assure adequate credit worthiness of any REP to support the REP's obligation to collect transition bond-related charges on behalf of the utility. Under these tariffs, as a result of TCEH's credit rating being below investment grade, TCEH was required to post collateral support in an amount equal to estimated transition charges over specified time periods. No letters of credit were posted at December 31, 2016 since the transition bonds were paid in full in May 2016.
- Related parties of the Sponsor Group have (1) sold, acquired or participated in the offerings of Oncor's debt or debt securities in open market transactions or through loan syndications, and (2) performed various financial advisory, dealer, commercial banking and investment banking services for us and certain of our affiliates for which they have received or will receive customary fees and expenses, and may from time to time in the future participate in any of the items in (1) and (2) above. Also, since March 31, 2015, approximately 16% of the equity in an existing vendor of the company has been owned by a member of the Sponsor Group. During 2016, this vendor performed transmission and distribution system construction and maintenance services for us. Cash payments were made for such services to this vendor totaling $188 million for 2016, of which approximately $180 million was capitalized and $8 million recorded as an operation and maintenance expense. At December 31, 2016, we had outstanding trade payables to this vendor of $5 million.

See Notes 9 and 10 for information regarding distributions to EFIH and noncontrolling interests and Oncor's participation in previous EFH Corp. pension and OPEB plans, respectively.

14. SUPPLEMENTARY FINANCIAL INFORMATION

Variable Interest Entities

Through December 29, 2016, Oncor was the primary beneficiary and consolidated a wholly-owned VIE, Bondco, which was organized for the limited purpose of issuing specific transition bonds and purchasing and owning transition property acquired from Oncor that is pledged as collateral to secure the bonds. Oncor acted as the servicer for this entity to collect transition charges authorized by the PUCT. These funds were remitted to the trustee and used for interest and principal payments on the transition bonds and related costs. Bondco was dissolved effective December 29, 2016.

Bondco had issued an aggregate $1.3 billion principal amount of transition bonds during 2003 and 2004. The 2003 Series transition bonds matured and were paid in full in 2015 and the 2004 Series transition bonds matured and were paid in full in May 2016.

Oncor did not provide any financial support to Bondco during the year ended December 31, 2016.

Major Customers

Revenues from subsidiaries of Vistra (formerly subsidiaries of TCEH) represented 23% of our total operating revenues for the year ended December 31, 2016. Revenues from REP subsidiaries of another nonaffiliated entity, collectively represented 17% of total operating revenues for the year ended December 31, 2016. No other customer represented 10% or more of our total operating revenues.

Other Income and (Deductions)

	Year Ended December 31, 2016
Accretion of fair value adjustment (discount) to regulatory assets due to acquisition accounting	$ 1
Professional fees	(15)
Non-recoverable pension and OPEB (Note 11)	(2)
Interest income	2
Other	(1)
Total other income and (deductions) — net	$ (15)

Interest Expense and Related Charges

	Year Ended December 31, 2016
Interest	$ 341
Amortization of debt issuance costs and discounts	3
Less allowance for funds used during construction — capitalized interest portion	(8)
Total interest expense and related charges	$ 336

Trade Accounts and Other Receivables

Trade accounts and other receivables reported on our balance sheet consisted of the following:

		At December 31, 2016
Gross trade accounts and other receivables	$	548
Trade accounts and other receivables from TCEH (affiliated)		—
Allowance for uncollectible accounts		(3)
Trade accounts receivable from nonaffiliates — net	$	545

At December 31, 2016, REP subsidiaries of Vistra collectively represented approximately 15% of the nonaffiliated trade accounts receivable amount. Also, at December 31, 2016, REP subsidiaries of another nonaffiliated entity collectively represented approximately 12% of the nonaffiliated trade accounts receivable amount.

Under a PUCT rule relating to the Certification of Retail Electric Providers, write-offs of uncollectible amounts owed by nonaffiliated REPs are deferred as a regulatory asset.

Investments and Other Property

Investments and other property reported on our balance sheet as part of property, plant and equipment consisted of the following:

		At December 31, 2016
Assets related to employee benefit plans, including employee savings programs	$	98
Land		2
Total investments and other property	$	100

The majority of these assets represent cash surrender values of life insurance policies that are purchased to fund liabilities under deferred compensation plans. At December 31, 2016, the face amount of these policies totaled $153 million and the net cash surrender values (determined using a Level 2 valuation technique) totaled $76 million for the year ended December 31, 2016. Changes in cash surrender value are netted against premiums paid. Other investment assets held to satisfy deferred compensation liabilities are recorded at market value.

Property, Plant and Equipment

Property, plant and equipment reported on our balance sheet consisted of the following:

	Composite Depreciation Rate/Avg. Life at December 31, 2016	At December 31, 2016
Assets in service:		
Distribution	3.9% / 25.5 years	$ 11,369
Transmission	2.8% / 35.2 years	7,734
Other assets	9.0% / 11.1 years	1,131
Total		20,234
Less accumulated depreciation		6,836
Net of accumulated depreciation		13,398
Construction work in progress		416
Held for future use		15
Property, plant and equipment — net		$ 13,829

Depreciation expense as a percent of average depreciable property approximated 3.5% for the year ended December 31, 2016.

Intangible Assets

Intangible assets (other than goodwill) reported on our balance sheet consisted of the following:

	At December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net
Identifiable intangible assets subject to amortization included in property, plant and equipment:			
Land easements	$ 491	$ 94	$397
Capitalized software	470	326	144
Total	$ 961	$ 420	$541

Aggregate amortization expense for intangible assets totaled $61 million for the year ended December 31, 2016. At December 31, 2016, the weighted average remaining useful life of capitalized land easements and software was 84 years. The estimated aggregate amortization expense for each of the next five fiscal years is as follows:

Year	Amortization Expense
2017	$ 56
2018	37
2019	34
2020	33
2021	33

At December 31, 2016, goodwill totaling $4.1 billion was reported on our balance sheet. None of this goodwill is being deducted for tax purposes. See Note 1 regarding goodwill impairment assessment and testing.

Employee Benefit Obligations and Other

Employee benefit obligations and other reported on our balance sheet consisted of the following:

		At December 31, 2016
Retirement plans and other employee benefits	$	2,092
Liabilities related to subsidiary tax sharing agreement		229
Uncertain tax positions (including accrued interest)		3
Investment tax credits		12
Other		63
Total employee benefit obligations and other	$	2,399

In the first quarter of 2017, EFH Corp. settled all open tax claims with the IRS. As a result, we reduced the liability for uncertain tax positions by $3 million. This reduction was reported as a decrease in provision in lieu of income taxes.

Supplemental Cash Flow Information

		Year Ended December 31, 2016
Cash payments related to:		
Interest	$	336
Less capitalized interest		(8)
Interest payments (net of amounts capitalized)	$	328
Income taxes:		
Federal	$	21
State		20
Total income taxes	$	41
Noncash construction expenditures (a)	$	122

(a) Represents end-of-period accruals.

15. CONDENSED FINANCIAL INFORMATION

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC (Parent Co.)
PARENT ONLY FINANCIAL INFORMATION
(millions of dollars)

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2016
Income tax expense	$ (12)
Equity in earnings of subsidiary	344
Net Income	332
Other comprehensive income (net of tax benefit of $1)	2
Comprehensive income	$ 334

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2016
Cash provided by operating activities	$ 162
Cash used in financing activities — distributions paid to parent	(162)
Net change in cash and cash equivalents	—
Cash and cash equivalents — beginning balance	—
Cash and cash equivalents — ending balance	$ —

CONDENSED BALANCE SHEET

	At December 31, 2016
ASSETS	
Cash and cash equivalents	$ —
Investments — noncurrent	6,340
Accumulated deferred income taxes	129
Total assets	$ 6,469
LIABILITIES AND MEMBERSHIP INTERESTS	
Income taxes payable to EFH Corp. — current	$ 8
Other noncurrent liabilities and deferred credits	230
Total liabilities	238
Membership interests	6,231
Total liabilities and membership interests	$ 6,469

See Notes to Financial Statements.

Basis of Presentation

References herein to “we,” “our,” “us” and “the company” are to Oncor Holdings (Parent Co.) and/or its direct or indirect subsidiaries as apparent in the context.

The accompanying condensed balance sheet is presented at December 31, 2016, and the accompanying condensed statements of income and cash flows are presented for the year ended December 31, 2016. We are a Delaware limited liability company wholly-owned by EFIH, which is a wholly owned subsidiary of EFH Corp. As of December 31, 2016, we own approximately 80% of the membership interests in Oncor. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been omitted pursuant to the rules of the US Securities and Exchange Commission. Because the condensed financial statements do not include all of the information and footnotes required by US GAAP, they should be read in conjunction with the consolidated financial statements and Notes 1 through 14. Our subsidiary has been accounted for under the equity method. All dollar amounts in the financial statements are stated in millions of US dollars unless otherwise indicated.

Distribution Restrictions

While there are no direct restrictions on our ability to distribute our net income that are currently material, substantially all of our net income is derived from Oncor. Our board of directors and Oncor’s board of directors, which are composed of a majority of independent directors, can withhold distributions to the extent the boards determine that it is necessary to retain such amounts to meet our expected future requirements. The PUCT has the authority to determine what types of debt and equity are included in a utility’s debt-to-equity ratio. For purposes of this ratio, debt is calculated as long-term debt including capital leases plus unamortized gains on reacquired debt less unamortized issuance expenses, premiums and losses on reacquired debt. The debt calculation excludes any transition bonds issued by Bondco. Equity is calculated as membership interests determined in accordance with GAAP, excluding the effects of acquisition accounting (which included recording the initial goodwill and fair value adjustments and the subsequent related impairments and amortization).

Oncor’s distributions are limited by its required regulatory capital structure to be at or below the assumed debt-to-equity ratio established periodically by the PUCT for ratemaking purposes, which is currently set at 60% debt to 40% equity. At December 31, 2016, Oncor’s regulatory capitalization ratio was 59.4% debt and 40.6% equity. At December 31, 2016, of its total net assets, $103 million was available for distribution to Oncor’s members under the capital structure restriction, of which approximately 80% relates to our ownership interest.

During 2016, Oncor’s board of directors declared, and Oncor paid to us the following cash distributions:

	Year Ended December 31, 2016 (millions of dollars)
Distributions received subsequently paid to EFH Corp. as federal income taxes recognized as operating activities	$ 21
Distributions received subsequently paid to EFIH recognized as financing activities	162
Total distributions from Oncor	$ 183

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC

AN ENERGY FUTURE HOLDINGS CORP. ENTERPRISE

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2017

GLOSSARY

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

2016 Audited Financial Statements	Oncor Holdings' audited financial statements for the year ended December 31, 2016.
acquisition accounting	The acquisition method of accounting for a business combination as prescribed by GAAP, whereby the cost or "acquisition price" of a business combination, including the amount paid for the equity and direct transaction costs, are allocated to identifiable assets and liabilities (including intangible assets) based upon their fair values. The excess of the purchase price over the fair values of assets and liabilities is recorded as goodwill.
AMS	advanced metering system
Bondco	Refers to Oncor Electric Delivery Transition Bond Company LLC, a former wholly-owned consolidated bankruptcy-remote financing subsidiary of Oncor that had issued securitization (transition) bonds to recover certain regulatory assets and other costs. Bondco was dissolved effective December 29, 2016.
Contributed EFH Debtors	Certain EFH Debtors that became subsidiaries of Vistra and emerged from Chapter 11 at the time of the Vistra Spin-Off.
Debtors	EFH Corp. and the majority of its direct and indirect subsidiaries, including EFIH, EFCH and TCEH but excluding the Oncor Ring-Fenced Entities. Prior to the Vistra Spin-Off, also included the TCEH Debtors.
Deed of Trust	Deed of Trust, Security Agreement and Fixture Filing, dated as of May 15, 2008, made by Oncor to and for the benefit of The Bank of New York Mellon Trust Company, N.A. (as successor to The Bank of New York Mellon, formerly The Bank of New York), as collateral agent, as amended
EFCH	Refers to Energy Future Competitive Holdings Company LLC, a direct, wholly-owned subsidiary of EFH Corp. and, prior to the Vistra Spin-Off, the parent of TCEH, and/or its subsidiaries, depending on context.
EFH Bankruptcy Proceedings	Refers to voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code filed in U.S. Bankruptcy Court for the District of Delaware on April 29, 2014 (EFH Petition Date) by EFH Corp. and the substantial majority of its direct and indirect subsidiaries, including EFIH, EFCH and TCEH. The Oncor Ring-Fenced Entities are not parties to the EFH Bankruptcy Proceedings.
EFH Corp.	Refers to Energy Future Holdings Corp., a holding company, and/or its subsidiaries, depending on context. Its major subsidiaries include Oncor and TCEH.
EFH Debtors	EFH Corp. and its subsidiaries that are Debtors in the EFH Bankruptcy Proceedings, excluding the TCEH Debtors
EFH Petition Date	April 29, 2014. See EFH Bankruptcy Proceedings above.
EFIH	Refers to Energy Future Intermediate Holding Company LLC, a direct, wholly-owned subsidiary of EFH Corp. and the direct parent of Oncor Holdings.

GAAP	generally accepted accounting principles of the U.S.
Investment LLC	Refers to Oncor Management Investment LLC, a limited liability company and minority membership interest owner (approximately 0.22%) of Oncor, whose managing member is Oncor and whose Class B Interests are owned by certain members of the management team and independent directors of Oncor.
LIBOR	London Interbank Offered Rate, an interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market
Luminant	Refers to subsidiaries of Vistra (which, prior to the Vistra Spin-Off, were subsidiaries of TCEH) engaged in competitive market activities consisting of electricity generation and wholesale energy sales and purchases as well as commodity risk management and trading activities, all largely in Texas.
Oncor	Refers to Oncor Electric Delivery Company LLC, a direct, majority-owned subsidiary of Oncor Holdings, and/or its former wholly-owned consolidated bankruptcy-remote financing subsidiary, Bondco, depending on context.
Oncor Holdings	Refers to Oncor Electric Delivery Holdings Company LLC, a direct, wholly-owned subsidiary of EFIH and the direct majority owner (approximately 80.03%) of Oncor, and/or its subsidiaries, depending on context.
Oncor OPEB Plan	Refers to a plan sponsored by Oncor that offers certain postretirement health care and life insurance benefits to eligible current and former Oncor employees, certain eligible current and former EFH Corp. employees, and their eligible dependents.
Oncor Retirement Plan	Refers to a defined benefit pension plan sponsored by Oncor.
Oncor Ring-Fenced Entities	Refers to Oncor Holdings and its direct and indirect subsidiaries, including Oncor.
OPEB	other postretirement employee benefits
PUCT	Public Utility Commission of Texas
REP	retail electric provider
Sponsor Group	Refers collectively to certain investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., TPG Global, LLC (together with its affiliates, TPG) and GS Capital Partners, an affiliate of Goldman, Sachs & Co., that have an ownership interest in Texas Holdings.
TCEH	Refers to Texas Competitive Electric Holdings Company LLC, a direct, wholly-owned subsidiary of EFCH and, prior to the Vistra Spin-Off, the parent company of the TCEH Debtors (other than the Contributed EFH Debtors), depending on the context, that were engaged in electricity generation and wholesale and retail energy market activities, and whose major subsidiaries included Luminant and TXU Energy. Subsequent to the Vistra Spin-Off, Vistra continued substantially the same operations as TCEH.
TCEH Debtors	Refers to the subsidiaries of TCEH that were Debtors in the EFH Bankruptcy Proceedings (including Luminant and TXU Energy) and the Contributed EFH Debtors

Texas Holdings	Refers to Texas Energy Future Holdings Limited Partnership, a limited partnership controlled by the Sponsor Group that owns substantially all of the common stock of EFH Corp.
Texas Holdings Group	Refers to Texas Holdings and its direct and indirect subsidiaries other than the Oncor Ring-Fenced Entities.
Texas margin tax	A privilege tax imposed on taxable entities chartered/organized or doing business in the State of Texas that, for accounting purposes, is reported as an income tax.
Texas Transmission	Refers to Texas Transmission Investment LLC, a limited liability company that owns a 19.75% equity interest in Oncor. Texas Transmission is an entity indirectly owned by a private investment group led by OMERS Administration Corporation, acting through its infrastructure investment entity, OMERS Infrastructure Management Inc. (formerly Borealis Infrastructure Management Inc.), and the Government of Singapore Investment Corporation, acting through its private equity and infrastructure arm, GIC Special Investments Pte Ltd. Texas Transmission is not affiliated with EFH Corp., any of EFH Corp.'s subsidiaries or any member of the Sponsor Group.
TXU Energy	Refers to TXU Energy Retail Company LLC, a direct, wholly-owned subsidiary of Vistra (and, prior to the Vistra Spin-Off, a direct subsidiary of TCEH) engaged in the retail sale of electricity to residential and business customers. TXU Energy is a REP in competitive areas of ERCOT.
U.S.	United States of America
Vistra	Refers to Vistra Energy Corp. (formerly TCEH Corp.), and/or its subsidiaries, depending on context. On October 3, 2016, the TCEH Debtors emerged from bankruptcy and became subsidiaries of TCEH Corp. Subsequent to the Vistra Spin-Off, Vistra continued substantially the same operations as TCEH.
Vistra Retirement Plan	Refers to the Vistra Energy Retirement Plan (formerly EFH Retirement Plan), a defined benefit pension plan sponsored by a subsidiary of Vistra, in which Oncor participates. See Oncor Retirement Plan above.
Vistra Spin-Off	Refers to the completion of the TCEH Debtors' reorganization under the Bankruptcy Code and emergence from the EFH Bankruptcy Proceedings effective October 3, 2016.

These condensed consolidated financial statements occasionally make references to Oncor Holdings or Oncor when describing actions, rights or obligations of their respective subsidiaries. References to "we," "our," "us" and "the company" are to Oncor Holdings and/or its direct or indirect subsidiaries as apparent in the context. These references reflect the fact that the subsidiaries are consolidated with their respective parent companies for financial reporting purposes. However, these references should not be interpreted to imply that the parent company is actually undertaking the action or has the rights or obligations of the relevant subsidiary company or that the subsidiary company is undertaking an action or has the rights or obligations of its parent company or any other affiliate.

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(millions of dollars)	
Operating revenues:		
Nonaffiliates	$2,967	$ 2,262
Affiliates	—	700
Total operating revenues	2,967	2,962
Operating expenses:		
Wholesale transmission service	690	663
Operation and maintenance (Note 10)	552	543
Depreciation and amortization	581	593
Income taxes (Note 10)	200	211
Taxes other than amounts related to income taxes	340	338
Total operating expenses	2,363	2,348
Operating income	604	614
Other income and (deductions) — net (Note 11)	(12)	(11)
Nonoperating income taxes	2	6
Interest expense and related charges (Note 11)	257	252
Net income	333	345
Net income attributable to noncontrolling interests	(68)	(71)
Net income attributable to Oncor Holdings	$ 265	$ 274

See Notes to Financial Statements.

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(millions of dollars)	
Net income	$ 333	$ 345
Other comprehensive income (loss):		
Cash flow hedges — derivative value net loss recognized in net income (net of tax expense of $— and $—) (Note 1)	1	1
Defined benefit pension plans (net of tax benefit of $1 and $—)	2	1
Total other comprehensive income (loss)	3	2
Comprehensive income	336	347
Comprehensive income attributable to noncontrolling interests	(69)	(71)
Comprehensive income attributable to Oncor Holdings	$ 267	$ 276

See Notes to Financial Statements.

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(millions of dollars)	
Cash flows — operating activities:		
Net income	$ 333	$ 345
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	618	629
Deferred income taxes — net	243	157
Other — net	(2)	(3)
Changes in operating assets and liabilities:		
Regulatory accounts related to reconcilable tariffs (Note 4)	30	(60)
Other operating assets and liabilities:	(192)	(124)
Cash provided by operating activities	1,030	944
Cash flows — financing activities:		
Issuances of long-term debt (Note 6)	600	175
Repayments of long-term debt (Note 6)	(324)	(41)
Net increase in short-term borrowings (Note 5)	128	40
Distributions to parent (Note 8)	(170)	(135)
Distributions to noncontrolling interests (Note 8)	(47)	(38)
Debt discount, premium, financing and reacquisition costs — net	(4)	11
Cash provided by financing activities	183	12
Cash flows — investing activities:		
Capital expenditures (Note 10)	(1,234)	(1,004)
Other — net	10	47
Cash used in investing activities	(1,224)	(957)
Net change in cash and cash equivalents	(11)	(1)
Cash and cash equivalents — beginning balance	16	26
Cash and cash equivalents — ending balance	$ 5	$ 25

See Notes to Financial Statements.

ONCOR ELECTRIC DELIVERY HOLDINGS COMPANY LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	At September 30, 2017	At December 31, 2016
	(millions of dollars)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5	$ 16
Trade accounts receivable — net (Note 11)	634	545
Income taxes receivable from EFH Corp. (Note 10)	26	57
Materials and supplies inventories — at average cost	92	89
Prepayments and other current assets	97	100
Total current assets	854	807
Investments and other property (Note 11)	109	100
Property, plant and equipment — net (Note 11)	14,587	13,829
Goodwill (Note 11)	4,064	4,064
Regulatory assets (Note 4)	1,967	1,974
Other noncurrent assets	16	14
Total assets	$ 21,597	$ 20,788
LIABILITIES AND MEMBERSHIP INTERESTS		
Current liabilities:		
Short-term borrowings (Note 5)	$ 917	$ 789
Long-term debt due currently (Note 6)	550	324
Trade accounts payable (Note 10)	216	231
Income taxes payable to EFH Corp. (Note 10)	16	20
Accrued taxes other than income taxes	156	182
Accrued interest	85	83
Other current liabilities	159	144
Total current liabilities	2,099	1,773
Long-term debt, less amounts due currently (Note 6)	5,566	5,515
Accumulated deferred income taxes	2,290	2,102
Regulatory liabilities (Note 4)	1,009	856
Employee benefit obligations and other (Note 11)	2,292	2,399
Total liabilities	13,256	12,645
Commitments and contingencies (Note 7)		
Membership interests (Note 8):		
Capital account	6,413	6,320
Accumulated other comprehensive loss	(87)	(89)
Oncor Holdings membership interest	6,326	6,231
Noncontrolling interests in subsidiary	2,015	1,912
Total membership interests	8,341	8,143
Total liabilities and membership interests	$ 21,597	$ 20,788

See Notes to Financial Statements.

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

References in this report to “we,” “our,” “us” and “the company” are to Oncor Holdings and/or its direct or indirect subsidiaries as apparent in the context. The financial statements are comprised almost entirely of the operations of Oncor; consequently, there are no separate reportable business segments. See “Glossary” for definition of terms and abbreviations.

We are a Dallas, Texas-based holding company whose financial statements are comprised almost entirely of the operations of our direct, majority (approximately 80%) owned subsidiary, Oncor. Oncor is a regulated electricity transmission and distribution company principally engaged in providing delivery services to REPs that sell power in the north-central, eastern and western parts of Texas. Revenues from subsidiaries of Vistra (subsidiaries of TCEH until October 3, 2016) represented 23% and 24% of our total operating revenues for the nine months ended September 30, 2017 and 2016, respectively. We are a direct, wholly-owned subsidiary of EFIH, a direct, wholly-owned subsidiary of EFH Corp. EFH Corp. is a subsidiary of Texas Holdings, which is controlled by the Sponsor Group.

Our consolidated financial statements include our former indirect, bankruptcy-remote financing subsidiary, Bondco, a variable interest entity through December 29, 2016, at which time it was dissolved. This financing subsidiary was organized for the limited purpose of issuing certain transition bonds to recover generation-related regulatory asset stranded costs and other qualified costs under an order issued by the PUCT in 2002.

Various “ring-fencing” measures have been taken to enhance the separateness between the Oncor Ring-Fenced Entities and the Texas Holdings Group and our credit quality. These measures serve to mitigate our and Oncor’s credit exposure to the Texas Holdings Group and to reduce the risk that our assets and liabilities or those of Oncor would be substantively consolidated with the assets and liabilities of the Texas Holdings Group in connection with a bankruptcy of one or more of those entities. Such measures include, among other things: Oncor’s sale of a 19.75% equity interest to Texas Transmission in November 2008; maintenance of separate books and records for the Oncor Ring-Fenced Entities; our board of directors and Oncor’s board of directors being comprised of a majority of independent directors; and prohibitions on the Oncor Ring-Fenced Entities providing credit support to, or receiving credit support from, any member of the Texas Holdings Group. The assets and liabilities of the Oncor Ring-Fenced Entities are separate and distinct from those of the Texas Holdings Group. None of the assets of the Oncor Ring-Fenced Entities are available to satisfy the debt or contractual obligations of any member of the Texas Holdings Group. We and Oncor do not bear any liability for debt or contractual obligations of the Texas Holdings Group, and vice versa. Accordingly, our operations are conducted, and our cash flows are managed, independently from the Texas Holdings Group.

EFH Corp. Bankruptcy Proceedings

On the EFH Petition Date, the Debtors commenced proceedings under Chapter 11 of the U.S. Bankruptcy Code. The Oncor Ring-Fenced Entities are not parties to the EFH Bankruptcy Proceedings. We believe the “ring-fencing” measures discussed above mitigate our and Oncor’s potential exposure to the EFH Bankruptcy Proceedings. See Note 2 for a discussion of the potential impacts of the EFH Bankruptcy Proceedings on our financial statements.

Basis of Presentation

These unaudited condensed financial statements should be read in conjunction with the audited financial statements and related notes included in our 2016 Audited Financial Statements. In the opinion of Oncor

Holdings management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations and financial position have been made. All intercompany items and transactions have been eliminated in consolidation. The results of operations for an interim period may not give a true indication of results for a full year due to seasonality. All dollar amounts in the financial statements and tables in the notes are stated in millions of U.S. dollars unless otherwise indicated. Subsequent events have been evaluated through November 13, 2017, the date these consolidated financial statements were available to be issued.

Use of Estimates

Preparation of our financial statements requires management to make estimates and assumptions about future events that affect the reporting of assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense, including fair value measurements. In the event estimates and/or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information.

Revenue Recognition

General

Oncor’s revenue is billed under tariffs approved by the PUCT and the majority of revenues are related to providing electric delivery service to consumers. Tariff rates are designed to recover the cost of providing electric delivery service including a reasonable rate of return on invested capital. Revenues are generally recognized when the underlying service has been provided in an amount prescribed by the related tariff.

Reconcilable Tariffs

The PUCT has designated certain tariffs (TCRF, EECRF surcharges, AMS surcharges and charges related to transition bonds) as reconcilable, which means the differences between amounts billed under these tariffs and the related incurred costs are deferred as either regulatory assets or regulatory liabilities. Accordingly, at prescribed intervals, future tariffs are adjusted to either repay regulatory liabilities or collect regulatory assets.

Contingencies

We evaluate and account for contingencies using the best information available. A loss contingency is accrued and disclosed when it is probable that an asset has been impaired or a liability incurred and the amount of the loss can be reasonably estimated. If a range of probable loss is established, the minimum amount in the range is accrued, unless some other amount within the range appears to be a better estimate. If the probable loss cannot be reasonably estimated, no accrual is recorded, but the loss contingency is disclosed to the effect that the probable loss cannot be reasonably estimated. A loss contingency will be disclosed when it is reasonably possible that an asset has been impaired or a liability incurred. If the likelihood that an impairment or incurrence is remote, the contingency is neither accrued nor disclosed. Gain contingencies are recognized upon realization.

Changes in Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-2 which created FASB Topic 842, *Leases* (Topic 842). Topic 842 amends previous GAAP to require the balance sheet recognition of lease assets and liabilities for operating leases. Operating lease liabilities will not be classified as debt for GAAP purposes under Topic 842 and will not be treated as debt for regulatory purposes. At this time, all of Oncor’s existing leases meet the definition of an operating lease liability. Under the new rules, the recognition of any finance leases (currently known as capital leases) on the balance sheet would be classified as debt for GAAP purposes and are expected to be defined as debt for our regulatory capital structure purposes (see Note 8 for details) similar to the current capital lease treatment. We will be required to adopt Topic 842 by

January 1, 2019 and do not expect to early adopt. Retrospective application to the 2017 and 2018 comparative periods presented will be required in the year of adoption. The initial adoption of Topic 842 will affect our balance sheet, as leased buildings and vehicles are recognized as operating lease liabilities. Subsequent to adoption, to the extent Oncor enters into finance leases, its credit facility covenants and capitalization ratios could be impacted. We continue to evaluate the potential impact of Topic 842 on our financial statements.

Since May 2014, the FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers* along with other supplemental guidance (together, Topic 606). Topic 606 introduces new, increased requirements for disclosure of revenue in financial statements and guidance that are intended to eliminate inconsistencies in the recognition of revenue. We are required to adopt Topic 606 by January 1, 2018 and expect to adopt at that time using the modified retrospective approach. Our revenues from customers are tariff-based and are designed to recover the cost of providing electric delivery service to customers including a reasonable rate of return on invested capital. Revenues are generally recognized when the underlying service has been provided in an amount prescribed by the related tariff. At this time, we do not expect the new guidance to change this pattern of recognition and therefore it is not expected to have a material effect on our reported results of operations, financial position or cash flows. We continue to evaluate the application of the new guidance.

In March 2017, the FASB issued ASU 2017-07 *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, an amendment to Topic 715, *Compensation — Retirement Benefits* (Topic 715). Topic 715, as amended, will require the non-service cost components of net retirement benefit plan costs be presented as non-operating in the income statement. In addition, only the service cost component of net retirement benefit plan cost will be eligible for capitalization as part of inventory or property, plant and equipment. We are required to adopt the amendment effective January 1, 2018. The income statement presentation requirement must be applied on a retrospective basis while the capitalization eligibility requirement is applied on a prospective basis. For cash flow purposes on a prospective basis, non-service costs will be reflected as a reduction to operating cash flows, offset by lower cash used in investing activities (lower capital expenditures). At this time, we do not expect the new guidance to have a material effect on our rate-making process, our results of operations, financial position or net change in total cash flows but continue to evaluate for potential impacts.

2. EFH BANKRUPTCY PROCEEDINGS

On the EFH Petition Date, EFH Corp. and the substantial majority of its direct and indirect subsidiaries at the time, including EFIH, EFCH and TCEH, commenced proceedings under Chapter 11 of the U.S. Bankruptcy Code. The Oncor Ring-Fenced Entities are not parties to the EFH Bankruptcy Proceedings. We believe the “ring-fencing” measures discussed above mitigate our and Oncor’s potential exposure to the EFH Bankruptcy Proceedings. See Note 1 and below for further information regarding the EFH Bankruptcy Proceedings and the proposed change in control of our indirect majority owner in connection with such proceedings.

The U.S. Bankruptcy Code automatically enjoined, or stayed, us from judicial or administrative proceedings or filing of other actions against our affiliates or their property to recover, collect or secure our claims arising prior to the EFH Petition Date. Following the EFH Petition Date, EFH Corp. received approval from the bankruptcy court to pay or otherwise honor certain prepetition obligations generally designed to stabilize its operations. Included in the approval were the obligations owed to Oncor representing prepetition electricity delivery fees. Oncor has collected substantially all of the prepetition receivables from the Texas Holdings Group. As discussed below, the 2016 Plan of Reorganization (defined below) provided for a spin-off of the TCEH Debtors from EFH Corp. As a result of this spin-off (Vistra Spin-Off), Vistra and its subsidiaries, including Luminant and TXU Energy, ceased to be affiliates of ours as of October 3, 2016.

The EFH Bankruptcy Proceedings continue to be a complex litigation matter and the full extent of potential impacts on us remain unknown. Bankruptcy courts have broad equitable powers, and as a result, outcomes in bankruptcy proceedings are inherently difficult to predict. We will continue to evaluate our affiliate transactions and contingencies throughout the EFH Bankruptcy Proceedings to determine any risks and resulting impacts on our and Oncor's results of operations, financial statements and cash flows.

See Note 10 for details of Oncor's related-party transactions with members of the Texas Holdings Group.

Potential Change in Indirect Ownership of Oncor and Oncor Holdings

Below is a summary of certain matters relating to the potential change in indirect ownership of us and Oncor that may arise as a result of the EFH Bankruptcy Proceedings.

In May 2016, the Debtors filed a joint Plan of Reorganization (2016 Plan of Reorganization) pursuant to Chapter 11 of the U.S. Bankruptcy Code and a related disclosure statement with the bankruptcy court. The 2016 Plan of Reorganization provided that the confirmation and effective date of the 2016 Plan of Reorganization with respect to the TCEH Debtors may occur separate from, and independent of, the confirmation and effective date of the 2016 Plan of Reorganization with respect to the EFH Debtors. In this regard, the bankruptcy court confirmed the 2016 Plan of Reorganization with respect to the TCEH Debtors in August 2016, and it became effective by its terms, and the Vistra Spin-Off occurred, effective October 3, 2016.

Prior Merger Agreements

The following merger agreements relating to a potential change in indirect ownership of us and Oncor were entered into in connection with the EFH Bankruptcy Proceedings. Each of these prior merger agreements has been terminated in accordance with their respective terms.

- In December 2015, the EFH Debtors filed their sixth amended plan of reorganization (Sixth Amended Plan of Reorganization) and entered into a merger and purchase agreement (Hunt Merger Agreement) with an investor group consisting of certain unsecured creditors of TCEH and an affiliate of Hunt Consolidated, Inc., as well as certain other investors designated by Hunt Consolidated, Inc. (collectively, the Hunt Investor Group), that would have led to a significant change in the indirect equity ownership of us and Oncor. In September 2015, Oncor and the Hunt Investor Group filed a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by the Sixth Amended Plan of Reorganization. The PUCT issued an order conditionally approving the joint application in March 2016 and in April 2016 the Hunt Investor Group and certain intervenors filed motions for rehearing. As discussed under "Regulatory Matters Related to the EFH Bankruptcy Proceedings" below, in May 2016, the PUCT denied the motions for rehearing in PUCT Docket No. 45188 and the Hunt Merger Agreement was terminated, and in June 2016 the Hunt Investor Group filed a petition with the Travis County District Court seeking review of the order.
- Following the termination of the Hunt Merger Agreement, in July 2016, the EFH Debtors entered into a Plan Support Agreement (NEE Plan Support Agreement) with NextEra Energy, Inc. (NEE) to effect an agreed upon restructuring of the EFH Debtors pursuant to an amendment (NEE Amendment) to the 2016 Plan of Reorganization (as amended by the NEE Amendment and as subsequently amended, NEE Plan) and EFH Corp. and EFIH entered into an Agreement and Plan of Merger (NEE Merger Agreement) with NEE and EFH Merger Co., LLC, a wholly-owned subsidiary of NEE. Additionally, in October 2016, an affiliate of NEE entered into an Agreement and Plan of Merger (the TTI Merger Agreement) with Texas Transmission Holdings Corporation (the parent of Texas Transmission) and certain of its affiliates to purchase Texas Transmission's 19.75% equity interest in Oncor for approximately $2.4 billion. The bankruptcy court approved EFH Corp. and EFIH's entry into the NEE Merger Agreement and the NEE Plan Support Agreement in September 2016 and confirmed the NEE Plan in February 2017. The consummation of the transactions contemplated by the NEE Plan, the NEE Merger Agreement and the TTI Merger Agreement was subject to various conditions precedent, including the approval of the PUCT. Oncor and NEE filed a joint application seeking certain regulatory approvals with respect to the NEE Merger Agreement and the TTI Merger Agreement in October 2016.

The PUCT denied the application in April 2017, issued an order on rehearing in June 2017 and denied NEE's second motion for rehearing in June 2017. Following these developments, on July 6, 2017, EFH and EFIH delivered a notice terminating the NEE Merger Agreement, which caused the NEE Plan to be null and void. As discussed under "Regulatory Matters Related to the EFH Bankruptcy Proceedings" below, on July 13, 2017, NEE filed a petition with the Travis County District Court seeking review of the PUCT order (PUCT NEE Plan Order). We cannot assess the impact of the termination of the NEE Merger Agreement on the results of the review or ultimate disposition of the PUCT NEE Plan Order, or any associated impacts of such termination and matters relating to the PUCT NEE Plan Order on the TTI Merger Agreement and the transactions contemplated thereby.

- Following the termination of the NEE Merger Agreement, on July 7, 2017, EFH Corp. and EFIH executed a merger agreement (BHE Merger Agreement) with Berkshire Hathaway Energy Company (BHE) and certain of its subsidiaries. The BHE Merger Agreement provided for the acquisition by BHE of the 80.03% of Oncor's membership interests owned indirectly by EFH Corp. and EFIH. In connection with the execution of the BHE Merger Agreement, on July 7, 2017, the EFH Debtors filed their joint plan of reorganization (BHE Plan) and a related disclosure statement. The EFH Debtors terminated the BHE Merger Agreement on August 21, 2017 in connection with their entry into the Sempra Merger Agreement (as defined below), which caused the BHE Plan to become null and void. Further, by order dated September 7, 2017, the bankruptcy court ordered that the BHE Merger Agreement was terminated and not approved.

Sempra Merger Agreement

On August 15, 2017, the EFH Debtors received an alternative proposal from Sempra Energy (Sempra) that largely followed the structure of the BHE Plan. Following negotiations, on August 21, 2017, EFH Corp. and EFIH entered into an Agreement and Plan of Merger (Sempra Merger Agreement) with Sempra and one of its wholly-owned subsidiaries (collectively, the Sempra Parties). Similar to the BHE Merger Agreement, the Sempra Merger Agreement does not impose any conditions on the EFH Debtors regarding TTI's minority interest in Oncor. Accordingly, the Sempra Merger Agreement provides for the acquisition by Sempra of the 80.03% of Oncor's membership interests owned indirectly by EFH Corp. and EFIH.

Following the execution and delivery of the Sempra Merger Agreement, EFIH requested, pursuant to the Sempra Merger Agreement, that Oncor Holdings and Oncor enter into a letter agreement (Sempra Letter Agreement) with the Sempra Parties. The Sempra Letter Agreement was executed on August 25, 2017 and sets forth certain rights and obligations of the Oncor Ring-Fenced Entities and the Sempra Parties to cooperate in the manner set forth therein with respect to initial steps to be taken in connection with the acquisition of Reorganized EFH and the other transactions described in the Sempra Merger Agreement. Pursuant to the terms of the Sempra Letter Agreement, the Oncor Ring-Fenced Entities are to conduct, in all material respects, their businesses in the ordinary course of business and materially consistent with the plan for 2017 and 2018 contained in Oncor's long-range business plan. The Sempra Letter Agreement also provides that the Oncor Ring-Fenced Entities will cooperate with the Sempra Parties to prepare and file all necessary applications for governmental approvals of the transactions contemplated by the Sempra Merger Agreement, including PUCT and FERC approvals. The Sempra Letter Agreement is not intended to give the Sempra Parties, directly or indirectly, the right to control or direct the operations of any of the Oncor Ring-Fenced Entities.

In connection with the execution of the Sempra Merger Agreement, on September 5, 2017, the EFH Debtors filed an amended joint plan of reorganization (Sempra Plan) and a related disclosure statement (Sempra Disclosure Statement). On September 6, 2017, the bankruptcy court authorized the EFH Debtors' entry into the Sempra Merger Agreement, approved the Sempra Disclosure Statement and authorized the EFH Debtors to solicit votes on the Sempra Plan. The Sempra Merger Agreement contemplates that Oncor and the Sempra Parties will file a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by the Sempra Plan, and that filing was made on October 5, 2017 in PUCT Docket

No. 47675. The EFH Debtors have indicated that they will not seek bankruptcy court confirmation of the Sempra Plan unless and until the PUCT approves the transactions contemplated by the Sempra Plan.

We cannot predict the ultimate outcome of the EFH Bankruptcy Proceedings, including whether the transactions contemplated by the Sempra Plan, including the Sempra Merger Agreement, will (or when they will) close. There remain conditions and uncertainties relating to the Sempra Plan becoming effective and the consummation of the transactions contemplated by the Sempra Merger Agreement, including, without limitation, the ability to obtain required regulatory approvals from the PUCT, as described below under "Regulatory Matters Related to EFH Bankruptcy Proceedings." As a result, we remain unable to predict how any reorganization of the EFH Debtors ultimately will impact Oncor or what form any change in indirect ownership of Oncor may take. In this regard, we are unable to predict the ultimate impact of the termination of the NEE Merger Agreement and matters relating to the PUCT NEE Plan Order or the TTI Merger Agreement, including the ultimate disposition, if any, of Texas Transmission's 19.75% equity stake in Oncor.

Regulatory Matters Related to EFH Bankruptcy Proceedings

In September 2015, Oncor and the Hunt Investor Group filed in PUCT Docket No. 45188 a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by a plan of reorganization in the EFH Bankruptcy Proceedings. In March 2016, the PUCT issued an order conditionally approving the joint application. In April 2016, the Hunt Investor Group and certain interveners in PUCT Docket No. 45188 filed motions for rehearing and in May 2016, the PUCT denied such motions and the order became final. In May 2016, the plan of reorganization and related merger and purchase agreement that contemplated the transactions in PUCT Docket No. 45188 were terminated. The Hunt Investor Group filed a petition with the Travis County District Court in June 2016 seeking review of the order. We cannot predict the results of the review or the ultimate disposition of PUCT Docket No. 45188, particularly in light of the termination of the Hunt Merger Agreement.

In connection with PUCT Docket No. 45188, certain cities that have retained original jurisdiction over electric utility rates passed resolutions directing Oncor to file rate review proceedings. In connection with those resolutions, counsel for those cities notified Oncor that they expected Oncor to make a rate filing to comply with their resolutions on or before March 17, 2017. That filing was made with the PUCT and original jurisdiction cities on March 17, 2017 in PUCT Docket No. 46957. In July 2017, Oncor and certain parties to the rate review agreed to a settlement of that rate review, and on August 2, 2017 a settlement agreement was filed that settled all issues in the docket. On October 13, 2017, the PUCT issued an order approving the settlement agreement. For more information, see Note 3 — "2017 Rate Review (PUCT Docket No. 46957)."

The NEE Merger Agreement contemplated that Oncor and NEE file a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by the Amended EFH Debtor Plan. Oncor and NEE filed that joint application in PUCT Docket No. 46238 in October 2016. The PUCT denied the application on April 13, 2017. The PUCT issued an Order on Rehearing on June 7, 2017 and denied NEE's Second Motion for Rehearing on June 29, 2017. On July 13, 2017, NEE filed a petition with the Travis County District Court seeking review of the PUCT order. We cannot predict the results of the review or the ultimate disposition of PUCT Docket No. 46238, particularly in light of the termination of the NEE Merger Agreement.

On July 28, 2017, Texas Transmission Holdings Corporation (TTHC) and NEE filed in PUCT Docket No. 47453 a joint application with the PUCT seeking certain regulatory approvals with respect to NEE's proposed acquisition of the 19.75 percent minority interest in Oncor that is indirectly held by TTHC. The application requested that the PUCT issue an order disclaiming jurisdiction over the transaction or finding that the transaction is in the public interest and approved. On September 14, 2017, Oncor filed a motion to intervene as a party, but not an applicant, in PUCT Docket No. 47453. On October 26, 2017, the PUCT voted to dismiss the application without prejudice on jurisdictional grounds and ordered that any future filing of the application must include the affected utility (in this case Oncor) as an applicant. The PUCT further ordered that in any such filing Oncor is not required to seek approval of the application or any other specific relief. On October 30, 2017, TTHC notified the PUCT that it had terminated the merger agreement with NEE that was the subject of PUCT Docket No. 47453.

Oncor and the Sempra Parties filed a joint application with the PUCT seeking certain regulatory approvals with respect to the transactions contemplated by the Sempra Plan on October 5, 2017 in PUCT Docket No. 47675.

Settlement Agreement

In connection with the EFH Bankruptcy Proceedings, the EFH Debtors and various creditor parties entered into a settlement agreement (the Settlement Agreement) in August 2015 (as amended in September 2015) to compromise and settle, among other things (i) intercompany claims among the EFH Debtors, (ii) claims and causes of actions against holders of first lien claims against TCEH and the agents under the TCEH Senior Secured Facilities, (iii) claims and causes of action against holders of interests in EFH Corp. and certain related entities and (iv) claims and causes of action against each of the EFH Debtors' current and former directors, the Sponsor Group, managers and officers and other related entities. The Settlement Agreement contemplates a release of such claims upon approval of the Settlement Agreement by the bankruptcy court, which approval was obtained in December 2015.

The Settlement Agreement settles substantially all inter-debtor claims through the effective date of the Settlement Agreement. These settled claims include potentially contentious inter-debtor claims, including various potential avoidance actions and claims arising under numerous debt agreements, tax sharing agreements, and contested property transfers. The release provisions of the Settlement Agreement took effect immediately upon the entry of the bankruptcy court order approving the Settlement Agreement. In this regard, substantially all of the potential affiliate claims, derivative claims and other types of disputes among affiliates (including claims against Oncor) have been resolved by bankruptcy court order. Accordingly, we believe the Settlement Agreement resolves all affiliate claims against Oncor and its assets existing as of the effective date of the Settlement Agreement.

3. REGULATORY MATTERS

Change in Control Reviews

See "Regulatory Matters Related to EFH Bankruptcy Proceedings" in Note 2.

2017 Rate Review (PUCT Docket No. 46957)

In response to resolutions passed by numerous cities with original jurisdiction over electric utility rates in 2016, Oncor filed rate review proceedings with the PUCT and original jurisdiction cities in our service territory on March 17, 2017 based on a January 1, 2016 to December 31, 2016 test year. In July 2017, Oncor and certain parties to the rate review agreed to a settlement of that rate review, and on August 2, 2017 a settlement agreement was filed that settled all issues in the docket. On October 13, 2017, the PUCT issued an order approving the settlement of the rate review. The order became final and non-appealable on November 7, 2017. The order provides for new rates to take effect on November 27, 2017, contingent upon the closing of the transactions discussed below under "Sharyland Transaction." The order further provides, among other items, that Oncor's base rate revenue requirement before intercompany eliminations would be approximately $4.3 billion, Oncor's authorized return on equity would be 9.8%, and Oncor's authorized regulatory capital structure would be 57.5% debt and 42.5% equity. Oncor's current authorized return on equity is 10.25% and the current authorized regulatory capital structure is 60% debt and 40% equity. The order provides for the use of a regulatory liability and bill credit mechanism until the new authorized regulatory capital structure is met following the effective date for new rates to reflect Oncor's actual capitalization prior to achieving the authorized capital structure.

Sharyland Transaction

On July 21, 2017, Oncor entered into an agreement (Sharyland Agreement) with Sharyland Distribution & Transmission Services, L.L.C., a Texas limited liability company (SDTS), Sharyland Utilities, L.P., a Texas limited partnership (SU), and certain of their subsidiaries.

The Sharyland Agreement provides that pursuant to separate mergers (collectively, Sharyland Mergers), (i) Oncor will receive certain of the electricity distribution-related assets and liabilities of SDTS and SU (constituting substantially all of the electricity distribution business of SDTS and SU) and certain transmission assets (collectively, Sharyland Distribution Business and the portion held by SDTS, the SDTS Merger Assets), (ii) SDTS will receive portions of certain of Oncor's electricity transmission-related assets and liabilities (Oncor Merger Assets) and cash, and (iii) SU will receive cash. The transaction for assets between Oncor and SDTS is structured to qualify, in part, as a simultaneous tax deferred like kind exchange of assets to the extent that the assets exchanged are of "like kind" (within the meaning of Section 1031 of the Internal Revenue Code).

On August 4, 2017, Oncor, SDTS and SU filed a joint application for sale, transfer, or merger in PUCT Docket No. 47469 requesting PUCT approvals of the transactions contemplated by the Sharyland Agreement. On October 13, 2017, the PUCT issued an order approving the Sharyland Agreement in Docket No. 47469. The transactions contemplated by the Sharyland Agreement closed on November 9, 2017. The actual assets exchanged and cash received pursuant to the Sharyland Mergers is based on the difference between the current net book value of the Oncor Merger Assets and/or the actual net book value of the Sharyland Distribution Business as of closing, as provided in the Sharyland Agreement. At closing of the transactions, the net book value of the Oncor Merger Assets was approximately $383 million and the net book value of the SDTS Merger Assets was approximately $401 million. Based on these net book values, Oncor paid SDTS approximately $18 million in cash and SU approximately $7 million in cash.

We do not expect the Sharyland transaction to have a material effect on our and Oncor's results of operations, financial position or cash flows.

We are involved in various other regulatory proceedings in the normal course of business, the ultimate resolution of which, in the opinion of management, should not have a material effect upon our and Oncor's financial position, results of operations or cash flows.

See Note 3 to the Financial Statements in our 2016 Audited Financial Statements for additional information regarding regulatory matters.

4. REGULATORY ASSETS AND LIABILITIES

Recognition of regulatory assets and liabilities and the periods which they are to be recovered or refunded through rate regulation are determined by the PUCT. Components of the regulatory assets and liabilities and the remaining periods as of September 30, 2017 are provided in the table below. Amounts not earning a return through rate regulation are noted.

	Remaining Rate Recovery/Amortization Period at September 30, 2017	Carrying Amount At	
		September 30, 2017	December 31, 2016
Regulatory assets:			
Employee retirement costs being amortized	2 years	$ 11	$ 23
Unrecovered employee retirement costs incurred since the last rate review period (b)	To be determined	352	327
Employee retirement liability (a)(b)(c)	To be determined	804	849
Self-insurance reserve (primarily storm recovery costs) being amortized	2 years	40	64
Unrecovered self-insurance reserve incurred since the last rate review period (b)	To be determined	424	367
Securities reacquisition costs (post-industry restructure)	Lives of related debt	12	13
Deferred conventional meter and metering facilities depreciation	Largely 3 years	62	78
Under-recovered AMS costs	To be determined	213	205
Energy efficiency performance bonus (a)	1 year or less	14	10
Other regulatory assets	Various	35	38
Total regulatory assets		1,967	1,974
Regulatory liabilities:			
Estimated net removal costs	Lives of related assets	933	819
Investment tax credit and protected excess deferred taxes	Various	9	10
Over-recovered wholesale transmission service expense (a)	1 year or less	46	10
Other regulatory liabilities	Various	21	17
Total regulatory liabilities		1,009	856
Net regulatory assets		$ 958	$ 1,118

(a) Not earning a return in the regulatory rate-setting process.
(b) Recovery is specifically authorized by statute or by the PUCT, subject to reasonableness review.
(c) Represents unfunded liabilities recorded in accordance with pension and OPEB accounting standards.

5. SHORT-TERM BORROWINGS

At September 30, 2017, Oncor had a $2.0 billion secured revolving credit facility to be used for working capital and general corporate purposes, issuances of letters of credit and support for any commercial paper issuances. In October 2016, Oncor exercised the second of two one-year extensions available to them and extended the term of the revolving credit facility to October 2018. The terms of the revolving credit facility allow Oncor to request an increase in borrowing capacity of $100 million in the aggregate provided certain conditions are met, including lender approval.

Borrowings under the revolving credit facility are classified as short-term on the balance sheet and are secured equally and ratably with all of Oncor's other secured indebtedness by a first priority lien on property Oncor acquired or constructed for the transmission and distribution of electricity. The property is mortgaged under the Deed of Trust.

At September 30, 2017, Oncor had outstanding borrowings under the revolving credit facility totaling $917 million with an interest rate of 2.22% and outstanding letters of credit totaling $9 million. At December 31, 2016, Oncor had outstanding borrowings under the revolving credit facility totaling $789 million with an interest rate of 1.72% and outstanding letters of credit totaling $7 million.

Borrowings under the revolving credit facility bear interest at per annum rates equal to, at Oncor's option, (i) LIBOR plus a spread ranging from 1.00% to 1.75% depending on credit ratings assigned to Oncor's senior secured non-credit enhanced long-term debt or (ii) an alternate base rate (the highest of (1) the prime rate of JPMorgan Chase, (2) the federal funds effective rate plus 0.50%, and (3) daily one-month LIBOR plus 1.00%) plus a spread ranging from 0.00% to 0.75% depending on credit ratings assigned to Oncor's senior secured non-credit enhanced long-term debt. At September 30, 2017, substantially all outstanding borrowings bore interest at LIBOR plus 1.00%. Amounts borrowed under the revolving credit facility, once repaid, can be borrowed again from time to time.

An unused commitment fee is payable quarterly in arrears and upon termination or commitment reduction at a rate equal to 0.100% to 0.275% (such spread depending on certain credit ratings assigned to Oncor's senior secured debt) of the daily unused commitments under the revolving credit facility. Letter of credit fees on the stated amount of letters of credit issued under the revolving credit facility are payable to the lenders quarterly in arrears and upon termination at a rate per annum equal to the spread over adjusted LIBOR. Customary fronting and administrative fees are also payable to letter of credit fronting banks. At September 30, 2017, letters of credit bore interest at 1.20%, and a commitment fee (at a rate of 0.10% per annum) was payable on the unfunded commitments under the revolving credit facility, each based on Oncor's current credit ratings.

Subject to the limitations described below, borrowing capacity available under the revolving credit facility at September 30, 2017 and December 31, 2016 was $1.074 billion and $1.204 billion, respectively. Generally, Oncor's indentures and revolving credit facility limit the incurrence of other secured indebtedness except for indebtedness secured equally and ratably with the indentures and revolving credit facility and certain permitted exceptions. As described further in Note 6, the Deed of Trust permits Oncor to secure indebtedness (including borrowings under its revolving credit facility) with the lien of the Deed of Trust. At September 30, 2017, the available borrowing capacity of the revolving credit facility could be fully drawn.

The revolving credit facility contains customary covenants for facilities of this type, restricting, subject to certain exceptions, Oncor and its subsidiaries from, among other things: incurring additional liens; entering into mergers and consolidations; and sales of substantial assets. In addition, the revolving credit facility requires that Oncor maintain a consolidated senior debt-to-capitalization ratio of no greater than 0.65 to 1.00 and observe certain customary reporting requirements and other affirmative covenants. For purposes of the ratio, debt is calculated as indebtedness defined in the revolving credit facility (principally, the sum of long-term debt, any capital leases, short-term debt and debt due currently in accordance with GAAP). Capitalization is calculated as membership interests determined in accordance with GAAP plus indebtedness described above. At September 30, 2017, Oncor was in compliance with this covenant and with all other covenants.

6. LONG-TERM DEBT

Senior notes are secured by a first priority lien on certain transmission and distribution assets equally and ratably with all of Oncor's other secured indebtedness. See "Deed of Trust" below for additional information. At September 30, 2017 and December 31, 2016, our long-term debt consisted of the following:

	September 30, 2017	December 31, 2016
Secured:		
5.000% Fixed Senior Notes due September 30, 2017	$ —	$ 324
6.800% Fixed Senior Notes due September 1, 2018	550	550
2.150% Fixed Senior Notes due June 1, 2019	250	250
5.750% Fixed Senior Notes due September 30, 2020	126	126
4.100% Fixed Senior Notes due June 1, 2022	400	400
7.000% Fixed Debentures due September 1, 2022	800	800
2.950% Fixed Senior Notes due April 1, 2025	350	350
7.000% Fixed Senior Notes due May 1, 2032	500	500
7.250% Fixed Senior Notes due January 15, 2033	350	350
7.500% Fixed Senior Notes due September 1, 2038	300	300
5.250% Fixed Senior Notes due September 30, 2040	475	475
4.550% Fixed Senior Notes due December 1, 2041	400	400
5.300% Fixed Senior Notes due June 1, 2042	500	500
3.750% Fixed Senior Notes due April 1, 2045	550	550
3.800% Fixed Senior Notes due September 30, 2047	325	—
Secured long-term debt	5,876	5,875
Unsecured:		
Term loan credit agreement due no later than March 26, 2019	275	—
Total long-term debt	6,151	5,875
Unamortized discount and debt issuance costs	(35)	(36)
Less amount due currently	(550)	(324)
Long-term debt, less amounts due currently	$ 5,566	$ 5,515

Debt-Related Activity in 2017

Debt Repayments

Repayments of long-term debt in the nine months ended September 30, 2017 consisted of $324 million aggregate principal amount of 5.00% senior secured notes due September 30, 2017 (2017 Notes) that Oncor redeemed on September 29, 2017.

Issuance of Senior Secured Notes

In September 2017, Oncor issued $325 million aggregate principal amount of 3.80% senior secured notes maturing in September 2047 (2047 Notes). Oncor used the proceeds (net of the initial purchasers' discount, fees and expenses) of $321 million from the sale of the 2047 Notes for general corporate purposes, including repayment of borrowings under the revolving credit facility, and payment of a portion of the redemption price for the 2017 Notes. The 2047 Notes are secured by a first priority lien, and are secured equally and ratably with all of our other secured indebtedness.

Interest on the 2047 Notes is payable in cash semiannually on March 30 and September 30 of each year, beginning on March 30, 2018. Prior to March 30, 2047, Oncor may at its option at any time redeem all or part of the 2047 Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a make-whole premium. On and after March 30, 2047, Oncor may redeem the 2047 Notes at any time, in whole or in part, at a redemption price equal to 100% of the principal amount of such 2047 Notes, plus accrued and unpaid interest. The 2047 Notes also contain customary events of default, including failure to pay principal or interest on the Notes when due.

The 2047 Notes were issued in a private placement and were not registered under the Securities Act. Oncor has agreed, subject to certain exceptions, to register with the SEC notes having substantially identical terms as the 2047 Notes (except for provisions relating to the transfer restriction and payment of additional interest) as part of an offer to exchange freely tradable exchange notes for the 2047 Notes. Oncor has agreed to use commercially reasonable efforts to cause the exchange offer to be completed within 315 days after the issue date of the 2047 Notes. If a registration statement for the exchange offer is not declared effective by the SEC within 270 days after the issue date of the 2047 Notes or the exchange offer is not completed within 315 days after the issue date of the 2047 Notes (an exchange default), then the annual interest rate on the 2047 Notes will increase 50 basis points per annum until the earlier of the expiration of the exchange default or the second anniversary of the issue date of the Notes.

Term Loan Credit Agreement

On September 26, 2017, Oncor entered into a term loan credit agreement that provides for a springing-lien term loan credit facility in an aggregate principal amount of $275 million. On December 31, 2017, if (i) the obligations under the term loan credit agreement are outstanding as of such date and (ii) the obligations under our revolving credit facility (as amended, restated, supplemented, refinanced, replaced or otherwise modified) are secured as of such date, then the obligations under the term loan credit agreement will become secured indebtedness under the lien of our Deed of Trust.

The term loan credit agreement has an 18 month term maturing on March 26, 2019, and contains optional prepayment provisions as well as mandatory prepayment provisions that require prepayment in the event of certain specified debt issuances or certain specified asset dispositions.

At September 30, 2017, Oncor had outstanding borrowings of $275 million under the term loan credit agreement with an interest rate of 2.138%.

Loans under the term loan credit agreement bear interest at per annum rates equal to, at our option, (i) LIBOR plus a spread ranging from 0.80%-0.90%, depending on whether the loan has become secured, or (ii) an alternate base rate (the highest of (1) the prime rate of Wells Fargo Bank, National Association, (2) the federal funds effective rate plus 0.50%, and (3) daily one-month LIBOR plus 1.00%).

The term loan credit agreement contains customary covenants for facilities of this type, restricting, subject to certain exceptions, Oncor and its subsidiaries from, among other things, incurring additional liens, entering into mergers and consolidations, and sales of substantial assets.

In addition, the term loan credit agreement requires that Oncor maintain a consolidated senior debt to capitalization ratio of no greater than 0.65 to 1.00 and observe certain customary reporting requirements and other affirmative covenants.

The term loan credit agreement also contains customary events of default for facilities of this type the occurrence of which would allow the lenders to accelerate all outstanding loans and terminate their commitments, including certain changes in control of Oncor that are not permitted transactions under the term loan credit agreement, cross-default provisions in the event Oncor or any of its subsidiaries defaults on indebtedness in a principal amount in excess of $100 million or receives judgments for the payment of money in excess of $50 million that are not discharged within 60 days.

Deed of Trust

Secured indebtedness, including the revolving credit facility described in Note 5, is secured equally and ratably by a first priority lien on property Oncor acquired or constructed for the transmission and distribution of electricity. The property is mortgaged under the Deed of Trust. The Deed of Trust permits Oncor to secure indebtedness (including borrowings under our revolving credit facility) with the lien of the Deed of Trust up to the aggregate of (i) the amount of available bond credits, and (ii) 85% of the lower of the fair value or cost of certain property additions that could be certified to the Deed of Trust collateral agent. At September 30, 2017, the amount of available bond credits was $2.495 billion and the amount of future debt Oncor could secure with property additions, subject to those property additions being certified to the Deed of Trust collateral agent, was $2.109 billion.

Fair Value of Long-Term Debt

At September 30, 2017 and December 31, 2016, the estimated fair value of Oncor's long-term debt (including current maturities, if any) totaled $7.093 billion and $6.751 billion, respectively, and the carrying amount totaled $6.116 billion and $5.839 billion, respectively. The fair value is estimated using observable market data, representing Level 2 valuations under accounting standards related to the determination of fair value.

7. COMMITMENTS AND CONTINGENCIES

EFH Bankruptcy Proceedings

On the EFH Petition Date, the Debtors commenced the EFH Bankruptcy Proceedings. The Oncor Ring-Fenced Entities are not parties to the EFH Bankruptcy Proceedings. See Notes 2 and 10 for a discussion of the potential impacts on us as a result of the EFH Bankruptcy Proceedings and our related-party transactions involving members of the Texas Holdings Group, respectively.

Legal/Regulatory Proceedings

We are involved in various legal and administrative proceedings in the normal course of business, the ultimate resolution of which, in the opinion of management, should not have a material effect upon our financial position, results of operations or cash flows. See Note 3 in this report and Note 8 to Financial Statements in our 2016 Audited Financial Statements for additional information regarding our legal and regulatory proceedings.

8. MEMBERSHIP INTERESTS

While there are no direct restrictions on our ability to distribute our net income that are currently material, substantially all of our net income is derived from Oncor. Our board of directors and Oncor's board of directors, which are composed of a majority of independent directors, can withhold distributions to the extent such board determines that it is necessary to retain such amounts to meet the respective company's expected future requirements. The PUCT has the authority to determine what types of debt and equity are included in a utility's debt-to-equity ratio. For purposes of this ratio, debt is calculated as long-term debt including capital leases plus unamortized gains on reacquired debt less unamortized issuance expenses, premiums and losses on reacquired debt. Equity is calculated as membership interests determined in accordance with GAAP, excluding the effects of acquisition accounting (which includes recording any initial goodwill and fair value adjustments and subsequent related impairments and amortization).

Oncor's distributions are limited by its required regulatory capital structure to be at or below the assumed debt-to-equity ratio established periodically by the PUCT for ratemaking purposes, which was 60% debt to 40% equity as of September 30, 2017. At September 30, 2017, of its total net assets, $25 million was available for distribution to Oncor's members as Oncor's regulatory capitalization ratio was 59.9% debt to 40.1% equity, of which approximately 80% relates to our ownership interest. The PUCT authorized capital structure will be 57.5% debt and 42.5% equity effective November 27, 2017 contingent upon the PUCT order issued in PUCT Docket No. 46957 becoming final and taking effect (see Note 3 for more details). To obtain the additional 2.5% equity capitalization, Oncor anticipates that approximately $250 million of equity will be needed. The order in PUCT

Docket No. 46957 provides for the use of a regulatory liability and bill credit mechanism until the new authorized regulatory capital structure is met following the effective date for new rates to reflect Oncor's actual capitalization prior to achieving the authorized capital structure. On October 25, 2017, Oncor's board of directors declared a contingent cash distribution of $32 million to be paid to its members as of October 25, 2017 within one business day after an additional equity contribution is made to Oncor from members totaling approximately $250 million. In the event the additional equity contribution is not made on or before the date of the closing of the Sempra Merger Agreement, no distribution shall be payable. For more information on the Sempra Merger Agreement, see Note 2.

On October 25, 2017, our board of directors declared a contingent cash distribution to be paid to EFIH upon receipt of our portion of the contingent Oncor distribution described above, in an amount equal to the amount received from Oncor minus our expected tax liability to EFH Corp. for the quarter ended September 30, 2017 under the tax sharing agreement discussed in Note 10. No distribution is payable in the event the Oncor distribution is not received.

During the nine months ended September 30, 2017, our board of directors declared, and we paid, the following cash distributions to EFIH:

Declaration Date	Payment Date	Amount
July 26, 2017	August 1, 2017	$ 46
April 26, 2017	April 27, 2017	$ 62
March 22, 2017	March 24, 2017	$ 62

Noncontrolling Interests

At September 30, 2017, Oncor's ownership was as follows: 80.03% held by us, 19.75% held by Texas Transmission and 0.22% held indirectly by certain current and former members of Oncor's management team and board of directors. The book value of the noncontrolling interests exceeds its ownership percentage due the portion of Oncor's deferred taxes not attributable to the noncontrolling interests.

Membership Interests

The following table presents the changes to membership interests during the nine months ended September 30, 2017 and 2016:

	Capital Accounts	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Membership Interests
Balance at December 31, 2016	$ 6,320	$ (89)	$ 1,912	$ 8,143
Net income	265	—	68	333
Distributions paid to parent	(170)	—	—	(170)
Distributions to noncontrolling interests	—	—	(47)	(47)
Change related to future tax distributions from Oncor	—	—	81	81
Other	(2)	2	1	1
Balance at September 30, 2017	$ 6,413	$ (87)	$ 2,015	$ 8,341
Balance at December 31, 2015	$ 6,150	$ (91)	$ 1,803	$ 7,862
Net income	274	—	71	345
Distributions paid to parent	(135)	—	—	(135)
Distributions to noncontrolling interests	—	—	(38)	(38)
Change related to future tax distributions from Oncor	—	—	55	55
Other	—	2	—	2
Balance at September 30, 2016	$ 6,289	$ (89)	$ 1,891	$ 8,091

Accumulated Other Comprehensive Income (Loss)

The following table presents the changes to accumulated other comprehensive income (loss) for the nine months ended September 30, 2017 and 2016:

	Cash Flow Hedges – Interest Rate Swap	Defined Benefit Pension and OPEB Plans	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2016	$ (16)	$ (73)	$ (89)
Defined benefit pension plans (net of tax)	—	1	1
Amounts reclassified from accumulated other comprehensive income (loss) and reported in interest expense and related charges	1	—	1
Balance at September 30, 2017	$ (15)	$ (72)	$ (87)
Balance at December 31, 2015	$ (18)	$ (73)	$ (91)
Defined benefit pension plans (net of tax)	—	1	1
Amounts reclassified from accumulated other comprehensive income (loss) and reported in interest expense and related charges	1	—	1
Balance at September 30, 2016	$ (17)	$ (72)	$ (89)

9. PENSION AND OPEB PLANS

Pension Plans

Oncor sponsors the Oncor Retirement Plan and also has liabilities under the Vistra Retirement Plan, both of which are qualified pension plans under Section 401(a) of the Internal Revenue Code of 1986, as amended, and are subject to the provisions of ERISA. Employees do not contribute to either plan. Oncor also has a supplemental pension plan for certain employees whose retirement benefits cannot be fully earned under the qualified retirement plans. See Note 11 to Financial Statements in our 2016 Audited Financial Statements for additional information regarding pension plans.

Oncor OPEB Plan

The Oncor OPEB Plan covers their eligible current and future retirees as well as certain eligible retirees of EFH Corp./Vistra whose employment service was assigned to both Oncor (or a predecessor regulated electric business) and a non-regulated business of EFH Corp. Vistra is solely responsible for its portion of the liability for retiree benefits related to those retirees. As Oncor is not responsible for Vistra's portion of the Oncor OPEB Plan's unfunded liability, that amount is not reported on our balance sheet. See Note 10 to Financial Statements in our 2016 Audited Financial Statements for additional information.

Pension and OPEB Costs

Oncor's net costs related to pension plans and the Oncor OPEB Plan for the nine months ended September 30, 2017 and 2016 were comprised of the following:

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Components of net allocated pension costs:		
Service cost	$ 18	$ 18
Interest cost	98	101
Expected return on assets	(86)	(92)
Amortization of net loss	33	30
Net pension costs	63	57
Components of net OPEB costs:		
Service cost	5	6
Interest cost	36	36
Expected return on assets	(6)	(6)
Amortization of prior service cost	(15)	(15)
Amortization of net loss	24	26
Net OPEB costs	44	47
Total net pension and OPEB costs	107	104
Less amounts deferred principally as property or a regulatory asset	(76)	(75)
Net amounts recognized as expense	$ 31	$ 29

The discount rates reflected in net pension and OPEB costs in 2017 are 4.04%, 4.28% and 4.35% for the Oncor Retirement Plan, the Vistra Retirement Plan and the Oncor OPEB Plan, respectively. The expected return on pension and OPEB plan assets reflected in the 2017 cost amounts are 5.17%, 5.13% and 6.10% for the Oncor Retirement Plan, the Vistra Retirement Plan and the Oncor OPEB Plan, respectively.

Pension and OPEB Plans Cash Contributions

Oncor made cash contributions to the pension plans and Oncor OPEB Plan of $128 million and $25 million, respectively, during the nine months ended September 30, 2017. Oncor expects to make additional cash contributions to the pension plans and Oncor OPEB Plan of $21 million and $6 million, respectively, during the remainder of 2017. Our aggregate pension plans and Oncor OPEB Plan funding is expected to total approximately $564 million and $153 million, respectively, in the 2017 to 2021 period based on the latest actuarial projections.

10. RELATED-PARTY TRANSACTIONS

The following represent our significant related-party transactions at September 30, 2017. See Note 2 for additional information regarding related-party contingencies resulting from the EFH Bankruptcy Proceedings and information regarding the Vistra Spin-Off. As a result of the Vistra Spin-Off, Vistra and its subsidiaries, including Luminant and TXU Energy, ceased to be related parties as of October 3, 2016.

- Oncor recorded revenue from TCEH, principally for electricity delivery fees, which totaled $700 million for the nine months ended September 30, 2016. The fees are based on rates regulated by the PUCT that apply to all REPs.
- EFH Corp. subsidiaries charge Oncor for certain administrative services at cost. Oncor's payments to EFH Corp. subsidiaries for administrative services, which are primarily reported in operation and

maintenance expenses, totaled less than $1 million for the nine months ended September 30, 2016. Oncor and EFH Corp. also charge each other for shared facilities at cost. Oncor's payments to EFH Corp. for shared facilities totaled $3 million for the nine months ended September 30, 2016. Payments Oncor received from EFH Corp. subsidiaries related to shared facilities totaled less than $1 million for the nine months ended September 30, 2016.

- We are a member of EFH Corp.'s consolidated tax group, though Oncor is not, and EFH Corp.'s consolidated federal income tax return includes our results. Under the terms of a tax sharing agreement, we are obligated to make payments to EFH Corp. in an aggregate amount that is substantially equal to the amount of federal income taxes that we would have been required to pay if we were filing our own corporate income tax return. Also under the terms of the tax sharing agreement, Oncor makes similar payments to Texas Transmission and Investment LLC, pro rata in accordance with their respective membership interests in Oncor, in an aggregate amount that is substantially equal to the amount of federal income taxes that Oncor would have been required to pay if it were filing its own corporate income tax return. EFH Corp. also includes Oncor's results in its consolidated Texas state margin tax return, and consistent with the tax sharing agreement, Oncor remits to EFH Corp. Texas margin tax payments, which are accounted for as income taxes and calculated as if Oncor was filing its own return. Our results are also included in the consolidated Texas state margin tax return filed by EFH Corp. See discussion in Note 1 to Financial Statements in our 2016 Audited Financial Statements under "Income Taxes."

Amounts payable to (receivable from) EFH Corp. related to income taxes under the agreement and reported on our balance sheet consisted of the following:

	At September 30, 2017	At December 31, 2016
Federal income taxes payable (receivable)	$ (26)	$ (57)
Texas margin taxes payable	16	20
Total payable (receivable)	$ (10)	$ (37)

Cash payments made to (received from) EFH Corp. related to income taxes consisted of the following:

	Nine Months Ended September 30, 2017	2016
Federal income taxes	$ (83)	$ 16
Texas margin taxes	20	20
Total payments (receipts)	$ (63)	$ 36

- Related parties of the Sponsor Group have (1) sold, acquired or participated in the offerings of our debt or debt securities in open market transactions or through loan syndications, and (2) performed various financial advisory, dealer, commercial banking and investment banking services for us and certain of our affiliates for which they have received or will receive customary fees and expenses, and may from time to time in the future participate in any of the items in (1) and (2) above. Also, as of September 30, 2017, approximately 16% of the equity in an existing vendor of Oncor was held by a member of the Sponsor Group. During 2017 and 2016, this vendor performed transmission and distribution system construction and maintenance services for us. Cash payments were made for such services to this vendor totaling $166 million dollars for the nine months ended September 30, 2017, of which approximately $157 million was capitalized and $9 million recorded as an operation and maintenance expense. At September 30, 2017, we had outstanding trade payables to this vendor of $5 million.

See Notes 8 and 9 for information regarding distributions to EFIH and noncontrolling interests and Oncor's participation in EFH Corp. pension plans, respectively.

11. SUPPLEMENTARY FINANCIAL INFORMATION

Major Customers

Revenues from subsidiaries of Vistra (subsidiaries of TCEH until October 3, 2016) represented 23% and 24% of our total operating revenues for the nine months ended September 30, 2017 and 2016, respectively. Revenues from REP subsidiaries of another nonaffiliated entity, collectively represented 18% and 17% of our total operating revenues for the nine months ended September 30, 2017 and 2016, respectively. No other customer represented 10% or more of our total operating revenues.

Other Income and (Deductions)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Accretion of fair value adjustment (discount) to regulatory assets due to acquisition accounting	$ —	$ 1
Professional fees	(12)	(11)
Non-recoverable pension and OPEB (Note 9)	(4)	(1)
Interest income and other	4	—
Total other income and (deductions) — net	$ (12)	$ (11)

Interest Expense and Related Charges

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest	$ 263	$ 256
Amortization of debt issuance costs and discounts	2	2
Less allowance for funds used during construction — capitalized interest portion	(8)	(6)
Total interest expense and related charges	$ 257	$ 252

Trade Accounts and Other Receivables

Trade accounts and other receivables reported on our balance sheet consisted of the following:

	At September 30, 2017	At December 31, 2016
Gross trade accounts and other receivables	$ 638	$ 548
Allowance for uncollectible accounts	(4)	(3)
Trade accounts receivable — net	$ 634	$ 545

At September 30, 2017 and December 31, 2016, REP subsidiaries of a nonaffiliated entity collectively represented approximately 16% and 15% of the trade accounts receivable amount, respectively. At both September 30, 2017 and December 31, 2016, REP subsidiaries of another nonaffiliated entity collectively represented approximately 12% of the trade accounts receivable amount.

Under a PUCT rule relating to the Certification of Retail Electric Providers, write-offs of uncollectible amounts owed by nonaffiliated REPs are deferred as a regulatory asset.

Investments and Other Property

Investments and other property reported on our balance sheet consisted of the following:

	At September 30, 2017	At December 31, 2016
Assets related to employee benefit plans, including employee savings programs	$ 107	$ 98
Land and other investments	2	2
Total investments and other property	$ 109	$ 100

Property, Plant and Equipment

Property, plant and equipment reported on our balance sheet consisted of the following:

	At September 30, 2017	At December 31, 2016
Total assets in service	$ 20,920	$ 20,234
Less accumulated depreciation	7,130	6,836
Net of accumulated depreciation	13,790	13,398
Construction work in progress	782	416
Held for future use	15	15
Property, plant and equipment — net	$ 14,587	$ 13,829

Intangible Assets

Intangible assets (other than goodwill) reported on our balance sheet as part of property, plant and equipment consisted of the following:

	At September 30, 2017			At December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Identifiable intangible assets subject to amortization:						
Land easements	$ 502	$ 98	$404	$ 491	$ 94	$397
Capitalized software	482	366	116	470	326	144
Total	$ 984	$ 464	$520	$ 961	$ 420	$541

Aggregate amortization expense for intangible assets totaled $44 million and $46 million for the nine months ended September 30, 2017 and 2016, respectively. The estimated aggregate amortization expense for each of the next five fiscal years is as follows:

Year	Amortization Expense
2017	$ 56
2018	37
2019	34
2020	33
2021	33

At both September 30, 2017 and December 31, 2016, goodwill totaling $4.1 billion was reported on our balance sheet. None of this goodwill is being deducted for tax purposes.

Employee Benefit Obligations and Other

Employee benefit obligations and other reported on our balance sheet consisted of the following:

	At September 30, 2017	At December 31, 2016
Retirement plans and other employee benefits	$ 1,995	$ 2,092
Liabilities related to subsidiary tax sharing agreement	220	229
Uncertain tax positions (including accrued interest)	—	3
Investment tax credits	10	12
Other	67	63
Total employee benefit obligations and other	$ 2,292	$ 2,399

In the first quarter of 2017, EFH Corp. settled all open tax claims with the IRS. As a result, we reduced the liability for uncertain tax positions by $3 million. This reduction is reported as a decrease in provision in lieu of income taxes.

Supplemental Cash Flow Information

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash payments (receipts) related to:		
Interest	$ 256	$ 266
Less capitalized interest	(8)	(6)
Interest payments (net of amounts capitalized)	$ 248	$ 260
Income taxes (a):		
Federal	$ (95)	$ 16
State	20	20
Total amount of income taxes	$ (75)	$ 36
Noncash construction expenditures (b)	$ 103	$ 104

(a) See Note 10 for income taxes detail.
(b) Represents end-of-period accruals.

Exhibit 99.5

Unaudited Pro Forma Condensed Combined Financial Information

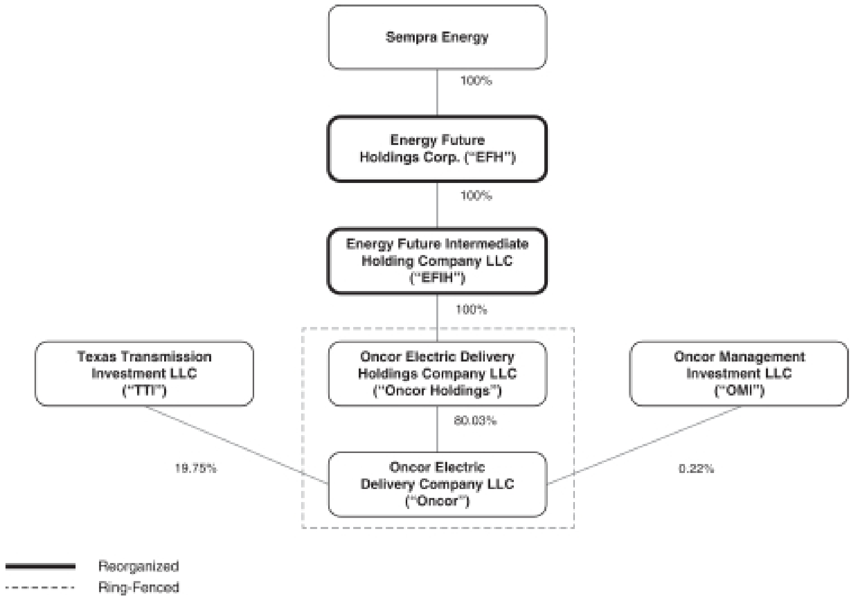
The Unaudited Pro Forma Condensed Combined Financial Information of Sempra Energy has been derived from the historical consolidated financial statements of Sempra Energy and its subsidiaries ("Sempra Energy," "we," "our," or "us") and Energy Future Holdings Corp. and subsidiaries ("EFH"). The unaudited pro forma condensed combined financial information should be read in conjunction with the:

- accompanying notes herein;
- unaudited condensed consolidated financial statements of Sempra Energy as of and for the nine months ended September 30, 2017, included in Sempra Energy's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017;
- audited consolidated financial statements of Sempra Energy as of and for the year ended December 31, 2016, included in Sempra Energy's Annual Report on Form 10-K for the year ended December 31, 2016;
- unaudited condensed consolidated financial statements of EFH as of and for the nine months ended September 30, 2017, included in this Current Report on Form 8-K; and
- audited consolidated financial statements of EFH as of and for the year ended December 31, 2016, included in this Current Report on Form 8-K.

As the consolidated financial statements of EFH include its equity method investment in Oncor Electric Delivery Holdings Company LLC ("Oncor Holdings") and the associated equity method earnings, the unaudited pro forma condensed combined financial information should also be read in conjunction with Oncor Holdings' unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2017 and audited consolidated financial statements as of and for the year ended December 31, 2016, both included in this Current Report on Form 8-K.

Proposed Acquisition of Energy Future Holdings Corp.

On August 21, 2017, Sempra Energy, along with an indirect, wholly owned subsidiary ("Merger Sub"), entered into an Agreement and Plan of Merger, as supplemented by a Waiver Agreement dated October 3, 2017 (together referred to as the "Merger Agreement"), with EFH, the indirect owner of 80.03% of the membership interests in Oncor Electric Delivery Company LLC ("Oncor"), and EFH's subsidiary, Energy Future Intermediate Holding Company LLC ("EFIH"). Oncor is a regulated electric distribution and transmission business that operates the largest distribution and transmission system in Texas. Under the Merger Agreement, we will pay total consideration of $9.45 billion, subject to possible adjustment as described in the Merger Agreement (the "Merger Consideration"). Pursuant to the Merger Agreement and subject to the satisfaction of certain closing conditions, EFH will be merged with Merger Sub, with EFH continuing as the surviving company and an indirect, wholly owned subsidiary of Sempra Energy (the "Merger"), as follows:



The foregoing is a simplified ownership structure that does not present all of the subsidiaries of, or other equity interests owned by, these entities.

Texas Transmission Investment LLC (“TTI”), an investment vehicle indirectly owned by third parties unaffiliated with EFH or Sempra Energy, owns 19.75% of Oncor’s outstanding membership interests, and certain current and former directors and officers of Oncor indirectly beneficially own 0.22% of Oncor’s outstanding membership interests through their ownership of Class B membership interests in Oncor Management Investment LLC (“OMI”). On October 3, 2017, Sempra Energy provided written confirmation to Oncor Holdings and Oncor that, contemporaneously with the closing of the Merger, equivalent value (approximately $25.9 million) will be provided in exchange for the Class B membership interests in OMI in the form of cash, or if mutually agreed by the parties, alternative benefit and/or incentive plans. The consummation of the Merger is not conditioned on the acquisition of these interests in OMI, and there has been no formal agreement by us or the owners of these interests to accept the terms of our written confirmation. Any potential impacts of this arrangement to provide equivalent value for these membership interests in OMI have not been reflected in the unaudited pro forma condensed combined financial information.

Financing

We currently intend to initially finance the Merger Consideration, as well as associated transaction costs, with the net proceeds from debt and equity issuances, commercial paper supported by our revolving credit facilities and borrowings under our revolving credit facilities, although we could also utilize cash on hand. We expect to ultimately fund approximately 65% of the total Merger Consideration with the net proceeds from the sales of Sempra Energy common stock and other equity securities although we may use cash on hand and proceeds from asset sales in place of some of this equity financing, and approximately 35% with the net proceeds from issuances of Sempra Energy debt securities. Some of the equity issuances will likely occur following the Merger to repay outstanding indebtedness, including indebtedness that we expect to incur to initially finance the Merger Consideration and associated transaction costs. We may also use cash on hand and proceeds from asset sales to repay indebtedness initially incurred to pay a portion of the Merger consideration and related fees and expenses. We have entered into a commitment letter with a syndicate of banks providing, subject to customary conditions, for a $4.0 billion, 364-day senior unsecured bridge facility to backstop a portion of our obligations to pay the Merger Consideration. However, the $4.0 billion commitment is reduced by the amount of funds received through Sempra Energy’s sales of equity securities and debt securities, subject in each case to certain exceptions, and increases in our borrowing capacity under our existing revolving credit facilities. We have prepared the unaudited pro forma condensed combined financial information assuming that the Merger Consideration and associated transaction costs will be financed with the net proceeds from debt and equity issuances based on current market conditions, and as a result, the unaudited pro forma condensed combined financial information assumes that Sempra Energy will not borrow any amounts under the unsecured bridge facility.

The unaudited pro forma condensed combined financial information gives effect to the following assumptions:

- consideration of $9.45 billion paid for the Merger, excluding both estimated transaction costs and a possible adjustment based on the timing of dividends paid by Oncor to Oncor Holdings, which adjustment, if any, we do not expect to be material. Collectively, “transaction costs” include estimated fees, expenses and discounts associated with the Merger and financing of the Merger Consideration;
- $150 million of estimated transaction costs expected to be (i) charged against related gross proceeds of debt and equity financings; or (ii) included in the basis of our investment in Oncor Holdings, as follows: (a) $59 million of equity issuance costs and discounts and $37 million of debt issuance costs and discounts; and (b) $54 million of other transaction costs, respectively;
- the repayment and cancellation through EFH’s Chapter 11 bankruptcy proceedings of the indebtedness of EFH and EFIH immediately prior to the consummation of the Merger, including liabilities subject to compromise and debtor-in-possession (“DIP”) financing, and the cancellation of the existing common equity of EFH and related historical statements of operations impacts that are not expected to continue post-Merger; and
- our receipt of net proceeds from the following financing transactions to fund the Merger Consideration and estimated transaction costs:
  - proceeds of $2,463 million from the assumed issuance and sale of shares of our common stock (sold pursuant to forward sale agreements and assuming full physical settlement at the closing of the Merger), net of estimated issuance costs and discounts of $37 million;
  - proceeds of $1,478 million from the assumed issuance and sale of shares of our mandatory convertible preferred stock (the “mandatory convertible preferred stock”), net of estimated issuance costs and discounts of $22 million, with an assumed dividend rate of 6.25% per annum based on current market conditions; the actual dividend rate on the mandatory convertible preferred stock, if and when issued, may differ, perhaps substantially, from the rate we have assumed for purposes of this unaudited pro forma condensed combined financial information;
  - proceeds of $4,963 million from the assumed issuance and sale of Sempra Energy’s long-term debt securities (the “long-term debt”), net of estimated issuance costs and discounts of $37 million, at an assumed weighted-average interest rate of 3.2% per annum based on current market conditions; the actual interest rate on the long-term debt, if and when issued, may differ, perhaps substantially, from the rate we have assumed for purposes of this unaudited pro forma condensed combined financial information; and

- proceeds of $600 million from borrowings under our revolving credit facilities and the issuance and sale of our commercial paper supported by our revolving credit facilities (the “short-term debt”) at a weighted-average interest rate of 2% per annum based on current market conditions; the actual interest rate on the short-term debt, if and when issued, may differ, perhaps substantially, from the rate we have assumed for purposes of this unaudited pro forma condensed combined financial information.

For purposes of this unaudited pro forma condensed combined financial information, we sometimes refer to the planned issuance and sale of our common stock (including pursuant to forward sale agreements), mandatory convertible preferred stock, long-term debt and short-term debt as described in the preceding paragraph as, collectively, the “Financing Transactions” and we sometimes refer to the Merger, the Financing Transactions and the payment of associated transaction costs as the “Transactions.” The actual size and terms of, and amounts of proceeds we receive from, the respective Financing Transactions will depend on, among other things, market conditions at the time of those transactions and such other factors as we deem relevant and may differ, perhaps substantially, from the size, terms and amounts we have assumed for purposes of this unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2017 and the year ended December 31, 2016 assume that the Transactions had occurred on January 1, 2016. The unaudited pro forma condensed combined balance sheet as of September 30, 2017 assumes that the Transactions had occurred on September 30, 2017.

We currently expect that the proceeds we receive from the sale of our common stock will be through sales under forward sale agreements that we plan to enter into with certain financial institutions. We expect that proceeds from sales under these forward sale agreements will ultimately be received in multiple settlements, on or prior to December 15, 2019. However, for purposes of this unaudited pro forma condensed combined financial information, we have assumed that we will receive all of the net proceeds under the forward sale agreements upon full physical settlement concurrently with the closing of the Merger, which is assumed to be as of January 1, 2016, in the case of the unaudited pro forma condensed combined statements of operations, or September 30, 2017, in the case of the unaudited pro forma condensed combined balance sheet. We also expect that the forward sale agreements will permit us to elect cash settlement or net share settlement for all or a portion of our obligations under the forward sale agreements. If we were to elect cash settlement or net share settlement, the amount of cash proceeds we receive upon settlement would differ, perhaps substantially, from the amount we have assumed for purposes of this unaudited pro forma condensed combined financial information, or we may not receive any cash proceeds or we may deliver cash (in an amount which could be significant) or shares of our common stock to the forward purchasers.

It is expected that contemporaneously with the closing of the Merger, EFH and EFIH will emerge from Chapter 11 bankruptcy and their then existing indebtedness will be settled using (i) the proceeds from the Merger Consideration; and (ii) EFH’s and EFIH’s assets that are not being acquired by us in the Merger. The unaudited pro forma condensed combined financial information removes assets and liabilities of EFH and EFIH that are expected to be settled as a result of the Merger, other than those being acquired or assumed in the Merger, as described below in Note 2, “Preliminary Purchase Price Allocation.” Additionally, the unaudited pro forma condensed combined financial information removes income and expenses of EFH and EFIH that are not expected to continue post-Merger. We believe that because EFH and EFIH will be reorganized upon the consummation of the Merger and their ongoing activities will be related primarily to their investment in Oncor Holdings, the removal of assets and liabilities other than those described below in Note 2 and related income or expenses of EFH or EFIH that will not continue post-Merger is indicative of the business had the Transactions been consummated as of September 30, 2017 for purposes of the unaudited pro forma condensed combined balance sheet and as of January 1, 2016 for purposes of the unaudited pro forma condensed combined statements of operations.

The Merger Consideration will be allocated to the identifiable assets acquired and liabilities assumed based on their estimated relative fair values as of the date of the Merger. The impact of any preliminary fair value adjustments, if any, to the assets and liabilities of EFH from performing a purchase price allocation as of the closing of the Merger are assumed to be immaterial, as substantially all of the fair value of the transaction is expected to be attributable to the basis in EFH’s investment in Oncor Holdings. Therefore, to the extent there are any other fair value adjustments that may give rise to potential amortization of basis adjustments in EFH’s investment in Oncor Holdings, such adjustments and related amortization have not been included. The relative fair values of the assets acquired and liabilities assumed are estimates, which are subject to change pending further review. The actual amounts recorded as of the completion of the Merger may differ materially from the information presented in this unaudited pro forma condensed combined financial information.

We provide this unaudited pro forma condensed combined financial information for informational purposes only. This unaudited pro forma condensed combined financial information is based on numerous assumptions and estimates and is subject to other uncertainties. Among other things, this unaudited pro forma condensed combined financial information has been prepared on the assumption that the Transactions will be completed on the terms and in accordance with the assumptions reflected above and in the following Notes to Unaudited Pro Forma Condensed Combined Financial Information. Any changes in these assumptions (including, without limitation, any changes in the types or sizes of the Financing Transactions, the assumed interest and dividend rates on the long-term debt, short-term debt and mandatory convertible preferred stock we issue, the number of shares of common stock and mandatory convertible preferred stock we issue, the settlement prices and dates for, and manner in which we settle, the forward sale agreements, and the amounts of net proceeds we receive from the respective Financing Transactions) would result in a change in the unaudited condensed combined pro forma financial information, which could be material. We have also assumed that EFH’s and

EFIH's Chapter 11 bankruptcy proceedings will be concluded on the terms currently contemplated, including, without limitation, the settlement of EFH's and EFIH's liabilities and creditor and other claims in accordance with those contemplated terms. Accordingly, the unaudited pro forma condensed combined financial information does not purport to reflect what our results of operations or financial condition would have been had the Transactions actually occurred on the assumed dates, nor does it purport to project our future financial condition or results of operations.

Unaudited Pro Forma Condensed Combined Balance Sheet
as of September 30, 2017
(dollars in millions)

	Sempra Energy, as Reported	Financing and Other (Note 4)	EFH, as Reported (Note 1)	Merger/ Bankruptcy Adjustments (Note 4)	Sempra Energy Pro Forma
ASSETS					
Current assets:					
Cash and cash equivalents	$ 189	$ 9,504(a)	$ 777	$ (10,279)(e)	$ 191
Restricted cash	59	—	10	(10)(e)	59
Other current assets	2,630	—	6	(6)(j)	2,630
Total current assets	2,878	9,504	793	(10,295)	2,880
Other assets:					
Investments	2,128	—	6,327	2,707(f)(g)	11,162
Deferred income taxes	132	—	1,246	(720)(h)	658
Other noncurrent assets	9,607	—	32	(55)(f)(j)	9,584
Total other assets	11,867	—	7,605	1,932	21,404
Property, plant and equipment:					
Property, plant and equipment	46,725	—	—	—	46,725
Less accumulated depreciation and amortization	(11,341)	—	—	—	(11,341)
Property, plant and equipment, net ($328 related to VIE)	35,384	—	—	—	35,384
Total assets	$ 50,129	$ 9,504	$ 8,398	$ (8,363)	$ 59,668
LIABILITIES AND EQUITY					
Current liabilities:					
Short-term debt	$ 2,498	$ 600(b)	$ —	$ —	$ 3,098
Borrowings under debtor-in-possession credit facilities	—	—	6,300	(6,300)(i)	—
Accounts payable – trade and other	1,333	—	—	—	1,333
Due to unconsolidated affiliates	10	—	10	—	20
Dividends and interest payable	386	—	2	(2)(j)	386
Current portion of long-term debt	1,423	—	—	—	1,423
Other current liabilities	1,544	—	50	(71)(f)(j)	1,523
Total current liabilities	7,194	600	6,362	(6,373)	7,783
Liabilities subject to compromise	—	—	5,556	(5,556)(i)(j)	—
Long-term debt ($286 related to VIE)	14,803	4,963(b)	—	—	19,766
Deferred credits and other liabilities	12,630	—	96	(50)(i)(j)	12,676
Commitments and contingencies					
Equity:					
Mandatory convertible preferred stock	—	1,478(c)	—	—	1,478
Common stock	3,088	2,463(d)	7,970	(7,970)(k)	5,551
Retained earnings (deficit)	10,855	—	(11,497)	11,497(k)	10,855
Accumulated other comprehensive income (loss)	(678)	—	(89)	89(k)	(678)
Total shareholders' equity	13,265	3,941	(3,616)	3,616	17,206
Preferred stock of subsidiary	20	—	—	—	20
Other noncontrolling interests	2,217	—	—	—	2,217
Total equity	15,502	3,941	(3,616)	3,616	19,443
Total liabilities and equity	$ 50,129	$ 9,504	$ 8,398	$ (8,363)	$ 59,668

See Notes to Unaudited Pro Forma Condensed Combined Financial Information.

Unaudited Pro Forma Condensed Combined Statement of Operations
for the Nine Months Ended September 30, 2017
(dollars in millions, except per share amounts)

	Sempra Energy, as Reported	Financing and Other (Note 5)	EFH, as Reported (Note 1)	Merger/ Bankruptcy Adjustments (Note 5)	Sempra Energy Pro Forma
REVENUES					
Utilities	$ 7,172	$ —	$ —	$ —	$ 7,172
Energy-related businesses	1,071	—	—	—	1,071
Total revenues	8,243	—	—	—	8,243
EXPENSES AND OTHER INCOME					
Utilities:					
Cost of electric fuel and purchased power	(1,730)	—	—	—	(1,730)
Cost of natural gas	(903)	—	—	—	(903)
Energy-related businesses:					
Cost of natural gas, electric fuel and purchased power	(226)	—	—	—	(226)
Other cost of sales	(5)	—	—	—	(5)
Operation and maintenance	(2,207)	—	(10)	5(n)	(2,212)
Depreciation and amortization	(1,106)	—	—	—	(1,106)
Franchise fees and other taxes	(325)	—	—	—	(325)
Impairment of wildfire regulatory asset	(351)	—	—	—	(351)
Other impairment losses	(72)	—	—	—	(72)
Gain on sale of assets	2	—	—	—	2
Equity earnings, before income tax	31	—	—	—	31
Other income, net	301	—	82	(82)(o)	301
Interest income	26	—	3	(3)(p)	26
Interest expense	(493)	(133)(l)	(810)	810(q)	(626)
Reorganization items	—	—	(84)	84(r)	—
Income (losses) before income taxes and equity (losses) earnings of certain unconsolidated subsidiaries	1,185	(133)	(819)	814	1,047
Income tax (expense) benefit	(378)	54(m)	180	(178)(m)	(322)
Equity (losses) earnings, net of income tax	(5)	—	265	—	260
Net income (loss)	802	(79)	(374)	636	985
Earnings attributable to noncontrolling interests	(44)	—	—	—	(44)
Preferred dividends of subsidiary	(1)	—	—	—	(1)
Mandatory convertible preferred stock dividends	—	(70)(s)	—	—	(70)
Earnings (loss) attributable to common shares	$ 757	$ (149)	$ (374)	$ 636	$ 870(t)
Basic earnings per common share	$ 3.01				$ 3.17(s)
Weighted-average number of shares outstanding, basic (thousands)	251,425				274,610(s)
Diluted earnings per common share	$ 2.99				$ 3.15(s)(t)
Weighted-average number of shares outstanding, diluted (thousands)	252,987				276,172(s)

See Notes to Unaudited Pro Forma Condensed Combined Financial Information.

Unaudited Pro Forma Condensed Combined Statement of Operations
for the Year Ended December 31, 2016
(dollars in millions, except per share amounts)

	Sempra Energy, as Reported	Financing and Other (Note 5)	EFH, as Reported (Note 1)	Merger/ Bankruptcy Adjustments (Note 5)	Sempra Energy Pro Forma
REVENUES					
Utilities	$ 9,261	$ —	$ —	$ —	$ 9,261
Energy-related businesses	922	—	—	—	922
Total revenues	10,183	—	—	—	10,183
EXPENSES AND OTHER INCOME					
Utilities:					
Cost of electric fuel and purchased power	(2,188)	—	—	—	(2,188)
Cost of natural gas	(1,067)	—	—	—	(1,067)
Energy-related businesses:					
Cost of natural gas, electric fuel and purchased power	(277)	—	—	—	(277)
Other cost of sales	(322)	—	—	—	(322)
Operation and maintenance	(2,970)	—	(18)	13(n)	(2,975)
Depreciation and amortization	(1,312)	—	—	—	(1,312)
Franchise fees and other taxes	(426)	—	—	—	(426)
Impairment losses	(153)	—	—	—	(153)
Gain on sale of assets	134	—	—	—	134
Equity earnings, before income tax	6	—	—	—	6
Remeasurement of equity method investment	617	—	—	—	617
Other income (expense), net	132	—	(680)	669(o)	121
Interest income	26	—	—	—	26
Interest expense	(553)	(177)(l)	(384)	384(q)	(730)
Reorganization items	—	—	(89)	89(r)	—
Income (losses) before income taxes and equity earnings of certain unconsolidated subsidiaries	1,830	(177)	(1,171)	1,155	1,637
Income tax (expense) benefit	(389)	71(m)	404	(398)(m)	(312)
Equity earnings, net of income tax	78	—	332	—	410
Net income (loss)	1,519	(106)	(435)	757	1,735
Earnings attributable to noncontrolling interests	(148)	—	—	—	(148)
Preferred dividends of subsidiary	(1)	—	—	—	(1)
Mandatory convertible preferred stock dividends	—	(94)(s)	—	—	(94)
Earnings (loss) attributable to common shares	$ 1,370	$ (200)	$ (435)	$ 757	$ 1,492(t)
Basic earnings per common share	$ 5.48				$ 5.46(s)
Weighted-average number of shares outstanding, basic (thousands)	250,217				273,402(s)
Diluted earnings per common share	$ 5.46				$ 5.44(s)(t)
Weighted-average number of shares outstanding, diluted (thousands)	251,155				274,340(s)

See Notes to Unaudited Pro Forma Condensed Combined Financial Information.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

1. Basis of Presentation

EFH's historical results are derived from EFH's unaudited Condensed Consolidated Balance Sheet as of September 30, 2017, unaudited Condensed Statement of Consolidated Income (Loss) for the nine months ended September 30, 2017, and audited Statement of Consolidated Income (Loss) for the year ended December 31, 2016, which are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are included in this Current Report on Form 8-K. EFH's results of operations presented here exclude amounts from discontinued operations.

The unaudited pro forma condensed combined financial information reflects adjustments to give effect to pro forma events that are (1) directly attributable to the Transactions, (2) factually supportable, and (3) with respect to the statements of operations, expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information included herein as of and for the nine months ended September 30, 2017 and for the year ended December 31, 2016 is derived from Sempra Energy's historical financial statements and those of EFH and is based on certain assumptions that we believe to be reasonable, which are described below.

The unaudited pro forma condensed combined financial information is not intended to represent or be indicative of what the combined company's financial position or results of operations actually would have been had the Transactions been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company.

2. Preliminary Purchase Price Allocation

The following table sets forth a preliminary allocation of the estimated Merger Consideration of $9,450 million to the estimated relative fair values of the identifiable assets acquired and liabilities assumed of EFH based on EFH's September 30, 2017 balance sheet, as well as $54 million of estimated transaction costs to be included in the basis of EFH's investment in Oncor Holdings:

(Dollars in millions)

Assumed Purchase Price and Purchase Price Allocation for the Merger	
Assets acquired:	
Investments	$9,034
Deferred income taxes	526
Total assets acquired	9,560
Liabilities assumed:	
Due to unconsolidated affiliate	10
Deferred credits and other	46
Total liabilities assumed	56
Net assets acquired	9,504
Total estimated purchase price(1)	$9,504

(1) Includes $54 million of estimated transaction costs.

We have not completed a final valuation analysis necessary to determine the fair market values of all of EFH's assets and liabilities or the allocation of our purchase price. The unaudited pro forma condensed combined financial information assumes a preliminary allocation of the purchase price to reflect the fair value of those assets and liabilities attributable predominantly to EFH's investment in Oncor Holdings. We have assumed the Merger to be an asset acquisition, as substantially all of the fair value is expected to be attributable to the basis in our investment in Oncor Holdings.

3. Funding Sources and Uses

We assume the following sources and uses of funds to pay the Merger Consideration and estimated associated transaction costs in the unaudited pro forma condensed combined financial information:

(Dollars in millions)

Sources of funds(1):	
Common stock sales under forward sale agreements, assuming full physical settlement	$2,500
Mandatory convertible preferred stock	1,500
Long-term debt	5,000
Short-term debt	600
Total sources of funds	$9,600

Uses of funds:	
Merger Consideration	$9,450
Estimated transaction costs	150
Total uses of funds	$9,600

(1) *Before deducting transaction costs related to the financings, and net of estimated underwriters' reimbursement of certain expenses relating to the equity financings.*

We expect to ultimately fund approximately 65% of the total Merger Consideration with the net proceeds from sales of our common stock and other equity securities although we may use cash on hand and proceeds from asset sales in place of some of this equity financing, and approximately 35% with the net proceeds from issuances of Sempra Energy debt securities. Some of these equity issuances will likely occur following the Merger, if completed, in order to repay outstanding indebtedness, including indebtedness we expect to incur to initially finance the Merger Consideration and estimated transaction costs. As a result, the above table assumes that approximately 42% of the Merger Consideration and estimated transaction costs will initially be financed with the proceeds from sales of our equity securities, and we expect to seek additional equity financing subsequent to the closing of the Merger to ultimately achieve approximately 65% equity funding for the Merger Consideration. Although we expect to grant options (the "underwriters' options") to the underwriters of our common stock and mandatory convertible preferred stock to purchase additional shares, the unaudited pro forma condensed combined financial information assumes that those options are not exercised. To the extent that the proceeds we receive from the issuance of our equity securities exceed the aggregate amount assumed in the above table, including as a result of any exercise of the underwriters' options, we currently expect to reduce the amount of short-term debt and, potentially, long-term debt incurred to fund a portion of the Merger Consideration and to pay associated transaction costs. To the extent that the proceeds we receive from the issuance of our equity securities are less than the aggregate amount assumed in the table above, we currently expect to fund any shortfall by increasing the amount of debt issuances.

We have assumed that we will raise $2,463 million from the issuance and sale of our common stock, net of $37 million of issuance costs and discounts. We expect that this common stock will be issued and sold pursuant to forward sale agreements that we intend to enter into with certain financial institutions. We currently expect that settlement will ultimately occur in multiple settlements, on or prior to December 15, 2019. However, for purposes of calculating the total proceeds from the sale of our common stock, we have assumed full physical settlement of the forward sale agreements and that all of the forward sale agreements will settle concurrently with the closing of the Merger. We also expect that the forward sale agreements will permit us to elect cash settlement or net share settlement for all or a portion of our obligations under the forward sale agreements. If we were to elect cash settlement or net share settlement, the amount of cash proceeds we receive upon settlement would differ, perhaps substantially, from the amount we have assumed for purposes of this unaudited pro forma condensed combined financial information, or we may not receive any cash proceeds or we may deliver cash (in an amount which could be significant) or shares of our common stock to the forward purchasers.

We expect that the forward sale price under the proposed forward sale agreements will be equal to the public offering price per share of our common stock in the related common stock offering less the underwriting discount, subject to adjustment in accordance with the terms of the agreements, including fixed reductions related to cash dividends.

We have assumed that the forward sale price under our proposed forward sale agreements will be $106.32 per share, net of an estimated underwriting discount. This assumed forward sale price has been calculated on the basis of the last reported sale price of our common stock on the New York Stock Exchange ("NYSE") on December 27, 2017, which was $107.83 per share, assuming full physical settlement and no adjustments to the initial forward sale price. All shares of common stock issued under the forward sale agreements are assumed to have been issued on January 1, 2016 for purposes of the unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2017 and the year ended December 31, 2016 and on September 30, 2017 for purposes of the unaudited pro forma condensed combined balance sheet as of September 30, 2017. We have reflected the impact of changes in our assumed stock price on the number of shares issued in Note 5 below.

For purposes of this unaudited pro forma condensed combined financial information, we have assumed that we will issue shares of our mandatory convertible preferred stock for $1,478 million, net of $22 million of issuance costs and discounts, with an aggregate liquidation value of $1,500 million, and that those shares will provide for us to pay dividends, calculated as a percentage of the aggregate liquidation value, at the rate of 6.25% per annum. This assumed dividend rate is based on current market conditions. The actual dividend rate on the mandatory convertible preferred stock at the time it is issued may differ, perhaps substantially, from the rate we have assumed for purposes of the unaudited pro forma condensed combined financial information. In that regard, we have assumed that we will pay those dividends in cash, although we expect to retain the right to pay those dividends in shares of our common stock. In addition, we have further assumed that none of the shares of the mandatory convertible preferred stock have been converted early during the periods presented in the unaudited pro forma condensed combined financial information.

For purposes of determining pro forma interest expense, we have assumed a weighted-average interest rate (including the index rate plus a credit spread) of 3.2% per annum on our proposed long-term debt. This assumed rate is based on current market conditions. The actual interest rate and original issue discount on the long-term debt will be based on market conditions at the time the debt is issued and may differ, perhaps substantially, from the rate and discount assumed for purposes of this pro forma condensed combined financial information. We have assumed a weighted-average interest rate of 2% per annum on our short-term debt incurred to finance a portion of the Merger Consideration and associated transaction costs. This assumed rate is based on current market conditions. The actual interest rate on the short-term debt at the time it is issued may differ, perhaps substantially, from the rate we have assumed for purposes of this unaudited pro forma condensed combined financial information. In addition, to the extent we subsequently incur additional short-term debt to refinance such short-term debt as it comes due, that new short-term debt will be issued at then current market interest rates, which may be higher or lower than the rate we have assumed for purposes of this unaudited pro forma condensed combined financial information. Also, we expect that some of the short-term and long-term debt will be in the form of floating rate instruments and, as a result, the assumed interest rate on those instruments will increase and decrease over time compared to the rate we have assumed for purposes of this unaudited pro forma condensed combined financial information.

4. Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheet

a) Total net proceeds from financing reflects the following assumptions:

(Dollars in millions)

	As of September 30, 2017	Note 4 Reference
Proceeds from issuance of common stock under forward sale agreements	$ 2,500	(d)
Proceeds from issuance of mandatory convertible preferred stock	1,500	(c)
Proceeds from long-term debt	5,000	(b)
Proceeds from short-term debt	600	(b)
Discounts and fees from issuance of common stock	(37)	(d)
Discounts and fees from issuance of mandatory convertible preferred stock	(22)	(c)
Discounts and fees from issuance of long-term debt	(37)	(b)
Total net proceeds from financing	$ 9,504	

b) Reflects the following:

- Principal amount of borrowings of $5,000 million from long-term debt, less estimated issuance costs and discounts of $37 million; and
- Short-term debt of $600 million, consisting of borrowings under our revolving credit facility and commercial paper supported by our revolving credit facility.

The actual amount of indebtedness, and the mix of long-term debt and short-term debt, we incur to finance the Merger Consideration and estimated fees will vary depending on several factors, including net proceeds received from equity offerings, as discussed in Note 3 above.

c) Reflects $1,478 million of mandatory convertible preferred stock issued, net of estimated issuance costs and discounts of $22 million.

d) Reflects $2,463 million of common stock issued, net of estimated issuance costs and discounts of $37 million, assuming full physical settlement of our proposed forward sale agreements at the closing of the Merger.

e) Represents the following:

- Estimated $10,237 million of cash and restricted cash to fully retire existing indebtedness of EFH and EFIH that is expected to be settled upon emergence from Chapter 11 bankruptcy;

- Payment of estimated transaction costs of $52 million, which are included as a component of our investment in Oncor Holdings, the predominant asset acquired in connection with the Merger.

f) Reflects the reclassification of $23 million of transaction costs incurred by Sempra Energy and recorded in Sundry through September 30, 2017 to include as a component of our investment in Oncor Holdings, $2 million of which had been paid and $21 million of which had been accrued at September 30, 2017.

g) Reflects the step-up in fair value of the basis in our investment in Oncor Holdings.

h) Reflects the reduction of the estimated deferred tax asset associated with a $1,641 million gain recognized by EFH from the settlement of EFH and EFIH indebtedness described in footnote (i) below and other deferred tax asset components that are not part of the Merger. The ultimate gain recognized by EFH will reflect changes in bankruptcy claims and interest accrued on those claims between September 30, 2017 and the actual close of the Merger, which will have a corresponding impact on the ultimate deferred tax amount eliminated.

i) Reflects the settlement of $11,878 million of existing EFH and EFIH indebtedness consisting of liabilities subject to compromise, the EFIH DIP facility and other outstanding liabilities resulting in a pretax gain of $1,641 million related to the forgiveness of remaining outstanding borrowings as of the assumed closing date. We have not included this gain in the unaudited pro forma condensed combined statements of operations as it is associated with the emergence of EFH and EFIH from Chapter 11 bankruptcy contemporaneous with the closing of the Merger.

j) Reflects the removal of miscellaneous assets and liabilities expected to be settled upon EFH's emergence from Chapter 11 bankruptcy, and reclassification of $26 million of asbestos liabilities and $20 million of other postretirement benefits plan liabilities that Sempra Energy will assume in connection with the Merger.

k) Reflects the elimination of EFH equity accounts.

5. Adjustments to the Unaudited Pro Forma Condensed Combined Statements of Operations

l) Reflects the interest expense and amortization of deferred financing costs resulting from our estimated new long-term debt issuances and short-term debt. For purposes of estimating the pro forma interest expense, we have assumed a weighted-average interest rate of 3.2% per annum on the long-term debt and a weighted-average interest rate of 2% per annum on the short-term debt, based on current market conditions. We have assumed that long-term debt financing costs of $37 million are amortized over 12 years, or the weighted-average term of the long-term debt.

A 12.5 basis point increase or decrease in the assumed interest rate under our estimated new long-term borrowings would increase or decrease, respectively, interest expense in the unaudited pro forma condensed combined statements of operations by approximately $5 million, or $0.01 of diluted earnings per common share, for the nine months ended September 30, 2017, and approximately $6 million, or $0.01 of diluted earnings per common share, for the year ended December 31, 2016.

A 12.5 basis point increase or decrease in the assumed interest rate on our estimated new short-term debt would increase or decrease, respectively, interest expense in the unaudited pro forma condensed combined statements of operations by approximately $0.6 million and approximately $0.8 million for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively, with a negligible impact on diluted earnings per common share.

m) Reflects the tax impact of related pro forma adjustments at a statutory tax rate of 40.2% for the benefit related to incremental financing costs at Sempra Energy. EFH pretax income assumed remaining after Merger/bankruptcy adjustments was taxed at EFH's statutory rate of 35.3%.

n) Reflects the removal of $5 million and $13 million of operation and maintenance expense recorded for the nine months ended September 30, 2017 and year ended December 31, 2016, respectively, that is not expected to continue post-Merger.

o) Reflects the elimination of $79 million of income related to the approval of a make-whole settlement and $3 million of other costs not expected to continue recorded for the nine months ended September 30, 2017 and the removal of $669 million of expense during the year ended December 31, 2016 related to make-whole charges in connection with EFIH First and Second Lien Notes, which notes are assumed to be repaid contemporaneously with the closing of the Merger through EFH's emergence from Chapter 11 bankruptcy.

p) Reflects the removal of interest income earned in connection with EFH cash balances assumed to be used as of January 1, 2016 to repay EFH indebtedness contemporaneously with the closing of the Merger through EFH's emergence from Chapter 11 bankruptcy.

q) Reflects the removal of historical interest expense related to EFH debt assumed to be repaid as of January 1, 2016 contemporaneously with the closing of the Merger through EFH's emergence from Chapter 11 bankruptcy.

r) Reflects the elimination of reorganization expense directly associated with EFH's Chapter 11 bankruptcy proceedings that would not have occurred had the Merger been completed on January 1, 2016.

s) The following table provides the pro forma weighted-average number of basic and diluted common shares outstanding for the nine months ended September 30, 2017 and year ended December 31, 2016. Diluted shares outstanding include the potential dilution of common stock equivalent shares that may occur if securities or other contracts to issue common stock were exercised or converted into common stock.

(Shares in thousands)	**Nine months ended September 30, 2017**	**Year ended December 31, 2016**
Basic:		
Weighted-average common shares outstanding as reported	251,425	250,217
Common shares assumed issued to fund a portion of the Merger Consideration	23,185	23,185
Pro forma weighted-average common shares outstanding	274,610	273,402
Diluted:		
Weighted-average common shares outstanding as reported	252,987	251,155
Common shares assumed issued to fund a portion of the Merger Consideration	23,185	23,185
Pro forma weighted-average common shares outstanding	276,172	274,340
EPS:		
Pro forma earnings per common share–basic	$ 3.17	$ 5.46
Pro forma earnings per common share–diluted	$ 3.15	$ 5.44

For purposes of determining the pro forma number of shares of our common stock issued to finance a portion of the Merger Consideration, we have assumed a public offering price of $107.83 per share, which is equal to the last reported sale price of our common stock on the NYSE on December 27, 2017. We have further assumed that the equity forward sale agreements were subject to full physical settlement on January 1, 2016 at a forward price of $106.32 per share, which is the assumed public offering price of $107.83, net of an estimated underwriting discount. The forward sale price is subject to adjustment based on changes in our stock price and the timing of the settlement of the forward sale agreements. A $100 million increase (decrease) in the assumed gross proceeds (before the forward sale discount) from the forward sale of our common stock would increase (decrease), respectively, the number of shares issued on settlement of the forward sale agreements by approximately 927 thousand shares, which would cause our pro forma diluted earnings per common share to (decrease) increase, respectively, by approximately $0.01 for the nine months ended September 30, 2017 and approximately $0.02 for the year ended December 31, 2016, respectively, assuming no change in the assumed public offering price per share. A $4.00 increase (decrease) in the assumed public offering price per share of our common stock that we have used for purposes of calculating the forward sale price would (decrease) increase the number of shares issued on settlement of the forward sale agreements by approximately 829 thousand shares and 893 thousand shares, respectively, which would cause our pro forma diluted earnings per common share to increase (decrease), respectively, by approximately $0.01 for the nine months ended September 30, 2017 and approximately $0.02 for the year ended December 31, 2016, respectively, assuming no change in the assumed gross proceeds we receive from the sale of common stock pursuant to the forward sale agreements. In addition, we expect that the underwriters in the proposed offering of our common stock will have the option to purchase a number of additional shares of our common stock equal to 15% of the number of shares that they would otherwise be purchasing, and if they were to exercise the option in full, it would result in the issuance of an additional approximately 3.5 million shares of our common stock, and a decrease in pro forma diluted earnings per common share of approximately $0.04 and $0.07 for the nine months ended September 30, 2017 and year ended December 31, 2016, respectively, assuming no change in the public offering price per share assumed above or the gross proceeds from the forward sale of our common stock; however, no adjustment for the underwriters' option is reflected in the unaudited pro forma condensed combined financial information basic or diluted earnings per common share calculations.

We have assumed that the conversion of the mandatory convertible preferred stock would result in the issuance of approximately 13.9 million shares of our common stock, subject to possible adjustment pursuant to the terms of the mandatory convertible preferred stock, based upon the last reported sale price of our common stock on the NYSE on December 27, 2017, which was $107.83 per share, and assuming that the aggregate liquidation value of the mandatory convertible preferred stock we issue and sell is $1,500 million; however, no adjustment for the shares issuable on conversion is reflected in our computation of the unaudited pro forma diluted earnings per common share because the issuance of those shares would be anti-dilutive. Further, we expect that the underwriters in the proposed offering of mandatory convertible preferred stock will have the option to purchase a number of additional shares of our mandatory convertible preferred stock equal to 15% of the number of shares they would otherwise be purchasing; however, no adjustment for the underwriters' option is reflected in the unaudited pro forma condensed combined financial information diluted earnings per common share calculations.

The unaudited pro forma condensed combined statements of operations include pro forma adjustments reflecting cash dividends at an assumed rate of 6.25% per annum on the $1,500 million aggregate liquidation amount of mandatory convertible preferred stock we assume will be issued, which would result in an aggregate cash dividend of $70 million and $94 million for the nine months ended September 30, 2017 and year ended December 31, 2016, respectively. A 12.5 basis point increase (decrease) in the assumed dividend rate on the foregoing amount of mandatory convertible preferred stock would increase (decrease), respectively, the amount of cash dividends by approximately $1 million for the nine months ended September 30, 2017 and approximately $2 million for the year ended December 31, 2016. The foregoing amounts of dividends assume that we pay dividends on the mandatory convertible preferred stock in cash. However, we expect to retain the right to pay those dividends in shares of our common stock.

t) The gross proceeds (before discounts and fees) we receive from the assumed sale of our common stock, mandatory convertible preferred stock and long-term debt securities and from the issuance of our short-term debt will likely differ, perhaps materially, from the respective amounts we have assumed for purposes of this unaudited pro forma condensed combined financial information as set forth under the heading "Sources of funds" in the table in Note 3 above.

A $100 million increase (decrease) in the assumed gross proceeds from the sale of shares of our common stock pursuant to the forward sale agreements and a corresponding $100 million (decrease) increase in the assumed gross proceeds from the issuance of short-term debt, would increase (decrease), respectively, our pro forma earnings attributable to common shares by approximately $1 million in each instance for both the nine months ended September 30, 2017 and the year ended December 31, 2016 and would (decrease) increase our pro forma diluted earnings per share by approximately $0.01 in each instance for the nine months ended September 30, 2017 and approximately ($0.02) and $0.01, respectively, for the year ended December 31, 2016, assuming no changes in the respective amounts of gross proceeds from the other Financing Transactions or in the assumed public offering price of $107.83 per share of our common stock.

A $100 million increase (decrease) in the assumed gross proceeds from the sale of our mandatory convertible preferred stock, and a corresponding $100 million (decrease) increase in the assumed gross proceeds from the issuance of our short-term debt, would (decrease) increase, respectively, our pro forma earnings attributable to common shares by approximately $4 million in each instance, and our pro forma diluted earnings per share by approximately $0.01 in each instance for the nine months ended September 30, 2017, and would (decrease) increase, respectively, our pro forma earnings attributable to common shares by approximately $5 million in each instance and our pro forma diluted earnings per share by approximately $0.02 in each instance for the year ended December 31, 2016, assuming no changes in the respective amounts of gross proceeds for the other Financing Transactions or in the assumed public offering price of $107.83 per share of our common stock.

To the extent that the gross proceeds we receive from the issuance and sale of our common stock are less than the amount assumed in the table referred to above, it is also possible that the shortfall may be financed by a corresponding increase in the gross proceeds from the sale of our mandatory convertible preferred stock, and vice versa. A $100 million increase (decrease) in the assumed gross proceeds from the sale of shares of our common stock pursuant to the forward sale agreements, and a corresponding $100 million (decrease) increase in the assumed gross proceeds from the sale of shares of our mandatory convertible preferred stock would increase (decrease), respectively, our pro forma earnings attributable to common shares by approximately $5 million in each instance and our pro forma diluted earnings per share by approximately $0.01 in each instance for the nine months ended September 30, 2017, and would increase (decrease), respectively, our pro forma earnings attributable to common shares by approximately $6 million in each instance and our pro forma diluted earnings per share by approximately $0.01 in each instance for the year ended December 31, 2016, assuming no changes in the respective amounts of gross proceeds for the other Financing Transactions or in the assumed public offering price of $107.83 per share of our common stock.