

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): December 14, 2017

SEMPRA ENERGY

(Exact name of registrant as specified in its charter)

CALIFORNIA
(State or other jurisdiction of
incorporation)

1-14201
(Commission
File Number)

33-0732627
(IRS Employer
Identification No.)

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

92101
(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.

FORM 8-K

As previously reported by Sempra Energy (“Sempra”), in connection with Sempra’s pending acquisition of Energy Future Holdings Corp. (“EFH”), the indirect owner of 80.03% of Oncor Electric Delivery Company LLC (“Oncor”), on October 5, 2017 Sempra and Oncor filed a *Joint Report and Application for Regulatory Approvals Pursuant to PURA Sections 14.101, 39.262 and 39.915* (the “Joint Application”) with the Public Utility Commission of Texas (“PUCT”) seeking approval of the merger of EFH with an indirect, wholly owned subsidiary of Sempra (the “Merger”). On October 12, 2017, the administrative law judge in the PUCT proceeding issued an order deeming the Joint Application sufficient. On October 16, 2017, the PUCT set a procedural schedule to complete a review of the Joint Application within 180 days of the initial filing of such application, subject to possible extension by up to an additional 60 days under certain conditions.

As discussed below, on December 14, 2017, Sempra and Oncor entered into a settlement agreement (which we refer to below as the “Stipulation”) with four stakeholders in the PUCT proceeding regarding the Joint Application. In addition, Sempra and Oncor are continuing to engage in settlement discussions regarding the Joint Application with the remaining stakeholders in the PUCT proceeding.

The Stipulation includes regulatory commitments by Sempra, as described below, most of which are similar to the regulatory commitments made by Sempra as part of the Joint Application and are consistent with the “ring fencing” measures currently in place. Sempra and Oncor are entitled to seek modifications of the PUCT order to be entered in the proceedings regarding the Joint Application, which modifications would be subject to PUCT approval.

Item 8.01 Other Events.

Settlement Agreement Regarding Joint Application

On December 14, 2017, Sempra and Oncor entered into a comprehensive Stipulation (the “Stipulation”) with the Staff of the PUCT, the Office of the Public Utility Counsel, the Steering Committee of Cities Served by Oncor and the Texas Industrial Energy Consumers, reflecting the parties’ settlement of all issues in the PUCT proceeding regarding the Joint Application. Pursuant to the Stipulation, the parties have agreed that Sempra’s acquisition of EFH is in the public interest and will bring substantial benefits. The parties to the Stipulation will ask the PUCT to approve the Merger.

Previously, EFH and Oncor implemented various ring-fencing measures to enhance Oncor’s separateness from its owners and to mitigate the risk that Oncor would be negatively impacted in the event of a bankruptcy or other adverse financial developments affecting EFH or its other subsidiaries or owners. This existing ring-fence has created both legal and financial separation between Oncor, EFH’s indirect subsidiary Oncor Electric Delivery Holdings Company LLC (“Oncor Holdings”) and their subsidiaries, on the one hand, and EFH and its other affiliates and subsidiaries, on the other hand. Pursuant to agreements entered into in connection with the proposed Merger, existing governance mechanisms and commitments made by Sempra as part of the Joint Application, Sempra has previously committed to certain ring-fencing measures, governance mechanisms and restrictions that will apply after the Merger, some of which are described under the caption “Part II, Item 1A. Risk Factors—Certain “ring-fencing” measures and other existing governance mechanisms will limit Sempra Energy’s ability to influence the management and policies of Oncor” in Sempra’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017.

There are certain commitments included in the Stipulation that are intended to maintain ring-fencing. These commitments include limitations on Sempra’s rights to representation on the boards of directors of Oncor and Oncor Holdings, which owns 80.03% of the outstanding membership interests of Oncor. The Stipulation provides, among other things, that following consummation of the Merger, the board of directors of Oncor will consist of 13 members and will be constituted as follows:

- seven members will be independent directors under the rules of the New York Stock Exchange (and those directors shall have no material relationship with Sempra or its affiliates, or any other entity with a direct or indirect ownership interest in Oncor or Oncor Holdings, currently or within the previous 10 years) (the “independent directors”);
- two members will be designated by Sempra;
- two members will be appointed by Texas Transmission Investment LLC (“TTI”), which is an investment vehicle owned by third parties unaffiliated with EFH and Sempra and that owns 19.75% of the outstanding membership interests of Oncor; and
- two members will be current or former officers of Oncor (the “Oncor Officer Directors”), initially Robert S. Shapard and E. Allen J. Nye, Jr., who no later than the closing of the Merger will be the chair of the Oncor board and chief executive officer

of Oncor, respectively (in order for a current or former officer of Oncor to be eligible to serve as an Oncor Officer Director, such officer cannot have worked for Sempra or any of its affiliates (excluding Oncor Holdings and Oncor) or any other entity with a direct or indirect ownership interest in Oncor or Oncor Holdings in the ten years prior to such officer being employed by Oncor). Oncor Holdings, at the direction of Energy Future Intermediate Holding Company LLC (“EFIH”) (a subsidiary of EFH, which will be a wholly owned indirect subsidiary of, and controlled by, Sempra following the Merger), will have the right to nominate and/or seek the removal of the Oncor Officer Directors, with such nomination or removal subject to approval by a majority of the Oncor board of directors.

The Stipulation further provides that, following consummation of the Merger, Oncor Holdings will have a board of directors comprised of 10 members, six of which will be independent directors, two of which will be current or former officers of Oncor Holdings (“Oncor Holdings Officer Directors”) (and which initially will be the same two officers who will be the initial Oncor Officer Directors as described in the prior paragraph), and two of which shall be designated by Sempra. The eligibility requirements for serving as an Oncor Holdings Officer Director are the same as the eligibility requirements for serving as an Oncor Officer Director as described in the preceding paragraph. EFIH will have the right to nominate and/or seek the removal of the Oncor Holdings Officer Directors, subject to approval by a majority of the Oncor Holdings board of directors.

As a result, Sempra will not control Oncor and will have only limited ability to direct the management, policies and operations of Oncor, Oncor Holdings or their respective subsidiaries. Pursuant to the Stipulation, the current independent directors for Oncor and Oncor Holdings will continue to serve for three years following the closing of the Merger, and thereafter two of these independent directors will cease to be members of their respective boards every two years. Each subsequent independent director will be elected for a term of four years. The Stipulation also provides that Oncor Holdings will have a nominating committee comprised entirely of independent directors, who will nominate the independent director board member candidates of Oncor and Oncor Holdings, subject to approval by a majority of the remaining independent directors of Oncor Holdings. If any independent director is removed, retires or is unable to serve, the Stipulation provides that a replacement independent director must be chosen by the nominating committee of Oncor Holdings and approved by a majority of the remaining independent directors of Oncor Holdings. Under the Stipulation, the duties of the board members of Oncor and Oncor Holdings will be to act in the best interests of Oncor consistent with the approved ring-fence and Delaware law. Any future changes to the size, composition, structure or rights of the boards of Oncor and Oncor Holdings must first be approved by the PUCT. The Stipulation also provides that, if Sempra acquires TTI’s interest in Oncor, the two board positions on the Oncor board that TTI is entitled to appoint shall be eliminated and the size of the Oncor board of directors will be reduced by two.

While Oncor’s Limited Liability Company Agreement generally provides that Oncor will make quarterly distributions to its members equal to the net income of Oncor, subject to certain exceptions, and Oncor Holdings’ Limited Liability Company Agreement generally provides that Oncor Holdings will make quarterly distributions to its member equal to the dividends received by Oncor, subject to certain exceptions, the Stipulation provides a number of circumstances, as described below, in which Oncor is not permitted to make dividends or other distributions (except for contractual tax payments). In addition, the Stipulation provides that the respective boards of Oncor and Oncor Holdings will control each respective company’s dividend policy (and any changes to such policy must be approved by a majority of its independent directors), issuances of dividends and other distributions (except for contractual tax payments). The Stipulation also provides that the respective boards of Oncor and Oncor Holdings will control each respective company’s debt issuances, capital expenditures, operation and maintenance expenditures, management and service fees, and, subject to the limitations described above, appointment or removal of board members.

The Stipulation provides that neither Oncor nor Oncor Holdings nor their subsidiaries may enter into any material transactions with third parties outside the ordinary course of business or institute an Oncor bankruptcy filing, in each case without the prior written consent of Sempra. In addition, the appointment or removal of the chief executive officer or the chief financial officer of Oncor requires the majority vote of Oncor’s board of directors, which must include the unanimous vote of the two Oncor directors appointed by Sempra.

Additional regulatory commitments, governance mechanisms and restrictions provided in the Stipulation include, among others:

- A majority of the independent directors of Oncor must approve any annual or multi-year budget if the aggregate amount of capital expenditures or operating and maintenance expenditures in such budget is more than a 10% increase or decrease from

the corresponding amounts of such expenditures in the budget for the preceding fiscal year or multi-year period, as applicable;

- Oncor will make minimum aggregate capital expenditures equal to at least \$7.5 billion over the period from January 1, 2018 through December 31, 2022 (subject to certain possible adjustments);
- Sempra has agreed to make, within 60 days after the Merger, its proportionate share of the aggregate equity investment in Oncor in an amount necessary for Oncor to achieve a capital structure consisting of 57.5% long-term debt and 42.5% equity, as calculated for regulatory purposes (until recently, Oncor's regulatory capital structure required 40% equity, with the remaining 60% as debt);
- Oncor may not pay any dividends or make any other distributions (except for contractual tax payments) if a majority of its independent directors determines that it is in the best interests of Oncor to retain such amounts to meet expected future requirements;
- At all times, Oncor will remain in compliance with the debt-to-equity ratio established by the PUCT from time to time for ratemaking purposes, and Oncor will not pay dividends or other distributions (except for contractual tax payments), if that payment would cause its debt-to-equity ratio to exceed the debt-to-equity ratio approved by the PUCT;
- Sempra will ensure that, as of the closing of the Merger, Oncor's credit rating by all three major rating agencies will be at or above Oncor's credit ratings as of June 30, 2017;
- If the credit rating on Oncor's senior secured debt by any of the three major rating agencies falls below BBB (or the equivalent), Oncor will suspend dividends and other distributions (except for contractual tax payments), unless otherwise allowed by the PUCT;
- Without the prior approval of the PUCT, neither Sempra nor any of its affiliates (excluding Oncor) will incur, guaranty or pledge assets in respect of any indebtedness that is dependent on the revenues of Oncor in more than a proportionate degree than the other revenues of Sempra or on the stock of Oncor, and there will be no debt at EFH or EFIH at any time following the closing of the Merger;
- Neither Oncor nor Oncor Holdings will lend money to or borrow money from Sempra or any of its affiliates (other than Oncor subsidiaries), or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings, and neither Oncor nor Oncor Holdings will share credit facilities with Sempra or any of its affiliates (other than Oncor subsidiaries), or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings;
- Oncor will not seek recovery in rates of any expenses or liabilities related to EFH's bankruptcy, or (1) any tax liabilities resulting from EFH's spinoff of its former subsidiary Texas Competitive Electric Holdings Company LLC, (2) any asbestos claims relating to non-Oncor operations of EFH or (3) any make-whole claims by holders of debt securities issued by EFH or EFIH, and Sempra must file with the PUCT a plan providing for the extinguishment of the liabilities described in items (1) through (3) above, which protects Oncor from any harm;
- There must be maintained certain "separateness measures" that reinforce the financial separation of Oncor from EFH and EFH's owners, including a requirement that dealings between Oncor, Oncor Holdings and their subsidiaries with Sempra, any of Sempra's other affiliates or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings, must be on an arm's-length basis, limitations on affiliate transactions, separate recordkeeping requirements and a prohibition on pledging Oncor assets or stock for any entity other than Oncor;
- No transaction costs or transition costs related to the Merger (excluding Oncor employee time) will be borne by Oncor's customers nor included in Oncor's rates;
- Sempra will continue to hold indirectly at least 51% of the ownership interests in Oncor and Oncor Holdings for at least five years following the closing of the Merger, unless otherwise specifically authorized by the PUCT; and
- Oncor will provide bill credits to customers in an amount equal to 90% of any interest rate savings achieved due to any improvement in its credit ratings or market spreads compared to those as of June 30, 2017 until final rates are set in the next Oncor base rate case filed after PUCT Docket No. 46957 (except that savings will not be included in credits if already realized in rates); and one year after the Merger, Oncor will provide bill credits to its customers equal to 90% of any synergy savings until final rates are set in the next Oncor base rate proceeding after PUCT Docket No. 46957, at which time any total synergy savings shall be reflected in Oncor's rates.

If the PUCT does not accept the Stipulation as presented, or issues an order inconsistent with the terms of the Stipulation, the parties have agreed that any party adversely affected by the alteration has the right to withdraw from the Stipulation and to exercise all rights available to such party under the law.

The foregoing description of the Stipulation is not complete and is subject to, and qualified in its entirety by reference to, the full text of the Stipulation, which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

Other Closing Conditions to the Merger

As previously reported by Sempra, the Merger is subject to customary closing conditions, including the approval of EFH's Chapter 11 bankruptcy proceedings by the U.S. Bankruptcy Court for the District of Delaware and the approval of the Merger by the PUCT, the Federal Energy Regulatory Commission (the "FERC") and the Vermont Department of Financial Regulation, among others, as well as receipt of a supplemental private letter ruling from the Internal Revenue Service and the issuance of certain tax opinions regarding the transaction.

On November 2, 2017, EFH received a supplemental private letter ruling from the Internal Revenue Service, which provides that the Merger will not affect the tax-free treatment of EFH's spinoff of its former subsidiary Texas Competitive Electric Holdings Company LLC. This ruling satisfies the closing condition referred to above.

On November 29, 2017, the Vermont Department of Financial Regulation approved the Merger.

On December 11, 2017, the FERC issued an order authorizing the transaction whereby Sempra will indirectly acquire 80.03% of the ownership interest in Oncor, subject to customary conditions.

Cautionary Note Regarding Forward-Looking Statements

This current report 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.

Such forward-looking statements include, but are not limited to, statements about the anticipated benefits of the proposed Merger, including future financial or operating results of Sempra Energy or Oncor, Sempra Energy’s, EFH’s or Oncor’s plans, objectives, expectations or intentions, the expected timing of completion of the transaction, the anticipated improvement in credit ratings of Oncor, and other statements that are not historical facts. Important factors that could cause actual results to differ materially from those indicated by 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.

Additional factors, among others, that could cause actual results and future actions to differ materially from those described in forward-looking statements include: 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; changes in the tax code as a result of potential federal tax reform, uncertainty as to what proposals will be enacted, if any, and, if enacted, how they would be applied; 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.

These risks and uncertainties are further discussed in the reports that Sempra Energy has filed with the U.S. Securities and Exchange Commission. 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

(d) Exhibits

Exhibit Number	Description
99.1	<u>Stipulation, dated as of December 12, 2017, regarding all issues in Docket No. 47675 by and among Sempra Energy, Oncor Electric Delivery Company LLC, the Staff of the Public Utility Commission of Texas, the Office of the Public Utility Counsel, the Steering Committee of Cities Served by Oncor and the Texas Industrial Energy Consumers, and any other parties who may subsequently become signatories to the Stipulation.</u>

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,
(Registrant)

Date: December 14, 2017

By: /s/ Trevor I. Mihalik

Trevor I. Mihalik
Senior Vice President, Controller and Chief Accounting
Officer

DOCKET NO. 47675

JOINT REPORT AND APPLICATION OF ONCOR §
ELECTRIC DELIVERY COMPANY LLC AND §
SEMPRA ENERGY FOR REGULATORY §
APPROVALS PURSUANT TO PURA §§ 14.101, 39.262, §
AND 39.915 §
§
§

BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS

STIPULATION

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

As of December 12, 2017, Oncor Electric Delivery Company LLC (“Oncor”), Sempra Energy (“Sempra”), and certain parties to this docket have reached a settlement concerning the *Joint Report and Application of Oncor Electric Delivery Company LLC and Sempra Energy for Regulatory Approvals Pursuant to PURA §§ 14.101, 39.262, and 39.915* filed in this proceeding. Based upon that settlement, the following parties joined in this comprehensive and unopposed Stipulation (“Stipulation”) regarding all issues in this docket: Oncor, Sempra, the Staff of the Public Utility Commission of Texas (“Commission”), the Office of the Public Utility Counsel (“OPC”), Steering Committee of Cities Served by Oncor (“Cities”), Texas Industrial Energy Consumers (“TIEC”) (Commission Staff, OPC, Cities, and TIEC collectively, the “Original Signatories”), and any other parties who may subsequently become signatories to this Stipulation (hereinafter collectively referred to as “Signatories”). The Signatories agree that a negotiated resolution of this proceeding on the basis set forth in this Stipulation is in the public interest, will conserve the parties’ and the public’s resources, and eliminate controversy. Accordingly, the Signatories request approval of this Stipulation by the Commission and entry of an order (including findings of fact and conclusions of law) as set out in Attachment 1 hereto.

I.

This Stipulation has been drafted by all Signatories and is the result of negotiation, compromise, settlement and accommodation. The Signatories agreed that the terms and conditions are interdependent. If the Commission does not accept this Stipulation as presented, or issues an order inconsistent with the terms of this Stipulation or the Proposed Order, the Signatories agree

that any Signatory adversely affected by the alteration has the right to withdraw from this Stipulation, thereby becoming released from its obligations arising hereunder, and to proceed as otherwise permitted by law to exercise all rights available under the law.

This Stipulation is binding on each of the Signatories only for the purpose of resolving the issues as set forth herein and for no other purpose.

By this Stipulation, the Signatories resolve all issues among them related to this proceeding and hereby stipulate and agree as follows and request that the Commission enter the proposed final Order attached hereto as Attachment 1 that reflects the following:

A. Transaction:

1. In the Joint Report and Application filed in this docket, Applicants seek Commission approval for Sempra to acquire the approximately 80.03 percent interest in Oncor (“Transaction”) indirectly held by Energy Future Holdings Corp. (“EFH”). At a future date, Sempra may acquire the 19.75 percent interest held by Texas Transmission Investment LLC (the “Minority Member”) and the 0.22 percent interest held by Oncor Management Investment LLC (“OMI”). Prior to Sempra acquiring the Minority Member’s interests, Sempra must receive Commission approval of the transaction, and the Signatories agree the terms set forth in Sections I.B – J of this Stipulation shall apply to both the approximately 80.03 percent and the 19.75 percent interest. None of the rights afforded the Minority Member in the Second Amended and Restated Limited Liability Company Agreement of Oncor Electric Delivery Company, dated November 5, 2008, as amended by that certain Amendment No. 1 to Second Amended and Restated Limited Liability Company Agreement of Oncor Electric Delivery Company LLC, dated February 18, 2009, and that certain Amendment No. 2 to Second Amended and Restated Limited Liability Company Agreement of Oncor Electric Delivery Company LLC, dated July 27, 2015 (as amended, the “Oncor LLC Agreement”) will be changed or revised as a result of the Stipulation or the amendments to be proposed to the Oncor LLC Agreement. The Oncor LLC Agreement will not be amended prior to closing. The Signatories agree that the substantial benefits of Sempra’s acquisition of EFH’s approximately 80.03 percent interest in Oncor, many of which are described in this Stipulation, demonstrate that Sempra has addressed all

issues in the preliminary order to the satisfaction of the Signatories, the Transaction is in the public interest and should be approved.

2. The Signatories agree that, based on requirements of this Stipulation, the Transaction is in the public interest in accordance with PURA §§ 39.262(l)-(m) and 39.915. The Signatories specifically agree that the Transaction will not adversely affect Oncor's reliability of service, availability of service, or cost of service.
3. The Signatories also agree that, based on the requirements of this Stipulation, the Transaction is in the public interest in accordance with PURA § 14.101. The Signatories specifically agree that the Transaction will not (a) result in the transfer of jobs to workers outside of Texas, (b) adversely affect the health or safety of the utility's customers or employees, or (c) result in a decline in service. The Signatories also agree that the Transaction will result in no Oncor property or other assets being sold, transferred, or otherwise affected.

B. Board:

1. Separate Boards. The Signatories agree that at closing and thereafter, Oncor Electric Delivery Holdings Company LLC ("Oncor Holdings") and Oncor will have separate boards of directors that will not include any employees of Sempra competitive affiliates in Texas, any members from the boards of directors of Sempra's competitive affiliates in Texas, or any individuals with direct responsibility for the management or strategies of such competitive affiliates.
2. Independent Board. Upon the consummation of the Transaction, the Signatories agree that Oncor will have a board of directors comprised of thirteen (13) directors, and Oncor Holdings will have a board of directors comprised of ten (10) directors. A majority of the Oncor Holdings' board members and Oncor's board members will qualify as "independent" in all material respects in accordance with the rules and regulations of the New York Stock Exchange ("NYSE") (which are set forth in Section 303A of the NYSE Listed Company Manual) from Sempra and its subsidiaries or affiliated entities and any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings, and also have no material relationship with Sempra or its

subsidiaries or affiliated entities or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings, currently or within the previous ten years (the “Disinterested Directors”).

- a. Except as indicated in B.2.h., the Oncor Board shall have seven (7) Disinterested Directors, two (2) directors who will be current and/or former officers of Oncor (the “Oncor Officer Directors”) (who, following consummation of the Transaction, will be Robert S. Shapard and E. Allen Nye, Jr.), two (2) directors who will be designated by Sempra, and two (2) directors who will be designated by the Minority Member (as that term is defined in the Oncor LLC Agreement). In order to be eligible as an Oncor Officer Director, a current and/or former officer of Oncor cannot have worked for Sempra and its subsidiaries or affiliated entities (excluding Oncor or Oncor Holdings if the employee is or has been an employee of Oncor) or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings at any time in the ten years previous to that officer being employed by Oncor. This definition will continue for ten years after the date of closing the Transaction. Oncor Holdings, at the direction of the member of Oncor Holdings, shall have the right to nominate and/or seek the removal of the Oncor Officer Directors, with such nomination and/or removal subject to approval by a majority vote of the Oncor Board.
- b. The Oncor Holdings Board shall have six (6) Disinterested Directors, two (2) directors who will be current and/or former officers of Oncor Holdings (the “Oncor Holdings Officer Directors”) (who, following consummation of the Transaction, will be Robert S. Shapard and E. Allen Nye, Jr.), and two (2) directors who will be designated by Sempra. In order to be eligible as an Oncor Holdings Officer Director, a current and/or former officer of Oncor cannot have worked for Sempra and its subsidiaries or affiliated entities (excluding Oncor or Oncor Holdings if the employee is or has been an employee of Oncor) or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings at any time in the ten years previous to that officer being employed by Oncor. This definition will continue

for ten years after the date of closing the Transaction. The member of Oncor Holdings shall have the right to nominate and/or seek the removal of the Oncor Holdings Officer Directors, with such nomination and/or removal subject to approval by a majority vote of the Oncor Holdings Board.

- c. The current Disinterested Directors for Oncor and Oncor Holdings will continue to serve, if willing and able, for three years from the closing of the Sempra transaction. Thereafter, two of these Disinterested Directors will roll off the Boards every two years. The Nominating Committee of Oncor Holdings shall determine the order of the departure of these directors and that order will be designed to move toward a mandatory retirement age of 75 years that will apply to new Disinterested Directors. The Nominating Committee's determination must be approved by a majority of the Disinterested Directors on the Oncor Holdings' Board. Each new Disinterested Director shall have a term of four (4) years and the appointment of such directors will be consistent with the mandatory retirement age. To the extent that either (i) one of the current Disinterested Directors and/or (ii) any new Disinterested Director is removed, retires, or is otherwise unwilling or unable to serve, a replacement new Disinterested Director will be chosen by the Nominating Committee of Oncor Holdings and subject to approval by a majority vote of the remaining Disinterested Directors of Oncor Holdings. Each Disinterested Director's term may be renewed for only one additional term of four (4) years.
- d. Oncor Holdings shall have a Nominating Committee composed entirely of Disinterested Directors who are also Disinterested Directors on the Oncor Board. That Nominating Committee shall have sole responsibility for the nomination, renewal of a term, removal or replacement of any Disinterested Director for Oncor Holdings and Oncor. Any such action by the Nominating Committee shall be approved by a majority vote of the Disinterested Directors of Oncor Holdings.
- e. The duties of the board members of Oncor Holdings and Oncor will be to act in the best interests of Oncor consistent with the approved ring-fence and Delaware Law. The approved ring-fence shall include, without limitation: (i) the final order

entered in this Docket No. 47675 including the provisions of this Stipulation adopted in such final order; and (ii) the Oncor LLC Agreement and the Second Amended and Restated Limited Liability Company Agreement of Oncor Electric Delivery Holdings Company, dated November 5, 2008 (as amended, "Oncor Holdings LLC Agreement") currently in place with the proposed amendments to those LLC Agreements to reflect this Stipulation and the final order entered in this Docket No. 47675. The Oncor Holdings LLC Agreement will not be amended prior to closing.

- f. Any change to the size, composition, structure or rights of the boards listed in this Stipulation must first be approved by the Commission.
 - g. The two directors to be designated by Sempra are intended to represent the approximately 80.03 percent indirect interest in Oncor that it proposes to acquire from EFH. To the extent that at some point Sempra chooses to sell or transfer all or any portion of the 80.03 percent interest, the size of the Oncor and Oncor Holdings Boards shall not be increased and Sempra and any new owners will determine how they will allocate the two board seats to which they will be entitled.
 - h. Unless otherwise ordered by the Commission, to the extent that Sempra acquires the Minority Member's interests in Oncor, the two board positions that the Minority Member was entitled to designate shall be eliminated and the number of directors sitting on the Oncor Board shall be reduced by those two positions.
3. Independence of Board. The Signatories agree that Oncor Holdings' and Oncor's Boards cannot be overruled by the board of Sempra or any of its subsidiaries on dividend policy, the issuance of dividends or other distributions (except for contractual tax payments), debt issuance, capital expenditures, operation and maintenance expenditures, management and service fees, and appointment or removal of board members, provided that such actions may also require the additional approval of Oncor Holdings' Board.

- a. The appointment or removal of the Chief Executive Officer of Oncor and the Chief Financial Officer of Oncor shall require a majority vote of Oncor board of directors, which vote must include the unanimous vote of the Sempra directors.
- b. The Oncor Board shall have sole responsibility to set the compensation and benefits for all directors and officers of the Company in the manner prescribed by the Board. Compensation and benefits for all Oncor officers, directors, and employees shall in no manner be tied to, reflect, and/or be related to the financial performance of Sempra, any Sempra Affiliates (excluding Oncor), or any direct or indirect owner of Oncor, or the performance of the stock or businesses of Sempra, any Sempra Affiliates, or any direct or indirect owner of Oncor, other than Oncor.
- c. Neither Oncor Holdings nor Oncor nor any of their subsidiaries may without the prior written consent of Sempra: (1) enter into or authorize any material transactions with a third party outside the ordinary course of business nor enter into any contract, or other similar agreement to effectuate such material transactions; or (2) institute an Oncor bankruptcy filing.
- d. A majority of the Disinterested Directors of Oncor must approve an annual budget or any multi-year budget if the aggregate amount of such capital expenditures in such budget is more than a 10% decrease or increase from the capital expenditure budget for the immediately prior fiscal year or multi-year period, as applicable. For five years following the close of the Transaction, if the annual or multi-year capital expenditure budget is more than a 10% decrease or increase from the immediately prior fiscal year or multi-year period, as applicable, Oncor shall file a report providing the reasons for the variance consistent with section J(3) of this Stipulation.
- e. A majority of the Disinterested Directors of Oncor must approve an annual budget or any multi-year budget if the aggregate amount of such operating and maintenance expenditures in such budget is more than a 10% decrease or increase from the operating and maintenance budget for the immediately prior fiscal year or multi-year period, as applicable.

C. Dividends:

1. Oncor Board's Right to Determine Dividends. The Signatories agree that the Oncor Board, comprised of a majority of Disinterested Directors, will have the sole right to determine dividends or other distributions, except for contractual tax payments.
 - a. Any amendments or changes to the Dividend Policy must be approved by a majority vote of the Disinterested Directors.
 - b. The Disinterested Directors, acting by majority vote, shall have the authority to prevent Oncor or Oncor Holdings from making any dividend or other distributions, except for contractual tax payments, if they determine that it is in the best interest of Oncor to retain such amounts to meet expected future requirements of Oncor (including continuing compliance with the debt-to-equity ratio described in Section D.5). Additionally, Sempra agrees that neither Sempra nor any of its affiliates will issue stock or ownership interest that supersede the foregoing obligations of Oncor or Oncor Holdings.
2. Oncor Credit Ratings and Dividends. To eliminate concerns regarding a negative impact on Oncor resulting from Sempra's acquisition of Oncor, and in lieu of providing specifics regarding acquisition funding, the Signatories agree to the following:
 - a. Sempra will ensure that, as of the closing of the Transaction, Oncor's credit ratings at all three major ratings agencies (Standard & Poor's, Moody's Investor Service, or Fitch Ratings) will be at or above Oncor's credit ratings as of June 30, 2017; and
 - b. If the credit rating by any one of the three major ratings agencies (Standard & Poor's, Moody's Investor Service, or Fitch Ratings) fall below BBB (Baa2) for Oncor senior secured debt, then Oncor will suspend payment of dividends or other distributions, except for contractual tax payments, until otherwise allowed by the Commission. Additionally, Sempra agrees that neither Sempra nor any of its affiliates will issue stock or ownership interest that supersede the foregoing obligations of Oncor. Oncor shall notify the Commission if either Sempra's or

Oncor's credit issuer/corporate rating as rated by any of Standard & Poor's, Moody's Investor Service, or Fitch Ratings agencies falls below its then current level.

D. Debt:

1. Existing Legacy Debt and Liabilities. The Signatories agree that Sempra will extinguish all debt that resides above Oncor at EFIH and EFH, reducing it to zero immediately following the closing of the Transaction and maintaining it at zero going forward.
2. No Debt Disproportionally Dependent on Oncor. The Signatories agree that without prior approval of the Commission, neither Sempra nor any affiliate of Sempra (excluding Oncor) will incur, guaranty, or pledge assets in respect of any incremental new debt at the closing or thereafter that is dependent on: (1) the revenues of Oncor in more than a proportionate degree than the other revenues of Sempra; or (2) the stock of Oncor.
3. No Transaction-Related Debt at Oncor or Oncor Holdings. The Signatories agree that neither Oncor nor Oncor Holdings will incur, guaranty, or pledge assets in respect of any incremental new debt related to financing the Transaction at the closing or thereafter. Oncor's financial integrity will be protected from the separate operations of Sempra's and affiliates of Sempra, including but not limited to Sempra's affiliated retail electric provider ("REP") or generation company, if any.
4. Cross-Default Provisions, Financial Covenants or Rating Agency Triggers. The Signatories agree that neither Oncor nor Oncor Holdings will include in any of their debt or credit agreements cross-default provisions between Oncor's and Oncor Holdings' securities and the securities of Sempra or any of its affiliates or subsidiaries (excluding Oncor), or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings. Oncor and Oncor Holdings will not include in their debt or credit agreements any financial covenants or rating agency triggers related to Sempra or any other Sempra affiliate, or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings.

5. Debt-to-Equity Ratio. The Signatories agree that Oncor's debt-to-equity ratio (as determined by the Commission) shall at all times remain in compliance with the debt-to-equity ratio established from time to time by the Commission for ratemaking purposes. Oncor will make no payment of dividends or other distributions, except for contractual tax payments, where such dividends or other distributions would cause Oncor to be out of compliance with the Commission-approved debt-to-equity ratio. Additionally, Sempra agrees that neither Sempra nor any of its affiliates will issue stock or ownership interest that supersede the foregoing obligations of Oncor.
6. No Inter-Company Debt. The Signatories agree that neither Oncor nor Oncor Holdings will enter into any inter-company debt transactions with Sempra affiliates (other than Oncor subsidiaries), or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings, following consummation of the Transaction.
7. No Inter-Company Lending. The Signatories agree that neither Oncor nor Oncor Holdings will lend money to or borrow money from Sempra or Sempra's affiliates (other than Oncor subsidiaries), or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings.
8. Credit Facility. The Signatories agree that neither Oncor nor Oncor Holdings will share credit facilities with Sempra or Sempra's affiliates (other than Oncor subsidiaries), or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings.
9. No Pledging of Assets/Stock. The Signatories agree that Oncor's assets or stock shall not be pledged by Oncor Holdings, Sempra or any Sempra affiliate, or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings, for any entity other than Oncor.
10. No Recovery of Affiliate REP Bad Debt. The Signatories agree that for so long as any Sempra REP is affiliated with Oncor, Oncor will not seek to recover from its customers any costs incurred as a result of a bankruptcy of any Sempra REP.

11. Credit Rating Registration. The Signatories agree that Oncor will, except as otherwise approved by the Commission, be registered with major nationally and internationally recognized bond rating agencies, including Standard & Poor's, Moody's Investor Service, and Fitch Ratings. Oncor's ratings shall reflect the ring-fence provision contemplated herein in order to provide Oncor with a stand-alone (non-linked) credit rating.
12. Stand-Alone Credit Rating. Except as may be otherwise ordered by the Commission, Sempra shall take the actions necessary to ensure the existence of an Oncor stand-alone credit rating.

E. Bankruptcy Liabilities:

1. Bankruptcy Expenses and Liabilities. The Signatories agree that Oncor will not seek recovery in rates of any expenses or liabilities related to EFH's bankruptcy. The Signatories further agree that Oncor will not seek recovery in rates of amounts resulting from any: (1) tax liabilities resulting from the spin-off of Texas Competitive Electric Holdings Company LLC; (2) asbestos claims relating to non-Oncor operations of or under EFH; or (3) make-whole claims by creditors of EFH or EFIH set forth in the EFH and EFIH Plan of Reorganization. Oncor's customers will not be required to pay for these items. Sempra will file with the Commission within thirty (30) days of closing a plan that provides for the extinguishment of liabilities as they arise from EFH and EFIH for items (1), (2), and (3) stated in this paragraph, which protects Oncor from any harm.

F. Non-Consolidation:

1. Non-Consolidation Legal Opinion. The Signatories agree that Sempra will obtain a non-consolidation legal opinion that provides that, in the event of a bankruptcy of Sempra or any affiliate of Sempra, a bankruptcy court would not consolidate the assets and liabilities of Oncor with Sempra or any affiliate of Sempra.

G. CAPEX:

1. Capital Expenditure. The Signatories agree that Oncor shall make minimum capital expenditures equal to a budget of at least \$7.5 billion over the five-year period beginning January 1, 2018, and ending December 31, 2022, subject to the following adjustments to the extent reported to the Commission in Oncor's earnings monitor report: Oncor may reduce capital spending due to conditions not under Oncor's control, including, without limitation, siting delays, cancellations of projects by third-parties, weaker than expected economic conditions, or if Oncor determines that a particular expenditure would not be prudent.

H. Cybersecurity:

1. Cybersecurity Expenditure. The Signatories agree that Oncor shall make minimum cybersecurity expenditures equal to a budget of \$35 million over the five-year period beginning January 1, 2018, and ending December 31, 2022. Oncor shall work cooperatively with other Sempra entities with respect to cybersecurity issues.

I. Affiliate Issues:

1. Affiliate Asset Transfer. The Signatories agree that neither Oncor Holdings nor Oncor will transfer any material assets or facilities to any affiliates (other than Oncor Holdings, Oncor, and their subsidiaries, which are hereinafter referred to as the "ring-fenced entities"), other than a transfer that is on an arm's-length basis consistent with the Commission's affiliate standards applicable to Oncor, regardless of whether such affiliate standards would apply to the particular transaction.
2. Arm's-Length Relationship. The Signatories agree that each of the ring-fenced entities will maintain an arm's-length relationship with Sempra or Sempra's affiliates (other than the ring-fenced entities), or any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings, consistent with the Commission's affiliate standards applicable to Oncor. The Signatories agree that Sempra will provide the Commission access to the books and records of Sempra or Sempra affiliates as necessary to facilitate Commission audit or review of any affiliate transactions as between Oncor and Sempra or Sempra affiliates, consistent with PURA § 14.154.

3. Separate Books and Records. The Signatories agree that each of the ring-fenced entities will maintain accurate, appropriate, and detailed books, financial records and accounts, including checking and other bank accounts, and custodial and other securities safekeeping accounts that are separate and distinct from those of any other entity.
4. FERC Preemption. The Signatories agree that neither Oncor nor Sempra nor Sempra's affiliates will assert before the Commission or a Texas court of competent jurisdiction that the Commission is preempted pursuant to the Federal Power Act (*e.g.*, under a FERC tariff) from making a determination regarding the cost recovery of affiliate costs sought to be allocated to Oncor.

J. Additional Agreements:

1. Holding Company. The Signatories agree that Oncor Holdings will be retained between Sempra and Oncor.
2. Continued Ownership. The Signatories agree that Sempra will hold indirectly at least 51% of Oncor and Oncor Holdings' total outstanding membership interests, including any minority interests, for a period of no less than five years after the closing date of the Transaction, unless specifically authorized by the Commission.
3. Compliance Report. The Signatories agree that for a period of five years after the closing date of the Transaction, Oncor will make annual reports to the Commission regarding its compliance with the terms stated in this Stipulation.
4. Name/Logo. The Signatories agree that Sempra will maintain a name and logo for Oncor that is separate and distinct from the names of Sempra's REP and wholesale generation companies or any other current or future Texas competitive affiliate, if any. Any Sempra REP, wholesale generation company, or any other current or future Texas competitive affiliate will not use the Oncor name, trademark, brand, logo, or any other brand identifying features; nor will Oncor engage in joint marketing, advertising, or promotional efforts with any Sempra REP, wholesale generation company, or any other current or future Texas competitive affiliate, in a manner that is inconsistent with the Public Utility Regulatory Act and the Commission's affiliate rules.

5. Headquarters/Management. The Signatories agree that Oncor will maintain its separate headquarters and management in Dallas, Texas. Local management will remain the primary point of contact on all regulatory and operational matters. Oncor will maintain its current level of management and operations in Texas. Oncor shall not move the location of or change reporting relationships of Oncor executives, or materially alter Texas staff responsibilities for functions Oncor now performs in Texas, except as approved by the Commission.
6. Oncor Senior Management Succession Plan. The Signatories agree that, effective no later than the closing of the Transaction, Robert S. Shapard will assume the role of Executive Chairman or Chairman of the Oncor Board, and E. Allen Nye, Jr. will assume the role of Chief Executive Officer of Oncor.
7. Texas Utility. The Signatories agree that Oncor will continue to operate solely within the state of Texas as a public utility subject to the continuing jurisdiction of the Commission.
8. Reliability. The Signatories agree that for purposes of Substantive Rule 25.52, system average interruption duration index (“SAIDI”) and system average interruption frequency index (“SAIFI”) standards should be calculated for Oncor’s current service area based on Oncor’s forced interruption performance for years 2014, 2015, and 2016, which correspond to three-year averages of 0.87667 for SAIFI and 86.53667 for SAIDI, and should be in compliance with Ordering Paragraph No. 13 of the Commission’s final order in Docket No. 47469, *Joint Report and Application of Sharyland Utilities, L.P., Sharyland Distribution & Transmission Services, L.L.C, and Oncor Electric Delivery Company LLC for Transfer of Facilities, Transfer of Rights under and Amendment of Certificates of Convenience and Necessity, and for Other Regulatory Approvals*. These standards should go into effect starting with the calendar year 2018.
9. Reports of SAIDI and SAIFI to Commission. The Signatories agree that Oncor will report its actual system-level SAIDI and SAIFI statistics to the Commission in its

Quarterly Performance Reports and yearly Service Quality Reports filed pursuant to 16 Tex. Admin Code (“TAC”) § 25.81.

10. Transaction Costs. The Signatories agree that none of the transaction costs will be borne by Oncor’s customers, nor will Oncor seek to include transaction costs in rates. For purposes of this agreement, “Transaction Costs” are those incremental costs paid to advance or consummate the Transaction. Examples of Transaction Costs include, but are not limited to: Sempra employee time and expenses; Oncor change of control payments; any tax liability incurred as a result of the Transaction; certain executive severance costs related to the Transaction; and third-party costs, including bank advisors, external legal advisors, rating agencies, and expert witnesses and consultants in each case paid to advance or consummate the Transaction. Transaction Costs do not include Oncor employee time.
11. Transition Costs. The Signatories agree that no Sempra employee time and expenses, third party costs, fees, expenses or costs of the transition (“Transition Costs”) will be borne by Oncor’s customers, nor will Oncor seek to include Transition Costs in rates. Transition Costs are those costs necessary to integrate the two companies, whether incurred before or after Day 1, including the one-time transition costs being incurred whether directly or indirectly through affiliate charges to transition Oncor to ownership by Sempra and to integrate Oncor’s operations and systems with those of Sempra. Provided, however, that Transition Costs do not include Oncor employee time, costs to achieve savings or synergies or costs that reflect reasonable and necessary costs in providing service to the public. “Costs to achieve” reflect reasonable and necessary amounts incurred to realize operating enhancements, efficiency gains, or costs reduction initiatives.
12. Workforce. The Signatories agree that, for two years after closing, each current Oncor employee who is employed on the closing date will be provided: (a) a base salary or wage rate no less favorable than the base salary or wage rate provided to such employee immediately prior to the closing date; (b) aggregate incentive compensation

opportunities that are substantially comparable in the aggregate to those provided to such employee immediately prior to the closing date; and (c) employee benefits that are substantially comparable in the aggregate to those provided to such employee immediately prior to the closing date. For two years after closing, Oncor will not implement any material involuntary workforce reductions (with respect to either field or corporate personnel) of Oncor employees.

13. Collective Bargaining Agreements. The Signatories agree that, with respect to any Oncor employee whose terms and conditions of employment are covered by a collective bargaining agreement, the terms and conditions of such employment will continue to be governed by the terms of the applicable collective bargaining agreement, as may be modified from time to time.
14. Code of Conduct. Oncor will file with the Commission for authority to amend and update its Code of Conduct to incorporate all applicable conditions and limitations on affiliate transactions required by this Stipulation. Oncor will conduct its activities in compliance with a proposed updated Code of Conduct that will govern interactions between Oncor and its Sempra affiliates and any entity with a direct or indirect ownership interest in Oncor or Oncor Holdings. The provisions of the updated Code of Conduct that address competitive affiliates will apply to Sempra Gas and Power Marketing and any other Sempra affiliate to the extent they provide services or sell products in a competitive energy-related market in Texas.
15. Commission Jurisdiction. The Signatories agree that Oncor and Oncor Holdings will not own, operate, or construct capital assets outside of ERCOT without prior approval from the Commission or take any other action that would impair the Commission's regulatory jurisdiction. Neither Oncor, Oncor Holdings, Sempra nor their respective affiliates will take any action that would subject ERCOT assets to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"); provided, however, that FERC continues to have jurisdiction under sections 210, 211, and 212 of the Federal Power Act ("FPA") and may direct transmission and interconnection services over certain

existing facilities outside of ERCOT; provided further that the existing reliability and critical infrastructure standards administered by the North American Electric Reliability Corporation (“NERC”), through delegation of authority from FERC, may affect the operations of assets that are deemed part of the bulk electric system. Sempra further commits that it will affirmatively support the preservation of the status quo of ERCOT jurisdictional authority, and it will in good faith support the efforts of Oncor to preserve and maintain the current state of ERCOT jurisdiction.

16. Texas Reliability Entity. The Signatories agree that Oncor will not seek to have another NERC Regional Entity other than the Texas Reliability Entity serve as the lead regional entity responsible for monitoring Oncor’s activities and ensuring compliance with NERC Reliability Standards.
17. Goodwill. The Signatories agree that any costs of goodwill of Sempra or its affiliates (including the pre-existing goodwill recognized by Oncor) will not be included in rate base, cost of capital, or operating expenses in future Oncor ratemaking proceedings. Write-downs or write-offs of goodwill will not be included in the calculation of net income for dividend or other distribution payment purposes.
18. Pushdown Accounting. The Signatories agree that Sempra will not elect to apply pushdown accounting for the merger, *i.e.*, the merger will have no impact on Oncor’s assets being acquired; and any incremental goodwill will not be allocated to, or recognized within, Oncor’s balance sheet.
19. Tangible and Quantifiable Benefits. The Signatories agree that, at a minimum, Oncor will provide the following tangible and quantifiable benefits associated with the Transaction. Oncor will provide bill credits to electric delivery rates for ultimate credits to customers in an amount equal to 90% of any interest rate savings achieved until final rates are set in the next Oncor base rate case filed after Docket No. 46957. Savings will not be included in credits if already realized in rates. Interest Rate Savings refers to the improvement in Oncor’s borrowing costs post-close relative to those costs as of June 30, 2017 due to improvement in credit ratings and/or improvement in market

spreads. The Signatories further agree that until final rates are set in the next Oncor base rate case after Docket No. 46957, Oncor will file a report with the Commission every six months detailing any interest rate savings determined by the amount of debt issued by Oncor by at least 0.15% (amounts above 0.15% being based on actual interest rate savings by Oncor) and demonstrating a calculation of the credit. Sempra and Oncor agree to work in good faith with interested parties, including TXU Energy Retail Company LLC, Texas Energy Association for Marketers, Alliance for Retail Markets, and NRG Companies, to determine an acceptable method for implementation of any bill credit to effectuate this agreement, as approved by the Commission. At a minimum, Oncor shall provide REPs 45-day notice of the amount of any customer credits (*e.g.*, for each customer class, the amount per kWh or per-customer credit that would apply) prior to the effective date of the credits and shall implement updated bill credits simultaneously with other changes in Oncor's rates. In addition, one year after closing, Oncor will present a merger synergy savings analysis to the Commission and provide bill credits to electric rates for inclusion in customer bills in an amount equal to 90% of any synergy savings until final rates are set in the next Oncor base rate proceeding after Docket No. 46957, in which any total synergy savings shall be reflected in Oncor's rates.

20. LLC Agreements. The Commission's final order shall be contingent on the Boards of Oncor Holdings and Oncor approving the amendments to their LLC Agreements to effect the provisions of this Stipulation. The proposed amendments to the Oncor Holdings LLC Agreement and Oncor LLC Agreement will be filed with the Commission. To the extent thereafter that any changes are sought to the amended LLC Agreements filed with the Commission that reflect in any manner whatsoever: (i) the governance structure of either Oncor or Oncor Holdings; (ii) the Ring Fence as reflected in the final order in this Docket No. 47675 including the provisions of this Stipulation adopted in such final order; (iii) the rights and interests of the Minority Member; and/or (iv) the rights and interests of the independent directors as they currently exist, such changes shall be approved in a manner consistent with the

provisions of the LLC Agreements and by the Commission prior to the effectiveness of such changes.

21. Competitive Shopping Platforms. The Signatories agree that neither Oncor nor Oncor's subsidiaries will host or allow the Oncor name, trademark, brand, logo, or other identifying brand features to be used to promote a competitive retail electric shopping website.
22. Equity. The Signatories agree that Sempra will make, as promptly as practicable and in no event later than 60 days after closing of the Transaction, its proportionate share of the aggregate equity investment in Oncor then required to achieve an equity to debt ratio to enable Oncor to achieve a capital structure consisting of 42.50% equity and 57.50% long-term debt, as described in Finding of Fact 32 and Conclusion of Law 10 of the final Order in Docket No. 46957. The Signatories agree that Sempra will work in good faith with Oncor's other members so that the Minority Member as promptly as practicable makes its proportionate share of the above aggregate equity investment.
23. Minority Member. The Signatories agree that Sempra will not acquire the interest of the Minority Member (as that term is defined in the Oncor LLC Agreement) in Oncor at the closing of the Transaction.
24. Rate Case Commitment. Except as may be otherwise ordered or required by the Commission, statute, or rule, Oncor agrees that it will not file a comprehensive base rate case within two years of a final order in this case.
25. Modification of Commission Order. If Oncor and Sempra seek any modification to the Commission Order entered in this Docket 47675 prior to sixty (60) months after the date of the Final Order in Docket 47675, then in any such proceeding, Commission Staff may hire independent consultants selected by the Commission and paid for by Sempra. Sempra shall timely pay the reasonable costs of the services of such consultants as determined by the Commission. The amount that Sempra shall be

responsible to pay shall not exceed \$300,000 per proceeding. Sempra and Oncor agree that Oncor will not seek recovery of these costs.

26. Reservation of Rights. The parties reserve their rights to take any positions in any future proceeding seeking to modify this Stipulation or the Commission Order entered in Docket 47675.

27. Except as may be otherwise ordered by the Commission, the authority granted by the Commission in this case expires if the Transaction has not closed within 120 days of the date that the Commission approves this Transaction.

II.

The Signatories agree that the terms of this Stipulation are fair, reasonable, and in the public interest. The Signatories further stipulate to the facts contained in the proposed Order attached hereto as Attachment 1 and will take all reasonable efforts to obtain the prompt adoption of an order by the Commission consistent with Attachment 1 to this Stipulation. The Signatories further agree to support and defend the terms of this Stipulation as set forth herein.

III.

This Stipulation has been drafted by all Signatories and is the result of negotiation, compromise, settlement, and accommodation. The Signatories agree that the terms and conditions herein are interdependent. The various provisions of this Stipulation are not severable. None of the provisions of this Stipulation shall become fully operative unless the Commission shall have entered a final order approving this Stipulation consistent with the proposed Order. If the Commission does not accept this Stipulation as presented, or issues an order inconsistent with the terms of this Stipulation or the proposed Order, the Signatories agree that any Signatory adversely affected by that alteration has the right to withdraw from this Stipulation, thereby becoming released from its obligations arising hereunder, and to proceed as otherwise permitted by law to exercise all rights available under the law. The right to withdraw must be exercised by providing the other Signatories written notice within 20 calendar days of the date the Commission order acting on this Stipulation is filed. Failure to provide such notice within the specified time period shall constitute a waiver of the right to withdraw and acceptance of the changes to this Stipulation made by the Commission.

IV.

This Stipulation is binding on each of the Signatories only for the purpose of settling the issues as set forth herein and for no other purposes. The matters resolved herein are resolved on the basis of a compromise and settlement. Except to the extent that this Stipulation expressly governs a Signatory's rights and obligations for future periods, this Stipulation shall not be binding or precedential on a Signatory outside of this proceeding except for a proceeding to enforce the terms of this Stipulation. The Signatories agree that a Signatory's support of the resolution of this docket in accordance with this Stipulation may differ from its position or testimony regarding contested issues of law, policy, or fact in other proceedings before the Commission or other forum. Because this is a Stipulation, a Signatory is under no obligation to take the same position as set out in this Stipulation in other proceedings not referenced in this Stipulation whether those dockets present the same or a different set of circumstances. Notwithstanding any other provision herein, a Signatory's agreement to entry of a final order of the Commission consistent with this Stipulation should not be regarded as an agreement to the appropriateness or correctness of any assumptions, methodology, or legal or regulatory principle that may have been employed in reaching this Stipulation.

V.

This Stipulation contains the entire agreement among the Signatories. Moreover, this Stipulation supersedes all other written and oral exchanges or negotiations among the Signatories or their representatives with regard to the subjects contained herein. The Signatories hereby waive the right to an evidentiary hearing in this proceeding and waive cross-examination of all witnesses.

VI.

Each person executing this Stipulation represents that he or she is authorized to sign this Stipulation on behalf of the party represented. Facsimile or emailed copies of signatures are valid for purposes of evidencing this Stipulation, which may be executed in multiple counterparts.

VII.

WHEREFORE, PREMISES CONSIDERED, the Signatories respectfully request that this Honorable Commission enter an order consistent with the terms of this Stipulation.

AGREED:

ONCOR ELECTRIC DELIVERY COMPANY LLC

BY: /s/ E. Allen Nye, Jr.

E. Allen Nye, Jr.
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OFFICE OF THE PUBLIC UTILITY COUNSEL

BY: /s/ Laurie Barker

Laurie Barker
Special Counsel

TEXAS INDUSTRIAL ENERGY CONSUMERS

BY: /s/ Phillip Oldham

STEERING COMMITTEE OF CITIES SERVED BY ONCOR

BY: /s/ Geoffrey M. Gay
