

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

**SCHEDULE 14A**  
**(Rule 14A-101)**  
**INFORMATION REQUIRED IN PROXY STATEMENT**  
**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

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Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material pursuant to §240.14a-12

**INFRAREIT, INC.**

**(Name of Registrant as Specified In Its Charter)**

**ONCOR ELECTRIC DELIVERY**

**COMPANY LLC**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

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## *Forward-Looking Statements*

The transcript below contains forward-looking statements relating to Oncor Electric Delivery Company LLC ( Oncor ) within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to risks and uncertainties. All statements in this transcript, other than statements of historical facts (often, but not always, through the use of words or phrases such as intends, plans, will likely result, are expected to, will continue, is anticipated, estimated, should, projection, target, goal, objective and outlook ), are forward-looking statements. 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 timing of the anticipated transactions contemplated by the Agreement and Plan of Merger (the InfraREIT Merger Agreement ) among Oncor, 1912 Merger Sub LLC, a wholly owned subsidiary of Oncor, Oncor T&D Partners, LP, a wholly owned indirect subsidiary of Oncor, InfraREIT, Inc. ( InfraREIT ) and InfraREIT Partners, LP, and by the Agreement and Plan of Merger among Oncor, Sharyland Distribution & Transmission Services, L.L.C., a subsidiary of InfraREIT, and Sharyland Utilities, L.P., and any of the applicable parties post-acquisition plans and intentions, and other statements that are not historical facts. The following important factors, among others, could cause actual results to differ materially from those set forth in the forward-looking statements: the satisfaction of conditions to closing the definitive agreements for the transactions; obtaining required governmental, regulatory and lender approvals that may delay the transactions or result in the imposition of conditions that could cause the parties to abandon the transactions or be onerous to Oncor; the expected timing to consummate the proposed transactions; the risk that the businesses will not be integrated successfully; the risk that any potential cost savings and any other potential synergies from the transactions may not be fully realized or may take longer to realize than expected; disruption from the transactions making it more difficult to maintain relationships with customers, employees or suppliers; and the diversion of management time and attention to issues related to the transactions. Further discussion of risks and uncertainties that could cause actual results to differ materially from management's current projections, forecasts, estimates and expectations is contained in filings made by Oncor with the U.S. Securities and Exchange Commission (the SEC ). Specifically, Oncor makes reference to the section entitled Risk Factors in its annual and quarterly reports. Any forward-looking statement speaks only as of the date on which it is made, and Oncor undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events.

## *Additional Information and Where to Find It*

In connection with the proposed transactions, InfraREIT expects to file a proxy statement and other documents with the SEC. This communication does not constitute a solicitation of any vote or proxy from any stockholder of InfraREIT. **INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE PROXY STATEMENT WHEN IT BECOMES AVAILABLE AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTIONS.** Any definitive proxy statement (if and when available) will be mailed to the stockholders of InfraREIT. Investors and stockholders will be able to obtain these materials (if and when they are available) free of charge at the SEC's website, [www.sec.gov](http://www.sec.gov). Investors and stockholders may also read and copy any reports, statements and other information filed by InfraREIT at the SEC public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please visit the SEC's website for further information on its public reference room. When available, the proxy statement and other pertinent documents may also be obtained free of charge at the Investor Relations section of InfraREIT's website, <http://infrareitinc.com>, or by directing a written request to InfraREIT, Inc., Attention: Corporate Secretary, 1900 North Akard Street, Dallas, Texas 75201.

## *Participants in the Solicitation*

Oncor, InfraREIT and their respective directors, executive officers and certain other employees may be deemed to be participants in the solicitation of proxies from the InfraREIT stockholders in connection with the proposed

transactions contemplated by the InfraREIT Merger Agreement. Investors and security holders may obtain more detailed information regarding the names, affiliations and interests of Oncor's directors and executive officers by reading Oncor's Registration Statement on Form S-4, which was filed with the SEC on April 5, 2018, and Oncor's Current Report on Form 8-K, which was filed with the SEC on July 19, 2018. Investors and security holders may obtain more detailed information regarding the names, affiliations and interests of InfraREIT's directors and executive officers by reading InfraREIT's definitive proxy statement for its 2018 Annual Meeting of Stockholders, which was filed with the SEC on March 22, 2018. Additional information regarding potential participants in such proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be included in the proxy statement and other relevant materials filed with the SEC in connection with the proposed transactions contemplated by the InfraREIT Merger Agreement when they become available.

***Transcript of Investor Call Held on October 18, 2018***

**Corporate Participants**

**Jeffrey W. Martin** *Sempra Energy - CEO & Director*

**Trevor I. Mihalik** *Sempra Energy - CFO & Executive VP*

**Faisel H. Khan** *Sempra Energy - VP of IR*

**E. Allen Nye** *Oncor Electric Delivery Company LLC - CEO & Director*

**Don J. Clevenger** *Oncor Electric Delivery Company LLC - Senior VP & CFO*

**Matt Henry** *Oncor Electric Delivery Company LLC - Senior VP, General Counsel and Secretary*

**Conference Call Participants**

**Christopher James Turnure** *JP Morgan Chase & Co, Research Division - Analyst*

**Julien Patrick Dumoulin-Smith** *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

**Kevin John Prior** *Evercore ISI Institutional Equities, Research Division - Associate*

**Lasan A. Johong** *Auvila Research Consulting LLC - Founder, President, CEO & Senior Research Analyst*

**Ryan Michael Levine** *Citigroup Inc, Research Division - Equity Analyst*

**Shahriar Pourreza** *Guggenheim Securities, LLC, Research Division - MD and Head of North American Power*

**Presentation**

**Operator**

Good day, ladies and gentlemen, and welcome to the business update call. Today's call is being recorded. At this time, I would like to turn things over to Faisel Khan. Please go ahead, sir.

**Faisel H. Khan** - *Sempra Energy - VP of IR*

Good morning, and welcome to Sempra Energy's call to review our recent strategic updates. We'll be discussing Oncor's agreement to acquire InfraREIT and Sempra's agreement to acquire an interest in Sharyland Utilities as well as reviewing Sempra's recent sales agreement to sell certain renewable assets.

A live webcast of this teleconference and slide presentation is available on our website under the Investors section. Several members of the Sempra and Oncor management teams have joined me here today in San Diego, including:

Jeff Martin, Chief Executive Officer; Trevor Mihalik, Executive Vice President and Chief Financial Officer; Allen Nye, Chief Executive Officer, Oncor; Don Clevenger, Senior Vice President and Chief Financial Officer, Oncor; and Matt Henry, General Counsel of Oncor.

Before starting, I would like to remind everyone that we will be discussing forward-looking statements on this call within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those discussed today. The factors that could cause our actual results to differ materially are discussed in our company's most recent 10-K and 10-Q filed with the SEC. It's important to note that we'll be discussing certain non-GAAP financial measures. Please refer to the presentation slides that accompany this call for a reconciliation to GAAP measures.

I'd also like to mention that the forward-looking statements contained in this presentation speak only as of today, and the company does not assume any obligation to update or revise any of these forward-looking statements in the future.

The format of today's call will be slightly different than what we've done previously. First, Jeff will provide a high-level overview of our strategy and the significance of the announcement; second, Trevor will walk through the transaction details; and third, Allen will discuss our growing footprint in the attractive Texas market.

With that, please turn to Slide 4, and let me hand the call over to Jeff.

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Thanks a lot, Faisal, and thank you all for joining us today. As you'll recall, in June, we announced our strategic vision to become North America's premier energy infrastructure company. We're also committed to executing a disciplined and phased approach to optimize our asset portfolio around what we believe are the most attractive markets right here in North America. In that regard, Oncor and its operations in Texas provide a solid foundation to build on and advance that strategy.

Oncor and Sempra entered into agreements to acquire InfraREIT and a 50% interest in Sharyland, respectively. We're actually quite excited about this Texas T&D transaction for several reasons. First, it expands the transmission and distribution platform we created in Texas when Sempra acquired its interest in Oncor back in March. Second, it adds another avenue for growth through incremental, pure-play, regulated transmission opportunities, and Texas is an attractive market where we're currently seeing over 70 gigawatts of solar and wind in the interconnection queue. Third, it's a great opportunity to recycle proceeds from the recently announced sale of our U.S. solar portfolio. In fact, that's what allows us to do this transaction without issuing any equity. And fourth, it allows us to further increase the percentage of Sempra's earnings from our long-term T&D businesses, and strengthens our credit profile, while offsetting the slight dilution resulting from the sale of Sempra Renewables business and storage assets.

Next, I'd also like to point out that Oncor is the logical owner of InfraREIT's high-quality electric transmission assets. That's because of the significant overlap with Oncor's existing service territory. Furthermore, these assets provide Oncor with additional avenues of growth due to healthy economic fundamentals, which are driving transmission infrastructure needs across the region.

In addition, Sempra's investment in Sharyland establishes a partnership in South Texas with the Hunt Organization, a proven developer in a region with robust growth opportunities. This transaction, coupled with the announced sales agreement with ConEd, further advances our long-term strategic vision of becoming North America's premier energy infrastructure company. As you'll recall, when we spent time with you in June at our Analyst Day, we gave you 2019 and 2020 EPS guidance, which actually included earnings from Renewables. We also said that the sale of these assets would be slightly dilutive to earnings, and as we've made further progress, we promised to update you on our forecast.

Today, we're pleased to say that all of the recent positive developments just mentioned provide additional visibility to our guidance targets and enable us to affirm our 2019 and 2020 EPS guidance ranges.

Lastly, I'd like to take a moment to briefly recognize and welcome the two new board members we added to the Sempra Board of Directors and the LNG and Business Development Committee. Both Cynthia Walker and Mike Mears have considerable experience and background in the midstream sector and broader energy industry. Their valuable knowledge and leadership will be integral components in progressing our strategic vision to become North



America's premier energy infrastructure company. This is something that is front of mind for all the members of our board, and we're quite focused on executing on that vision.

Now I'd like to turn the call over to Trevor, who will start by going through some of the guidance and transaction details.

**Trevor I. Mihalik** - *Sempra Energy - CFO & Executive VP*

Thanks, Jeff. Beginning with guidance. I wanted to highlight that our 2019 and 2020 affirmations include: annualized earnings projections from the Texas T&D transaction and expected use of proceeds from all announced asset sales, which will be used to fund the Texas T&D transaction as well as pay down debt. This will be offset by the removal of earnings associated with the Sempra Renewables business and the storage assets. We're also reaffirming our full year 2018 adjusted earnings per share guidance range. Please refer to the slide for the adjusted earnings per share guidance range and updated GAAP range. We believe our guidance now reflects a higher-quality T&D-like earnings mix.

Please turn to Slide 5. I'll now provide an overview of the transaction. Oncor will purchase InfraREIT for an equity value of \$1.275 billion or \$21 a share. Oncor will also assume InfraREIT's projected debt of approximately \$971 million. We expect InfraREIT to have a 2019 rate base of about \$1.5 billion and 2019 annualized earnings of approximately \$84 million. This implies a 2019 acquisition P/E of 15.7x and a 2019 acquisition enterprise value-to-rate base of 1.5x.

Additionally, Sempra is acquiring a 50% interest in Sharyland for \$98 million. Sharyland is a privately-owned electric transmission utility that is regulated by the PUCT and is projected to have a 2019 rate base of approximately \$260 million as well as 2019 annualized earnings of approximately

\$11 million. This implies a 2019 acquisition P/E of 17.9x and a 2019 acquisition enterprise value-to-rate base of 1.3x.

Sempra's share of annualized earnings from the Texas T&D transaction for 2019 is expected to be approximately \$65 million to \$70 million, and we expect to close in mid-2019, subject to PUCT approval.

Please turn to Slide 6. Now I'll take a minute to review the respective financing plans. Related to the InfraREIT acquisition, Sempra and TTI plan to each make equity capital contributions to Oncor to fund their respective portions of the purchase price amount in line with their ownership interests in Oncor. Sempra will separately fund its acquisition of the 50% limited partnership interest in Sharyland. On a combined basis, we estimate that Sempra's financing needs will total approximately \$1.120 billion, which we expect to fund with a portion of the proceeds from our announced asset sales.

I think it's important to note that we've had several meetings with the credit rating agencies to discuss this transaction. Overall, the feedback we've received has been positive as these acquisitions further increase our U.S. and utility contributions to overall consolidated earnings at Sempra.

Please turn to Slide 7. We strongly believe that Oncor is the logical owner of InfraREIT and that InfraREIT is an excellent addition to Oncor's long-term growth outlook. In fact, approximately 260 miles of InfraREIT's transmission lines were previously owned by Oncor and was swapped in 2017 in exchange for Sharyland's distribution system as part of last year's rate case settlement. As we discussed at our analyst conference in late June, our focus is on attractive markets and transmission-and-distribution-like businesses with shared growth drivers.

InfraREIT fits all of these criteria as a transmission business operating in what is a logical extension of Oncor's service territory. We'll also provide additional details later on in the presentation on how both InfraREIT and Sharyland provide Sempra and Oncor with incremental future growth opportunities in attractive Texas markets.

I'll now turn it over to Allen, who will go over some of the important data points behind the strong economic and regulatory environment in Texas. Please turn to Slide 8.



**E. Allen Nye** - *Oncor Electric Delivery Company LLC - CEO & Director*

Thanks, Trevor. As Jeff and Trevor have mentioned already, we believe these assets are a logical and strategic fit for Oncor and provide a unique opportunity to expand Oncor's footprint in Texas. As we have discussed in the past, the macroeconomic environment in Texas remains strong, with robust projected population and load growth. The state's economy is currently the 10th largest in the world and second largest in the U.S., behind our friends in California.

In addition, the population of the state is expected to grow from approximately 28 million to about 54 million by 2050. Not only are the population and the economy growing, so is ERCOT's electricity demand. Electricity demand growth is expected to outpace the rest of the U.S., and we'll see additional baseload and renewable projects continue to get built to meet that demand.

These macro drivers continue to make Texas an attractive market for transmission and distribution growth and should provide further opportunities for investment.

Please turn to Slide 9, where we will discuss some of these incremental opportunities. There are additional opportunities for public entities to integrate into ERCOT as we have recently seen with the City of Lubbock and Rayburn Electric Cooperative. Additionally, there'll be significant infrastructure investments required to connect new generation under development in the Panhandle and South Plains. For example, approximately 4.6 gigawatts of new generation capacity in the Panhandle has signed interconnection request with ERCOT.

We expect this trend to continue over the medium to long term as solar generation becomes increasingly competitive in Texas. We're witnessing significant load growth in West Texas, with increased drilling, production, natural gas processing facilities and pipeline activity. This increased activity is expected to spur incremental investments to support reliability of the West Texas grid. Notably, InfraREIT's existing presence in the Panhandle and Permian places it in a unique position to benefit from these trends.

And finally, population growth and related economic activity in Texas present additional growth opportunities through interconnections and grid expansions within ERCOT. We're focused on executing our base plan and capturing these incremental opportunities, because as we mentioned earlier, the larger the footprint we have in Texas, the more exposure we have to potential transmission investment opportunities.

Please turn to Slide 10. I'll now briefly touch on the anticipated timeline for closing the transaction. For purposes of obtaining PUCT approval, the InfraREIT and Sharyland acquisitions are expected to be filed as a single integrated transaction. We expect to make the necessary filings with the PUCT over the next few weeks following expiration of the go-shop period and look forward to working collaboratively with all parties to secure regulatory approvals. The transaction is also subject to review and approval by the FERC and other government agencies and requires customary filings and clearance under the Hart-Scott Act. Oncor's acquisition of InfraREIT is also subject to InfraREIT shareholder approval.

Please turn to the next slide, where I'll hand the call back to Trevor to provide further details on Sempra's recently announced sale of certain U.S. renewable assets.

**Trevor I. Mihalik** - *Sempra Energy - CFO & Executive VP*

Thanks, Allen. In June, we announced our plan to sell our non-utility U.S. solar and U.S. wind businesses, and certain non-utility U.S. midstream gas storage assets. As we briefly touched on, we've already made progress on our plan to sell these assets and recently signed an agreement with ConEd to sell approximately 980 megawatts of Sempra's U.S. Renewables portfolio, which includes all of our operational solar assets as well as one wind project, and additional U.S. solar and battery storage development projects for a total price of about \$1.54 billion. We expect this transaction to close near the end of 2018. We would also anticipate to announce the sale of the remaining renewable assets by year-end.

Please turn to the final slide for closing remarks before I open it up to Q&A. I'll wrap up by reiterating that we're very pleased with today's announcements, which support our long-term strategic vision to become North America's premier energy infrastructure company. The progress we're making provides us with increased visibility and confidence in our guidance targets and shifts a greater share of our projected earnings to our long-term T&D businesses.

We believe that Sempra and Oncor are uniquely positioned to maximize the strategic benefits of this bolt-on transaction of high-quality electric transmission assets in the Panhandle, and West and South Texas, markets with strong macro fundamentals. Importantly, we remain committed to delivering disciplined, superior growth, with transmission-and-distribution-like risk across our businesses. Our management team is focused on maximizing shareholder value, and we'll continue to execute on projects and investments that progress this goal.

With that, I'll conclude our prepared remarks and stop to take your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And we'll go first to Julien Dumoulin-Smith of Bank of America Merrill Lynch.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

So perhaps, just a little bit more of a housekeeping item just to start off with. How do you think about the long-term earnings power of the InfraREIT business? You talked about efficiency through the next rate case. Just the rate base, ROE, equity math, just reconciling with the \$80-some million that you disclosed here, just to kind of kick things off.

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Look, I will just start, if you step back from it, Julien, and remember what we're trying to accomplish, right? I think we've been going through a process over the last several years of repositioning the portfolio away from generation, away from commodities, and trying to focus on assets like transmission and distribution that give us better visibility to future earnings growth and focusing on our two core markets here in the United States: California and Texas. So right upfront, we see this is a great opportunity to extend Oncor's franchise. You'll recall last summer, when we originally kind of underwrote the EFH acquisition, we are looking at a capital plan at Oncor of roughly \$7.5 billion. And that was the number that was talked about as part of their regulatory case last fall. And clearly, we've seen significant growth in their CapEx plan since then, which we updated at the analyst conference. So I think it's been kind of validating to our same thesis around the InfraREIT assets. You probably have something south of sub-5% growth expected across the North and South assets. We think, probably, that's conservative. When you put that together with

the fact that you're moving away from a freestanding public company at InfraREIT, you're moving away from their unique corporate structure. And you're adding this asset class right into the growth and operations at Oncor. So we're quite excited about it.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Got it. Excellent. And then, let me just follow up there. With respect to synergies and how you think about some of the benefits here, as well as just like in terms of the meat and potato execution time line for a new rate case and/or just the approval timeline involved there, or process involved there.

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

So obviously, we think there's an opportunity, number one, with the size and scale of Oncor and to kind of continue to add additional CapEx to this business around trying to provide more value to the Texas consumers. And I do think you're on a good point, which is we think the operations at Oncor have to have a track record of being operated very efficiently. So as you move away from InfraREIT's current public structure, their unique corporate structure and you put this inside of Oncor, we think there's an opportunity to run it more efficiently. But I'll stop and see if I'll pass it to Allen to talk about how you think about going forward with this inside the regulatory process.

**E. Allen Nye** - *Oncor Electric Delivery Company LLC - CEO & Director*

Julien, this is Allen. With regards to the regulatory process, we intend to file our change of control proceeding at the Public Utility Commission of Texas in the next 45 days. As we all know, having gone through several of these in recent years, it's 180-day process with the possibility of the commission extending that process up to 240 days. I think our track record has indicated that we work very effectively and often with our stakeholders and with our commission in trying to settle these things. So it could get approved faster than that, but the general time line is 180 days, unless extended by the commission.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Excellent. Actually, just one quick point of clarity to affirm. I know you talked about the credit metrics. But it does affirm your ability to hit your targets by '20, right? I think you insinuated that.

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Yes. We talked about it in my prepared remarks that we were reaffirming our 2019 and 2020 EPS guidance that we laid out at the analyst conference. And with respect to the credit metrics, this is something that you heard Trevor speak to that we've been iterating with the credit rating agencies. So we're quite comfortable that you're doing 2 things here. You're rotating capital away from noncore assets that have less visibility to growth in the future, and you're doing 2 things at the same time. You're rotating capital into what we have described as core assets in a top market in the country at the same time that you're improving your business risk profile.

**Operator**



Our next question will come from Shar Pourreza with Guggenheim Partners.

**Shahriar Pourreza** - *Guggenheim Securities, LLC, Research Division - MD and Head of North American Power*

So just a quick clarification on the synergy question. The affirmation of 2019 and 2020, does that assume any synergy retentions from the transaction? Where would that sort of be coming from? And do you see any incremental opportunities? I guess, like how much do you assume callback of the synergies? Or there's a portion of that amount that is going to be retained?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Alright. Shar, thank you for that question. I will speak to it and ask Allen if he wants to add anything or Don Clevenger. But I think the way I would look at it is you can look at the forward guidance that HIFR has provided in the past, and you can look at what we're projecting right now in terms of 2019 annualized earnings. And clearly, we think there's an opportunity to do two things. As you think about this business not in its current format and its unique corporate structure, you think about it within the kind of the scale and footprint of Oncor, we think there's opportunities to bring our capital program to it and to run the business quite efficiently. And that is really built into how we're thinking about the analysis going forward. And I'll stop there and see if Don Clevenger, the CFO of Oncor, would like to make any additional comments.

**Don J. Clevenger** - *Oncor Electric Delivery Company LLC - Senior VP & CFO*

Yes. Thanks, Jeff. I think what we said, Oncor's size and scale allows us to run this business very efficiently, just how efficiently will be shown over time. But yes, we do feel there are some efficiencies to be gained there.

**Shahriar Pourreza** - *Guggenheim Securities, LLC, Research Division - MD and Head of North American Power*

Okay. Got it. And then, just lastly, maybe just touch a little bit on sort of the incremental opportunities you see from the JV with Sharyland outside of Texas, right? So you're obviously very active in Mexico. And if you're looking at outside of Texas, kind of remind us how you expect to keep the jurisdictional control with the PUCT, assuming you look at interstate wires opportunities.

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Yes. I would just take a step back, Shar, and say, look, we've had the opportunities to spend time with the Hunt family. This is an organization that's had a lot of success across a lot of different business platforms in the past. I think it's a

great credit to them, the quality of business that they've created at InfraREIT. So the opportunity for us really in South Texas is to step into the remaining transmission platform down there. You'll recall that, that distribution platform in the South is operated by Oncor. What we're focused on really is making sure that as there's incremental opportunities around their transmission footprint, we're there in a 50-50 role to be supportive of that. And you do make a good point, right? We are a—we have a big investment footprint in Mexico, and the Hunt family and the Hunt organization does have a significant business dealings outside the United States. So there may be other opportunities for collaboration.

**Shahriar Pourreza** - *Guggenheim Securities, LLC, Research Division - MD and Head of North American Power*

Got it. Got it. And then, just lastly, on InfraREIT. Are you assuming that their the entity s earning its allowed returns for 19 and 20? So what s the level of ROE that you re assuming they re going to earn?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Yes. Thank you. We are assuming they earn their authorized ROE.

**Operator**

We will now take a question from Ryan Levine of Citi.

**Ryan Michael Levine** - *Citigroup Inc, Research Division - Equity Analyst*

Is Sempra entering into any ROFOs, or drag, or tag-along rights, in connection with the remaining stake in Sharyland?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

If I understand your question correctly, I think what we re really trying to say here is, this is really a step transaction. So between the LPs and the GPs, they divide the asset base. Oncor s cleanly participating in the investments in the north, and we re stepping into a brand-new partnership in the South where we have a limited partner position. But there s no real complexities in terms of earn-outs and drag-alongs to reference. I will say, all the material transactional documents will be filed as part of Oncor s 8-K later today.

**Ryan Michael Levine** - *Citigroup Inc, Research Division - Equity Analyst*

Okay. Great. And then, regarding tax implications. What are the expectations for implications for current Sempra shareholders given the way this deal is structured? And is there any cash tax distributions that will be incremental as a result of this transaction?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Right. It's a great question. And given their unique structure and how we've approached it from a tax standpoint, we will have an opportunity to execute on a tax step-up in basis. And I'll turn it over to Trevor, our CFO, to address that.

**Trevor I. Mihalik** - *Sempra Energy - CFO & Executive VP*

Yes. Based on the structure of the transaction, we will be taking a 743(b) election to step up the basis of the assets. And this results in really the higher tax depreciation, which will result in a large benefit of lower taxes over time. So that is part of the value that we're stepping into.

**Operator**

Our next question will come from Christopher Turnure of JPMorgan.

**Christopher James Turnure** - *JP Morgan Chase & Co, Research Division - Analyst*

Could you give us a little bit more detail on the \$84 million you mentioned you're targeting, I guess, earning your authorized ROE at least in '19 and '20. But what's the income tax kind of rate assumption within that? And would it be possible for you to provide us with an EBITDA as well?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Yes. I think I tried to speak to this a little bit earlier, Christopher, but I think the goal here, really, is that as you move away from their corporate structure and you put this inside of Oncor and you look at the combined benefit of their scale, their capital program, and the types of efficiencies that you can bring to the investment, I think that accounts for the majority of it. But Trevor, do you want to make any other comments in terms of how you think about the assumed tax rate and so forth?

**Trevor I. Mihalik** - *Sempra Energy - CFO & Executive VP*

Yes. Absolutely. So from the tax rate, we're just assuming the statutory tax rate of the 21% in that projection that we have laid out there. And then, from an EBITDA perspective in 2019, I'd say, call it roughly about \$230 million for both the North and the South combined in EBITDA. So call it roughly \$200 million in the North and about \$28 million, \$30 million in the South.

**Christopher James Turnure** - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And that incorporates the basis step-up and everything there as it would pertain to your GAAP earnings, at least?

**Trevor I. Mihalik** - *Sempra Energy - CFO & Executive VP*

That's right.

**Christopher James Turnure** - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then, I'm not sure if you can comment on this, but is there any way that you can give us a sense as to how the process was run this year by InfraREIT? I guess, any other interested parties or anything that could help us kind of frame that process and how to think about the go-shop?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Appreciate the question. Obviously, we won't speak on behalf of InfraREIT. But what we would say is that we worked very closely with Allen Nye and his team at Oncor, and their Board of Directors. This has been a process, a negotiation, that's occurred over a 4- to 6-month period of time. And now what we've tried to focus on, Christopher, is making sure that from the Oncor perspective, together with Sempra, that we're in a position to accomplish our strategic objectives in the state; and secondly, that we put together an attractive offer from InfraREIT as viewed through the lens of their Conflicts Committee. So that was our goal from the outset. And the go-shop, I mentioned earlier, that all the applicable documents will be filed as part of an 8-K, but the go-shop is pretty standard fare for the acquisition of any public company. I think what's unique in this case is the unique value that Oncor brings to, not only the transaction and the growth profile, but the regulatory certainty associated with the transaction.

**Operator**

We will now take a question from Lasan Johong of Auvila Research Consulting.

**Lasan A. Johong** - *Auvila Research Consulting LLC - Founder, President, CEO & Senior Research Analyst*

I understand that Sharyland and InfraREIT are going to do an asset swap with North and South assets. Is that going to trigger any tax consequences? Or is there any tax consequences?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Thanks a lot, Lasan. I appreciate you joining the call. So you're thinking about it correctly. Thinking almost like a 2-part transaction happening simultaneously. There's the asset exchange between those 2 entities, and there's no expected change in taxes in that exchange. You want to add anything to that, Trevor?

**Trevor I. Mihalik** - *Sempra Energy - CFO & Executive VP*

Yes. No, Jeff, you got it right. It's from the perspective of the exchange, it's just going to be a like-kind exchange, with no impact on taxes.



**Lasan A. Johong** - *Auvila Research Consulting LLC - Founder, President, CEO & Senior Research Analyst*

Excellent. Go-shop period is 90 days?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

No. I m sorry, it s actually 30 days.

**Lasan A. Johong** - *Auvila Research Consulting LLC - Founder, President, CEO & Senior Research Analyst*

Oh, 30 days. A couple of questions outside of this transaction, if you don't mind. Does the USA trade agreement change your strategy in Mexico at all?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Look, I think that's a couple of things. We operated quite effectively in Mexico for a long period of time under the old NAFTA framework. And you'll recall, Lasan, that the majority of the business we built down there was built largely even before they had energy reform. So I think what is really valuable to us in terms of the new agreement between the United States, Canada and Mexico, is just the certainty it brings to the regulatory framework. I think that's always a friend to business. So I think we remain quite constructive on that development, and we remain quite constructive on the growth opportunities in Mexico. You'll recall us talking about this at the analyst conference, but it's one of the fastest-growing consumer markets in the Western Hemisphere. They've been underinvested significantly, I think, from an infrastructure standpoint. And I think we have a scale advantage in the country, and we continue to be quite constructive on it.

**Lasan A. Johong** - *Auvila Research Consulting LLC - Founder, President, CEO & Senior Research Analyst*

Okay. Great. Last question. You've done a lot of stuff in transmission and distribution in Texas. But a while ago, you did mention something about potentially getting into natural gas transmission. Does this transaction in any way, kind of trigger more opportunities in that direction? Or is it just an independent transaction that is good for shareholders?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Thanks. That's a very good question. I would view it independently. I think one of the things that Allen's commented on, on this call and in prior calls, is that what's kind of unique about Oncor's platform is not only have they had a track record of providing kind of the lowest-cost service in the state, but they really sit on top of more the faster-growing regions in the state of Texas. So Texas itself is a great market, but most of the counties that Oncor serve are uniquely in growth mode. And I would point to what's taken place in the Permian. So we are seeing the need for more pipelines around the Permian, and they are flaring gas there. So there's a lot of opportunities, I do think, for some midstream opportunities in that region. But more importantly, together with InfraREIT and Oncor, we really have an electricity service platform that's really uniquely positioned to capture a lot of the growth we're seeing in that region.

**Operator**

And with that, that does conclude today's question-and-answer session.

And I do apologize, we did have someone else in queue. We'll go to Greg Gordon of Evercore ISI.

**Kevin John Prior** - *Evercore ISI Institutional Equities, Research Division - Associate*

It's actually Kevin. Just if I'm looking at Slide 5, I assume that the earnings is including synergies. And then, it looks like you're earning north of 12% at InfraREIT, and then, about 9.4% at Sharyland. Can you just give some color around why the ROEs are playing out that way? And why there's such a big difference?

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Yes. I think we talked about this a little bit earlier on a couple of other questions. But I think one of the things that you're trying to see here is as you look at the prior projections of InfraREIT as compared to what we're focused on for 2019, the real driver there is that you're adding this business, number one, into the scale advantages of Oncor. And you're looking at what Oncor thinks that they can bring to the overall capital plan. And I think the real big difference, Kevin, is InfraREIT is a freestanding public company today with an associated cost structure, and it has a unique corporate structure. When you move away from that, you look at the tax step-up that Trevor described, you look at the growth opportunities that Allen outlined, and then, you bring to bear how efficiently they think they can run that on behalf of consumers. I think that's really reflected in our numbers.

**Operator**

And with that, that does conclude today's question-and-answer session. I would now like to turn the call back to Jeff Martin for closing remarks.

**Jeffrey W. Martin** - *Sempra Energy - CEO & Director*

Look, I just want to extend our appreciation for everyone who joined the call today. If you have any follow-up questions, per custom, feel free to contact the Investor Relations team. And we hope everyone has a great day.

**Operator**

And with that, ladies and gentlemen, that does conclude today's call. We'd like to thank you, again, for your participation. You may now disconnect.