

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-36822

InfraREIT, Inc.

(Exact name of Registrant as specified in its charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)
1900 North Akard Street
Dallas, Texas
(Address of Principal Executive Offices)

75-2952822
(I.R.S. Employer
Identification Number)

75201
(Zip Code)

(214) 855-6700

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class
Common Stock, \$0.01 par value per share

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of Common Stock held by non-affiliates of the registrant was \$638.8 million based on the last sales price on June 30, 2017 on the New York Stock Exchange of \$19.15 for the registrant's Common Stock.

As of February 23, 2018, 43,796,915 shares of common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2018 Annual Meeting of Stockholders to be held May 16, 2018 are incorporated in Part III of this Annual Report on Form 10-K.

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GLOSSARY OF TERMS

This glossary highlights some of the industry terms that we use in this Annual Report on Form 10-K and is not a complete list of all the defined terms used herein.

Abbreviation	Term
AFUDC	allowance for funds used during construction
CREZ	competitive renewable energy zones, as defined by a 2005 Texas law establishing the Texas renewable energy program
CWIP	construction work in progress
DC Tie	high-voltage direct current interconnection necessary to provide for electricity flow between asynchronous electric grids in North America
distribution	that portion of a power delivery network consisting of an interconnected group of electric distribution lines, towers, poles, substations, transformers and associated assets over which electric power is distributed from points within the transmission network to end use consumers
distribution service territory	a designated area in which a utility is required or has the right to supply electric service to ultimate customers under a regulated utility structure
electric utilities	a person or river authority that owns or operates equipment or facilities to produce, generate, transmit, distribute, sell or furnish electricity for compensation
ERCOT	Electric Reliability Council of Texas
ERCOT 4CP	the average of ERCOT coincident peak demand for the months of June, July, August and September, excluding the portion of coincident peak demand attributable to wholesale storage load (during 2017, ERCOT 4CP was approximately 67,273 megawatts)
FERC	Federal Energy Regulatory Commission
Footprint Projects	transmission or, if applicable, distribution projects that (1) are primarily situated within our current or previous distribution service territory, as applicable; (2) physically hang from our existing transmission assets, such as the addition of another circuit to our existing transmission lines, or that are physically located within one of our substations; or (3) connect or are otherwise added to transmission lines or other property that comprise a part of the transmission assets acquired in the Asset Exchange Transaction (as defined below). Footprint Projects do not include the addition of a new substation on our existing transmission lines or generation interconnects to our existing transmission lines, unless the addition or interconnection occurred within our current or prior distribution service territories
PUCT	Public Utility Commission of Texas
rate base	calculated as our gross electric plant in service under U.S. GAAP (as defined below), which is the aggregate amount of our total cash expenditures used to construct such assets plus AFUDC, less accumulated depreciation and adjusted for accumulated deferred income taxes, regulatory liabilities and regulatory assets
revenue requirement	a utility's revenue requirement is equal to its targeted total costs, including operating and maintenance costs, return on rate base and taxes
ROFO Projects	identified projects developed by Hunt Consolidated, Inc. and its affiliates with respect to which we have a right of first offer
regulated assets	rate-regulated electric transmission and distribution assets, as applicable, such as power lines, substations, transmission towers, distribution poles, transformers and related property and assets
TCOS filing	an interim transmission cost of service filing with the PUCT that updates a utility's transmission cost of service, and therefore its transmission tariff, to reflect recent capital expenditures, among other matters; an interim TCOS filing establishes transmission cost of service until the next rate case or interim TCOS filing
transmission	that portion of a power delivery network consisting of an interconnected group of electric transmission lines, towers, poles, switchyards, substations, transformers and associated assets over which electric power is transmitted between points of supply or generation and distribution
U.S. GAAP	accounting principles generally accepted in the United States of America

FORWARD-LOOKING STATEMENTS

Some of the information in this Annual Report on Form 10-K may contain forward-looking statements. Forward-looking statements give InfraREIT, Inc.'s (InfraREIT, we or Company) current expectations and include projections of results of operations or financial condition or forecasts of future events. Words such as "could," "will," "may," "assume," "forecast," "position," "predict," "strategy," "expect," "intend," "plan," "estimate," "anticipate," "believe," "project," "budget," "potential" or "continue" and similar expressions are used to identify forward-looking statements. Without limiting the generality of the foregoing, forward-looking statements contained in this document include our expectations regarding our strategies, objectives, growth and anticipated financial and operational performance, including guidance regarding our capital expenditures, infrastructure programs and estimated distributions to our stockholders.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, the assumptions and estimates underlying the forward-looking statements included in this document are inherently uncertain and are subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those contained in this document. Accordingly, when considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this document, and you are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors, and you should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- decisions by regulators or changes in governmental policies or regulations with respect to our organizational structure, lease arrangements, capitalization, acquisitions and dispositions of assets, recovery of investments, authorized rate of return and other regulatory parameters;
- the impact of the Tax Cuts and Jobs Act on the relative advantages of our business model and the effects of any decision to terminate our real estate investment trust (REIT) status;
- the implications of our relationships with Hunt Consolidated, Inc. (HCI) and its affiliates on any transaction or alternative arrangement that may be proposed by HCI or a third party;
- our current reliance on our tenant for all our lease revenues and, as a result, our dependency on our tenant's solvency and financial and operating performance;
- the amount of available investment to grow our rate base;
- our ability to negotiate future rent payments or to renew leases with our tenant;
- insufficient cash available to meet distribution requirements;
- cyber breaches and weather conditions or other natural phenomena;
- the price and availability of debt and equity financing;
- our level of indebtedness or debt service obligations;
- the effects of existing and future tax and other laws and governmental regulations;
- our failure to qualify or maintain our status as a REIT or changes in the tax laws applicable to REITs;
- the termination of our management agreement or the loss of the services of Hunt Utility Services, LLC or other qualified personnel;
- adverse economic developments in the electric power industry or in business conditions generally; and
- certain other factors discussed elsewhere in this Annual Report on Form 10-K.

For the above reasons, there can be no assurance that any forward-looking statements included herein will prove to be indicative of our future performance or that actual results will not differ materially from those presented. In no event should the inclusion of forward-looking information in this document be regarded as a representation by any person that the results contained in such forward-looking information will be achieved.

Forward-looking statements speak only as of the date on which they are made. While we may update these statements from time to time, we are not required to do so other than pursuant to applicable laws. For a further discussion of these and other factors that could impact our future results and performance, see Part I, Item 1A., *Risk Factors*.

PART I

Item 1. Business

Company Overview

We are a Maryland corporation engaged in owning and leasing rate-regulated assets in Texas and headquartered in Dallas, Texas. We are structured as a REIT and lease our regulated assets to Sharyland Utilities, L.P. (Sharyland), a Texas-based regulated electric utility, pursuant to leases between Sharyland and our subsidiary, Sharyland Distribution & Transmission Services, L.L.C. (SDTS), a Texas-based regulated electric utility. Sharyland delivers electric service to other utilities and collects revenues through PUCT-approved rates.

Our assets are located in the Texas Panhandle; near Wichita Falls, Abilene and Brownwood; in the Permian Basin; and in South Texas. We have grown rapidly since our formation, with our rate base increasing from approximately \$60 million as of December 31, 2009 to approximately \$1.5 billion as of December 31, 2017.

Our business originated in the late 1990s when members of the Hunt family founded Sharyland, the first investor owned utility created in the United States since the 1960s. In 2007, we obtained a private letter ruling from the Internal Revenue Service (IRS) confirming that our transmission and distribution assets could constitute real estate assets under applicable REIT rules. In 2008, the PUCT approved a restructuring that allowed us to utilize our REIT structure (2008 Restructuring Order). In 2010, InfraREIT, L.L.C. was formed as a REIT, holding all its assets through InfraREIT Partners, LP (Operating Partnership). We completed our initial public offering (IPO) and a series of reorganization transactions in 2015. Hunt Utility Services, LLC (Hunt Manager) manages our day-to-day business, subject to oversight from our board of directors.

In July 2017, SDTS and Sharyland signed a definitive agreement (Definitive Agreement) with Oncor Electric Delivery Company LLC (Oncor) to exchange SDTS's retail distribution assets and certain transmission assets for a group of Oncor's transmission assets located in Northwest and Central Texas (Asset Exchange Transaction). The Asset Exchange Transaction closed in November 2017 and, among other things, resulted in SDTS receiving \$383 million of transmission assets owned by Oncor and \$20 million of net cash in exchange for \$403 million of SDTS's net assets. See Note 2, *Asset Exchange Transaction* in the Notes to the Consolidated Financial Statements beginning on page F-1 for additional information.

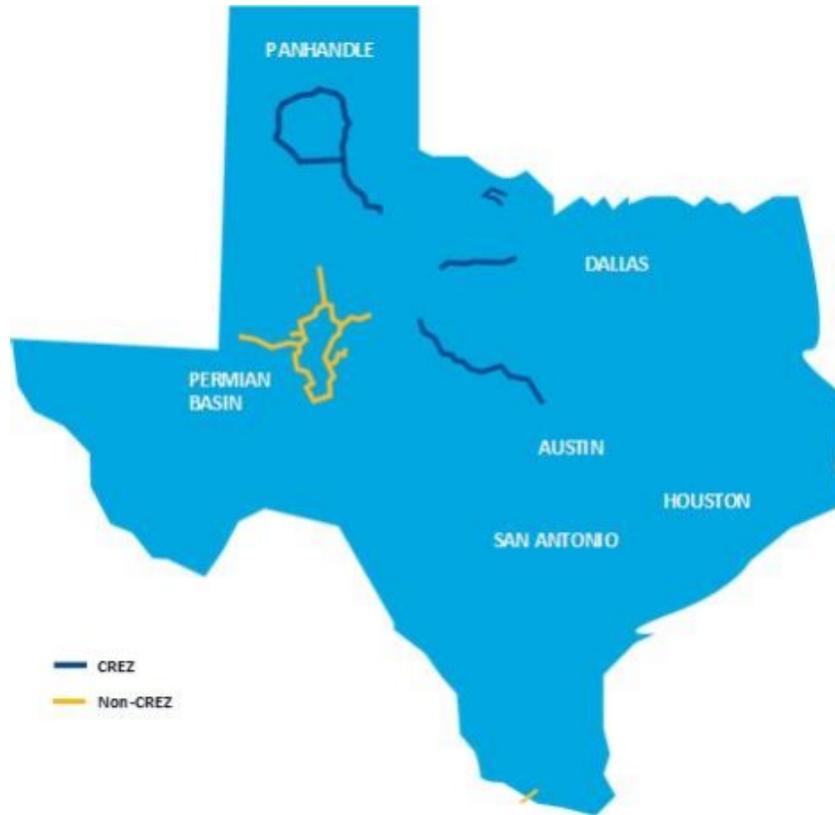
InfraREIT, Inc. was formed as a Delaware corporation in 2001 and converted into a Maryland corporation in 2014. We conduct our business through a traditional umbrella partnership REIT (UPREIT) in which our properties are owned by our Operating Partnership or direct and indirect subsidiaries of our Operating Partnership. All our assets are held by and all our business activities are conducted through the Operating Partnership, either directly or through its subsidiaries. InfraREIT is the sole general partner of our Operating Partnership and owns approximately 72.1% of the limited partnership units (OP Units) as of February 23, 2018. The remaining OP Units are held by the Operating Partnership's limited partners, including HCI affiliates. Subject to the terms of the partnership agreement, OP Units held by the limited partners may be redeemed for cash or, at our option, exchanged for shares of our common stock on a one-for-one basis.

As previously disclosed, in light of the enactment of the Tax Cuts and Jobs Act (TCJA), we are reviewing our REIT election and the existing lessor-lessee relationship with Sharyland, which includes consideration of whether we should terminate our REIT status (De-REIT transaction). See *Company Structure Review* below for additional information.

Our Regulated Assets

Our regulated assets consist of approximately 1,373 circuit miles of transmission lines, substations, a 300-megawatt high-voltage DC Tie between Texas and Mexico (Railroad DC Tie) and a transmission operations center. Approximately 67% of our net assets as of December 31, 2017 constitute transmission lines that were constructed as part of the CREZ initiative, which was originated by the Texas Legislature in 2005 and carried out by the PUCT, to meet the state's goals regarding renewable energy capacity by delivering renewable energy to end use consumers in the most cost-effective manner.

The following map shows the location of our assets as of December 31, 2017:

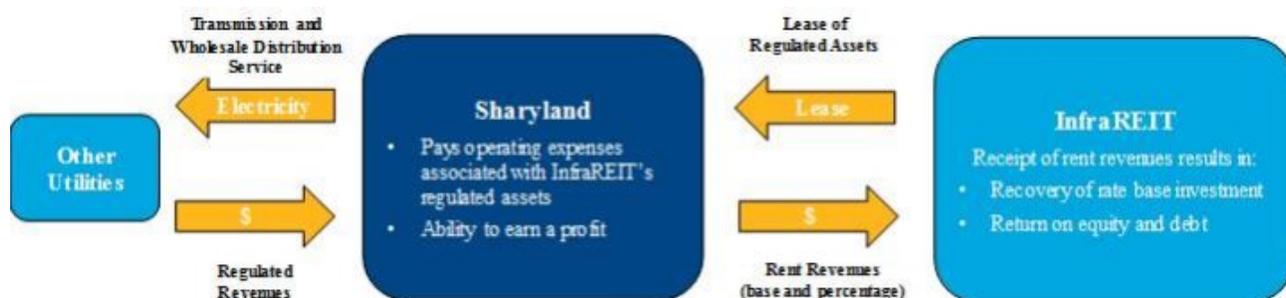


Expected Capital Expenditures

We expect to fund capital expenditures for Footprint Projects during the calendar years 2018 through 2020 in the range of \$70 million to \$180 million. For additional information related to our estimated Footprint Projects capital expenditures, see *Capital Expenditures* under the caption *Liquidity and Capital Resources* in Part II, Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Our Revenue Model

We lease our regulated assets to Sharyland, which makes lease payments to us consisting of base and percentage rent. To support its lease payments to us, Sharyland delivers electric service to other utilities and collects revenues through PUCT-approved rates. Under the terms of our leases, Sharyland is responsible for the maintenance and operation of our assets, payment of all property related expenses associated with our assets, including repairs, maintenance, insurance and taxes (other than income taxes and REIT excise taxes) and construction of Footprint Projects. Sharyland is also primarily responsible for regulatory compliance and reporting requirements related to our assets.



Leases

We currently lease all our assets pursuant to five separate leases. The following table provides a summary description of the regulated assets in each of our leases as of December 31, 2017.

Lease	Location of Assets	Description of Assets	Lease Expiration Date
McAllen Lease	Primarily South Texas	Railroad DC Tie, transmission operations center and 138 kV transmission lines	12/31/2019
Permian Lease (1)	In and around Midland, Texas	138 kV transmission lines and connected substations	12/31/2020
CREZ Lease	Texas Panhandle and near Wichita Falls, Abilene and Brownwood	345 kV transmission lines and designated collection stations	12/31/2020
Stanton Transmission Loop Lease	Near Stanton, Texas	138 kV transmission lines and connected substations	12/31/2021
ERCOT Transmission Lease	Texas Panhandle	Substations	12/31/2022

(1) Formerly the Stanton/Brady/Celeste Lease (S/B/C Lease)

2017 Rent Revenue

The table below provides a summary of lease revenue and certain other information with respect to our leases (*dollar amounts in thousands*):

Lease	Lease Expiration Date	Net Effective Rent (1)	Percentage of Total Net Effective Rent (2)	Electric Plant, net (3)	Percentage of Total Electric Plant, net (4)
McAllen Lease (5)	12/31/2019	\$ 13,754	7.2%	\$ 107,579	6.5%
Permian Lease (6)	12/31/2020	86,024	45.2%	402,823	24.3%
CREZ Lease (7)	12/31/2020	80,688	42.4%	1,065,877	64.2%
Stanton Transmission Loop Lease	12/31/2021	4,422	2.3%	30,928	1.9%
ERCOT Transmission Lease	12/31/2022	5,453	2.9%	51,379	3.1%
		<u>\$ 190,341</u>	<u>100.0%</u>	<u>\$ 1,658,586</u>	<u>100.0%</u>

- (1) Consists of lease revenue under the lease for the year ended December 31, 2017, determined on a straight-line basis under U.S. GAAP. See *Revenue Recognition* under the caption *Summary of Significant Accounting Policies and Estimates* in Item II, Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations*.
- (2) Calculated as lease revenue for the applicable lease for the year ended December 31, 2017 divided by the total lease revenue for all leases.
- (3) Consists of plant in service, net for the applicable lease as of December 31, 2017.
- (4) Calculated as the electric plant, net for the applicable lease divided by the total electric plant, net for all leases as of December 31, 2017.
- (5) Certain assets that were previously included in the McAllen Lease were transferred to Oncor effective as of the November 9, 2017 closing date as part of the Asset Exchange Transaction.

- (6) Net Effective Rent relates to the S/B/C Lease prior to its termination on December 31, 2017. Certain assets that were previously included in the S/B/C Lease were transferred to Oncor effective as of the November 9, 2017 closing date as part of the Asset Exchange Transaction. Electric Plant, net relates to the Permian Lease as of December 31, 2017.
- (7) All of the transmission assets acquired from Oncor in the Asset Exchange Transaction were added to the CREZ Lease effective as of the November 9, 2017 closing date.

Provisions of Our Leases

The following summarizes the material terms of our leases.

Rental Rates

All of our current revenue is comprised of rental payments from Sharyland under leases and lease supplements that were negotiated at various times between 2010 and 2017. Lease supplements are exhibits to our leases that include the economics of the lease obligations that Sharyland owes us. We and Sharyland have negotiated rent payments intended to provide us with approximately 97% of the projected regulated return on rate base investment attributable to our assets that we and Sharyland would receive if we were a fully-integrated utility. See the caption *Lease Revenues* under *Factors Expected to Affect Our Operating Results and Financial Condition* included in Part II, Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations*. We and Sharyland have negotiated these rental rates based on the premise that we, as the owner of regulated assets, should receive most of the regulated return on our invested capital, while leaving Sharyland with a portion of the return that gives it the opportunity to operate prudently and earn a profit or suffer a loss on its operation of assets. Our leases require us to negotiate rent payments in a manner consistent with this practice.

Actual revenue and expenses incurred by Sharyland will be different from those expected at the time of negotiation. As a result, we and Sharyland may earn more or less than originally projected. Our leases prohibit adjustments to lease payments for the effect of differences between Sharyland's actual and projected results.

Our lease revenue primarily consists of base rent, but certain lease supplements contain percentage rent as well. The lease supplements for the Permian Lease, Stanton Transmission Loop Lease and assets in the CREZ Lease that were acquired from Oncor in the Asset Exchange Transaction provide only for base rent. Rent for the McAllen Lease, ERCOT Lease and assets in the CREZ Lease not acquired in the Asset Exchange Transaction is comprised primarily of base rent but also includes percentage rent. Prior to its termination, the S/B/C Lease also included a percentage rent component. Percentage rent under our leases is based on a percentage of Sharyland's annual gross revenues, as defined in the applicable lease, in excess of annual specified breakpoints, which are at least equal to the base rent under each lease. Because a utility's rate base decreases over time as our regulated assets depreciate, revenue under our leases will decrease over time unless we add to our existing rate base by making additional capital expenditures to offset the decreases in the rent resulting from depreciation. The weighted average annual depreciation rate of our assets as of December 31, 2017 was 2.50%.

Our leases provide that, as the completion of Footprint Projects increases our rate base, we and Sharyland will negotiate amended and restated lease supplements that will update the scheduled rent payments to include additional rent payments related to this incremental rate base. The negotiation of amended and restated lease supplements relates only to the revenue we expect to be generated from the incremental rate base subject to the negotiation and does not impact the portion of the scheduled lease payments previously negotiated with respect to assets that are already in service. However, various factors, such as a change in regulatory conditions or assumptions, could cause Sharyland's expected lease payments on incremental rate base to be different than its lease payments to us on our existing rate base. Also, our leases provide that either party can negotiate for economics in the amended and restated lease supplements that differ from our existing leases based on factors that we determine to be appropriate at the time of the negotiation.

Additionally, the amended and restated lease supplement process allows us to address and update a number of other matters under our leases, such as updating the amount of revenue attributable to Sharyland's capital expenditures and related matters. Because we frequently prepare amended and restated supplements based on our and Sharyland's expectations regarding various matters, including expected capital expenditures, our leases contain a mechanism, which we refer to as a validation, that we use to amend previously negotiated supplements in order to reflect the difference between the expected capital expenditures and the actual capital expenditures that were placed in service, placed in service dates, TCOS filing and effective dates and related matters. In no event may we use the validation process to account for differences between the expected and actual return on capital expenditures. If we and Sharyland are unable to agree on a rent supplement or a validation, the leases obligate us to submit the dispute to binding arbitration.

Operation of Our Regulated Assets

The leases require that Sharyland operate the regulated assets in a reasonable and prudent manner in accordance with PUCT guidelines and applicable law. Sharyland must obtain and maintain any licenses, permits or other approvals required by applicable law to operate the regulated assets under the leases.

Expenditures

Sharyland is required to provide a capital expenditure budget on a rolling three year basis that sets forth anticipated capital expenditures related to Footprint Projects. Our capitalization policies, consistent with standard utility practices under U.S. GAAP, determine whether a particular expenditure is characterized as a Footprint Project, which we are required to fund, or a repair, which Sharyland is required to fund. Footprint Projects expenditures are capitalized and increase our net electric plant, while expenditures relating to repairs of our existing regulated assets are expensed.

Sharyland's Events of Default

Under our leases, a default will be deemed to occur upon certain events, including, subject in certain instances to applicable cure periods, (1) the failure of Sharyland to pay rent, (2) certain events of bankruptcy or insolvency with respect to Sharyland, (3) Sharyland's material breach of a representation or warranty in a lease, (4) Sharyland's material breach of a covenant in a lease or (5) a final judgment for the payment of cash in excess of \$1,000,000 rendered against Sharyland that is not bonded, stayed pending appeal or discharged within 60 days.

Remedies Upon a Default

Upon a default under a lease, we may, at our option, exercise the following remedies, subject to any necessary approvals of the PUCT or other applicable governmental authority: (1) terminate the applicable lease agreement upon notice to Sharyland and recover any damages to which we are entitled under applicable law, (2) terminate Sharyland's right to use our regulated assets and recover any damages to which we are entitled under applicable law or (3) take reasonable action to cure Sharyland's default at Sharyland's expense.

Financial Covenants

Sharyland is subject to certain covenants under our leases that prohibit Sharyland from incurring indebtedness in excess of certain thresholds and that otherwise obligate Sharyland to comply with certain covenants under our debt agreements.

Assignment and Subletting

Sharyland may not assign or sublet any of our regulated assets under the leases without our prior written consent and the approval of the PUCT or other applicable governmental authority.

Indemnification

Sharyland is required to defend, indemnify and hold us harmless from and against any and all claims, obligations, liabilities, damages and costs and expenses arising from any act or omission of Sharyland with respect to (1) the operation of the regulated assets, (2) damage to the regulated assets, (3) physical injuries or death (including in connection with the operation of the regulated assets), (4) any breach of any representation or warranty or covenant or (5) any negligence, recklessness or intentional misconduct of Sharyland.

Lease Renewals or Expiration

Our leases provide that, if we and Sharyland desire to renew a lease, we will negotiate lease terms based on our historical negotiations and the return that utilities in Texas are generally earning at the time of negotiation. If either we or Sharyland do not wish to renew a lease, we expect that our negotiations with a new third-party tenant would be based on the rate base of the assets covered by the expired lease and the rate of return expected at the time a new lease is negotiated, among other factors. In any event, because our regulated assets are rate-regulated and necessary for the transmission of electricity, we expect that they will continue to generate tariff revenue.

Regulatory Environment

In the United States, regulated electric assets are subject to regulation by various federal, state and local agencies. State regulatory commissions generally establish utility rates based on a traditional cost-of-service basis, providing for the timely recovery of prudently incurred costs and the opportunity to earn a reasonable rate of return on invested capital, subject to review and approval through periodic regulatory proceedings.

Our regulated assets are located in ERCOT within Texas and, as a result, we are not subject to general regulation as a “public utility” under the Federal Power Act and therefore not subject to FERC jurisdiction. Instead, we are regulated by the PUCT, which has original jurisdiction over transmission and distribution rates and services in unincorporated areas and in those municipalities that have ceded original jurisdiction to the PUCT and has exclusive appellate jurisdiction to review the rate and service orders and ordinances of municipalities that have not ceded original jurisdiction. Rates are established through rate case proceedings, which occur periodically and are typically initiated by the utility or the PUCT, on its own motion or on complaint by an affected stakeholder, to ensure that rates remain just and reasonable. In addition, the Texas Public Utility Regulatory Act (PURA) requires owners and operators of transmission facilities to provide open-access wholesale transmission services to third parties at rates and terms that are nondiscriminatory and comparable to the rates and terms of the utility’s own use of its system, and the PUCT has adopted rules implementing the state open-access requirements for all utilities that are subject to the PUCT’s jurisdiction over transmission services.

Historical Regulation of Our Structure

We have separated, between Sharyland and us, the functionality that is typically combined under one commonly owned group in an integrated utility. We are generally responsible for financing and funding asset additions while Sharyland is responsible for construction management, operation and maintenance of our regulated assets. Accordingly, our 2008 Restructuring Order required Sharyland and SDTS to be regulated on a combined basis, and Sharyland, as the holder of the certificates of convenience and necessity (CCN) required to operate our regulated assets, has historically made all regulatory filings related to our assets with the PUCT. As part of our rate case in Docket No. 45414 (2016 Rate Case), the PUCT raised certain questions indicating that this regulatory construct might change in the future, including the potential regulation of the leases between Sharyland and SDTS as tariffs. See *Our regulated assets and Sharyland’s operations are subject to governmental regulation and oversight that could adversely impact our expected returns and operating results.* in Item 1A., *Risk Factors*. In addition, as part of its order approving the Asset Exchange Transaction, the PUCT granted SDTS a separate CCN to continue to own and lease its assets to Sharyland.

Rate Setting

Rates are determined by an electric utility’s cost of rendering service to the public during a historical test year, adjusted for known and measurable changes, in addition to a reasonable return on invested capital. When we refer to a “rate case” or a “rate proceeding,” we are referring to formal proceedings before the PUCT, and not to TCOS filings, which are described below.

Currently, transmission rates can be updated up to two times per year through TCOS filings. In a TCOS filing, the revenue requirement is updated to reflect changes regarding assets placed in service, the effect of depreciation, updates to the ERCOT 4CP and changes in property taxes, among other matters. A utility is not permitted in these filings to update the revenue requirement to reflect any changes in operations and maintenance charges, which can be updated only through a full rate proceeding with the PUCT. If an application is materially sufficient and there are no intervenors that challenge the update, the transmission rates will generally be updated within 60 days of the date of the TCOS filing. The updates of the rates pursuant to a TCOS filing will be subject to review in the next rate case filing.

Sharyland’s Rates

In January 2014, the PUCT approved a rate case (2013 Rate Case) filed by Sharyland applicable to our regulated assets providing for a capital structure consisting of 55% debt and 45% equity, a cost of debt of 6.73%, a return on equity of 9.70% and a return on invested capital of 8.06% in calculating rates. The new rates became effective May 1, 2014. Under the order approving the 2013 Rate Case, Sharyland was required to file its next rate case in 2016. The 2016 Rate Case was dismissed in November 2017 (Rate Case Dismissal), which resulted in the 2013 Rate Case regulatory parameters remaining in place. SDTS and Sharyland are required to file a new rate case in the calendar year 2020 with a test year ending December 31, 2019.

Tax Cuts and Jobs Act

In December 2017, the TCJA was signed into law. The TCJA reduced the corporate federal income tax rate from 35% to 21% effective for taxable years beginning on or after January 1, 2018. Sharyland’s rates have historically incorporated an income tax allowance at a 35% corporate federal income tax rate; however, in light of the TCJA, Sharyland has agreed to reduce its wholesale transmission service rate (WTS rate) to reflect an income tax allowance at the reduced 21% corporate federal income tax rate. For additional information regarding the TCJA, see the caption *TCJA Impacts and Company Structure Review* under *Factors Expected to Affect Our Operating Results and Financial Condition* included in Part II, Item 7., *Management’s Discussion and Analysis of Financial Condition and Results of Operations* .

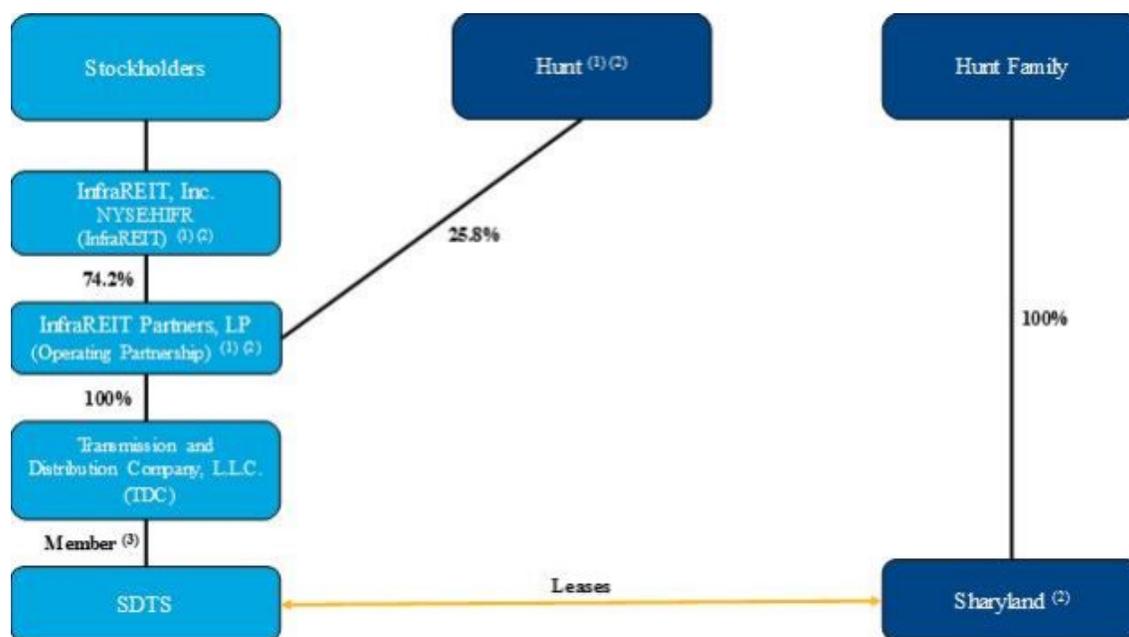
Our Relationship with Sharyland

A REIT is required to generate a substantial portion of its income from REIT-qualified assets and through qualified income streams, which include lease payments from third-party tenants. As a result, we have structured ownership of our regulated assets through a lessor/lessee structure, with Sharyland acting as the tenant under each of our leases. Sharyland has been a regulated utility since 1999 and, as our lessee, has control of and is responsible for operating and maintaining our regulated assets.

Sharyland is the managing member of SDTS and has operational control over our regulated assets pursuant to the leases. However, to the extent that day-to-day operations of SDTS involve matters primarily related to passive ownership of the assets, such as capital sourcing, financing, cash management and investor relations, Sharyland has delegated those responsibilities and authorities to InfraREIT pursuant to a delegation agreement. We also have negative control rights over SDTS, such as the right to approve renewals of the leases or any new leases, sales or dispositions of assets, debt issuances and annual budgets, subject to some exceptions.

Our Relationship with Hunt

We have various agreements with HCI and its subsidiaries (Hunt), Hunt Transmission Services, L.L.C. (Hunt Developer), Hunt Manager and Sharyland. The following chart illustrates our key relationships with each of these entities as of February 23, 2018.



- (1) Parties to the management agreement
- (2) Parties to the development agreement
- (3) Sharyland is the managing member of SDTS; however, Sharyland’s economic interest in SDTS is de minimis, and Sharyland has delegated to us some of its managing member authority and obligations pursuant to a delegation agreement.

Lock-Up Agreement

Hunt owns a substantial portion of our equity, and we have a lock-up agreement with Hunt, pursuant to which Hunt has agreed not to transfer or sell an aggregate of 8,419,987 of the shares of our common stock and OP Units that it currently owns. These transfer restrictions will expire on February 4, 2020. As of February 23, 2018, Hunt is the record holder of 6,334 shares of our common stock and 15,624,544 OP Units. Hunt's lock-up agreement with us will terminate upon the termination or non-renewal of the management agreement and development agreement, both of which are discussed below. In addition, Hunt has informed us that it currently intends to hold a substantial portion of its equity in us for the foreseeable future. See *Hunt's Schedule 13D* below for additional information related to Hunt's intentions regarding its investment in us.

Management Agreement

We are party to a management agreement with Hunt Manager pursuant to which Hunt Manager manages our day-to-day business, subject to oversight from our board of directors.

Compensation

The following table summarizes the fees and expense reimbursements that we pay to Hunt Manager pursuant to the management agreement:

Compensation	Description
Base Fee	The base fee for each twelve month period beginning on April 1 will equal 1.5% of our total equity (including noncontrolling interest) as of the end of the immediately preceding year. Effective April 1, 2018, the annual base fee will decrease from \$14.2 million to \$13.5 million through March 31, 2019.
Incentive Payment	We pay Hunt Manager an incentive payment, payable quarterly, equal to 20% of the quarterly distributions per OP Unit (inclusive of the incentive payment) in excess of \$0.27 per OP Unit per quarter.
Reimbursement of Expenses	We reimburse Hunt Manager for all third-party expenses incurred on our behalf or otherwise in connection with the operation of our business, other than certain specified expenses, such as compensation expenses related to Hunt Manager's personnel that are identified in the management agreement as the exclusive responsibility of Hunt Manager.
Termination Fee	If we exercise our right not to renew the management agreement at the end of the then current term, we will be required to pay Hunt Manager a termination fee, in cash or equity, at our election, in an amount equal to three times the most recent annualized base management fee and incentive payment amount.

Term

The term of the management agreement expires December 31, 2019, and will automatically renew for successive five year terms unless a majority of our independent directors decides to terminate the agreement. If a majority of our independent directors decides to terminate the agreement, we must give Hunt Manager notice of the termination at least one year in advance of the scheduled termination date and pay Hunt Manager the termination fee described above. We also have the right to terminate the management agreement at any time for cause (as defined in the management agreement), and Hunt Manager may terminate the agreement at any time upon 365 days' prior notice to us, provided that Hunt Manager may not terminate the agreement effective before December 31, 2019. If we terminate for cause or Hunt Manager terminates, the termination fee would not be owed to Hunt Manager.

Hunt's Development Projects

Development Agreement

The development agreement with Hunt Developer and Sharyland gives us the exclusive right to continue to fund the development and construction of Footprint Projects and Hunt Developer the exclusive right to fund the development and construction of ROFO Projects. The development agreement also provides us with a right of first offer to acquire ROFO Projects.

Under the terms of the development agreement, Hunt has the obligation to offer ROFO Projects to us prior to the project being energized. Hunt's offer of a ROFO Project will commence a 75- day negotiation period; however, in certain circumstances, the parties may agree to extend the negotiation period past 75 days. Following this period, if we are unable to reach an agreement on the terms of such purchase, Hunt may, during the following 18 months, transfer the ROFO Project to a third party, but only on terms and conditions generally no more favorable than those offered to us. If the ROFO Project is not transferred to a third party during that time period, Hunt would once again be required to offer the project to us and begin another negotiation period with us before transferring the project to a third party.

Additionally, under the terms of the development agreement, we are required to give Sharyland a right of first offer to lease any assets we acquire or develop, subject to exceptions. If we and Sharyland are unable to agree on lease terms and an exception does not apply, we will only be able to lease the assets to other tenants on terms that are more favorable to us than Sharyland's best offer.

The term of the development agreement expires December 31, 2019, and will automatically renew for successive five year terms. However, our rights under the development agreement will expire effective upon any termination of the management agreement.

Hunt Projects

The following ROFO Projects relate to assets placed in service which are owned and operated by Sharyland. We expect these projects to be offered to us again in the future.

Project	State	Net Electric Plant
Golden Spread Project	TX	Approximately \$90 million
Cross Valley Project	TX	Approximately \$167 million

The following are additional development projects Hunt is pursuing. Although not all of the development projects listed below are ROFO Projects under the development agreement, Hunt has informed us that it intends for us to be the primary owner of its regulated development projects, including those not listed as ROFO projects under the development agreement.

Project	State	Status
Generation interconnections	TX	Development
South Plains / Lubbock Power & Light integration	TX	Development
Nogales - DC Tie	AZ	Development
Southline	AZ - NM	Development

Acquisitions by Us

The Conflicts Committee of our board of directors will evaluate any potential acquisition of a project from Hunt or Sharyland and determine if the project is in our best interest based on the negotiated terms. The purchase price for any project will be negotiated based on a number of factors, such as the cash flow and rate base for the assets, market conditions, potential for incremental Footprint Projects, the terms of any related lease and the regulatory return we expect the assets will earn.

Hunt's Schedule 13D

On January 16, 2018, HCI filed an amendment to its Schedule 13D with the U.S. Securities and Exchange Commission (SEC) stating that, in connection with its ongoing evaluation of various alternative arrangements described below, HCI is currently focusing on evaluating and developing a "going private" transaction as a result of which we would no longer be a publicly traded entity. Some of the other alternatives under consideration by HCI, as described in the Schedule 13D, are:

- a De-REIT transaction in which InfraREIT would elect to no longer be treated as a REIT for federal income tax purposes;
- a sale by InfraREIT of all or certain of its assets or operations to a third party;
- a business combination between InfraREIT and a third party;
- a business combination between InfraREIT or SDTS and Sharyland; or
- other transactions that would significantly alter the organizational structure, business or ownership of InfraREIT.

HCI has stated that it will continue to develop and evaluate scenarios and consider the various alternatives identified above; however, based on HCI's evaluation to date, HCI has indicated that it currently does not have a high level of interest in pursuing an alternative that would involve a disposition of HCI's entire interest in us or our Operating Partnership. Instead, at the present time, HCI is focusing on an alternative that would enable it to maintain a substantial equity stake in us or our Operating Partnership (or any successor business entities) and continue to actively participate in, and exercise a substantial degree of influence over, the business and affairs of these entities.

Any transaction proposed by HCI would be expected to require approvals from our board of directors or the Conflicts Committee and/or from our stockholders. Our Conflicts Committee intends to consider any alternatives that may be proposed by Hunt.

Company Structure Review

The TCJA reduced the corporate federal income tax rate from 35% to 21%. Sharyland's rates have historically incorporated an income tax allowance at a 35% corporate federal income tax rate, and our lease supplements with Sharyland reflect this assumption. However, due to the enactment of the TCJA and at the request of the PUCT, Sharyland has agreed to reduce its WTS rate to reflect an income tax allowance at the 21% corporate federal income tax rate. This reduction will impact our percentage rent revenues, which are calculated based on a percentage of Sharyland's gross revenue. The impact of the TCJA will also be incorporated into new lease supplements for future assets placed in service or upon the renewal of our leases, resulting in a reduction, relative to the existing lease terms, in the amount of lease revenue we receive per dollar of rate base. It is also possible that, in the future, Sharyland could request a reduction in rent for existing assets already under lease to reflect the impacts of the TCJA; if such request is made, we are not obligated under the leases to agree to the requested change. Sharyland has indicated that it currently does not intend to make such a request with respect to the 2018 lease payments.

We continue to evaluate these and other potential impacts of the TCJA. In consideration of the significant impact of the change in the corporate federal income tax rate, as well as the other potential impacts of the TCJA, we believe that the TCJA will, over time, decrease the relative economic benefits of owning utility assets in a REIT structure as compared to a traditional C-corporation structure and, accordingly, we are reviewing our REIT election and the existing lessor-lessee relationship with Sharyland. This review includes consideration of a De-REIT transaction which, in addition to revoking our REIT status with the IRS, also may involve one or more of the following:

- combining Sharyland with SDTS;
- terminating the leases between SDTS and Sharyland;
- terminating our Operating Partnership; and/or
- other negotiations with Hunt, including terminating or renegotiating our management agreement, terminating or renegotiating the development agreement, and engaging in related negotiations.

We have not set a specific timeline for completing this review.

Competition

Improvements in existing technologies to produce, transmit or deliver electricity, including advancements related to self-generation and distributed generation or the creation of new technologies or services, could result in a reduction of demand for Sharyland's regulated asset services, but these have not been significant factors to date.

Additionally, the market for acquiring and developing electric infrastructure assets is highly competitive and fragmented, and we have seen an increase in both the amount of and different types of investors in these assets over the last several years. Many fully integrated utility companies, public and private funds and foreign investors pursue the types of investments that we compete for in the U.S. electric infrastructure sector. Some of these competitors may be substantially larger than us and have greater financial resources or lower costs of capital than we do.

Customers

We lease all our regulated assets to Sharyland, which supports its lease payments to us by collecting revenues from other utilities through PUCT-approved rates. Prior to the Asset Exchange Transaction, Sharyland also collected revenue through PUCT-approved rates directly from retail electric providers who sell electricity to Texas customers.

Environmental Matters

Our tenant's day-to-day operations are subject to a wide range of environmental laws and regulations across a large number of jurisdictions, including laws and regulations that impose limitations on the discharge of pollutants into the environment, establish standards for the management, treatment, storage, transportation and disposal of hazardous materials and solid and hazardous wastes, and impose obligations to investigate and remediate contamination in certain circumstances. We rely on our tenant for the compliance of our regulated assets with such laws and regulations. Under the terms of our leases, our tenant is required to indemnify us if we incur damages as a result of its failure to comply with any such law or regulation.

These laws and regulations also generally require that governmental permits and approvals be obtained both before construction and during operation of regulated assets. As construction manager of our regulated asset projects, we also rely on our tenant for compliance with such permits and approvals, and our tenant is required to indemnify us if they fail to obtain or comply with any permit or approval in accordance with the terms of our leases.

We do not believe that we currently have any material environmental liabilities.

Insurance

Our leases require our tenant to carry liability and casualty insurance on our properties covering certain hazards with specific policy limits set forth in the lease agreements. However, there may not be adequate insurance to cover the associated costs of repair or reconstruction, or insurance may not be available at commercially reasonable rates or, for some events, at all. For instance, Sharyland has not been able to obtain property insurance coverage on commercially reasonable terms for the full value of our regulated assets. As a result, we have amended or waived the requirements under our leases that Sharyland obtain such insurance. In this respect, we and Sharyland are self-insured for a substantial portion of the amount that it would cost to repair or replace our regulated assets. In the event remediating any damage or loss is considered a repair under the applicable lease, our tenant is responsible for the cost of repairing or replacing such damage or loss whether or not covered by insurance. On the other hand, in the event remediating any damage or loss is considered a Footprint Project under the lease, we will be responsible for payment of any insurance deductible, as well as for any such damage or loss not covered by insurance. We believe that our regulated assets are covered by adequate insurance, including those regulated assets for which we and our tenant are self-insured.

Seasonality

Sharyland's transmission revenue is not subject to seasonality, although the revenue from Sharyland's wholesale distribution assets is subject to seasonality. However, due to our lease revenue structure, no material portion of our business is affected by seasonality. See *Summary of Critical Accounting Policies and Estimates* in Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations* .

JOBS Act

As a company with less than \$1.0 billion in revenue during our last fiscal year, we qualify as an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (JOBS Act). An emerging growth company may take advantage of reduced reporting requirements that are otherwise applicable to public companies. We may take advantage of these provisions until the last day of our fiscal year following the fifth anniversary of our IPO, which will occur in 2020, or such earlier time that we are no longer considered an emerging growth company under the JOBS Act. We would cease to be an emerging growth company if we have more than \$1.0 billion in annual revenues as of the end of a fiscal year, if we are deemed to be a large accelerated filer under the rules of the SEC, or if we issue more than \$1.0 billion of non-convertible debt over a three year period.

We have elected to "opt out" of certain exemptions that we are permitted to take advantage of as an emerging growth company, including a provision that would exempt us from obligations to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended (Sarbanes-Oxley Act), and a provision that would permit us to take advantage of an extended transition period for complying with new or revised accounting standards. As a result, we have complied with the auditor attestation requirements of the Sarbanes-Oxley Act beginning as of December 31, 2016, and we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for public companies that are not emerging growth companies.

To the extent that we utilize certain provisions available to us as an emerging growth company, the information that we provide to our stockholders may be different than you might receive from other public reporting companies in which you hold equity interests.

Employees

We have no employees. We are externally managed by Hunt Manager. All our officers are employees of Hunt Manager. Pursuant to the terms of our management agreement, Hunt Manager provides for our day-to-day management, subject to oversight by our board of directors. In exchange for these management services, we pay a management fee to Hunt Manager. In the event Hunt Manager is unable to provide these services to us, we would be required to provide such services ourselves or obtain such services from other sources.

Financial Information About Industry Segments

We internally evaluate all our rate-regulated assets as one industry segment, and, accordingly, we do not report segment information.

Available Information

Our Internet address is www.InfraREITInc.com. The information contained on our website or that can be accessed through our website does not constitute part of this Annual Report on Form 10-K. A printed copy of this Annual Report on Form 10-K will be provided without charge upon written request to Investor Relations at InfraREIT, Inc., 1900 North Akard Street, Dallas, Texas, 75201. A direct link to our filings with the SEC is available on our website under the Investor Relations tab. Our common stock is traded on the New York Stock Exchange (NYSE) under the trading symbol "HIFR."

Item 1A. Risk Factors

Risks Related to Our Business

Our business is subject to a number of risks, including risks that may prevent us from achieving our business objectives or may materially and adversely affect our business, financial condition, results of operations, cash flows and ability to pay dividends. You should carefully consider these risks together with all the other information included in this Annual Report on Form 10-K, including the financial statements and related notes, when deciding to invest in us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. If any of the following risks were to actually occur, our business, financial condition or results of operations could be materially and adversely affected.

Our regulated assets and Sharyland's operations are subject to governmental regulation and oversight that could adversely impact our expected returns and operating results.

Both Sharyland and SDTS, our subsidiary, are regulated by the PUCT, and decisions by the PUCT, including in some circumstances in which we are not involved directly as a party, can directly impact our business. Rate regulation is premised on the timely recovery of prudently incurred costs and the opportunity to earn a reasonable rate of return on invested capital, although, over time, the PUCT may change its position regarding a reasonable rate of return on invested capital through changes to our allowed return on equity and capital structure, the timelines of adding capital invested to our rate base and any other adjustments to our rate base. Additionally, there is no assurance that the PUCT will determine that all of our rate base can be recovered through rates, or that the PUCT will not otherwise make regulatory determinations that adversely affect our regulated assets or Sharyland's operations. The PUCT could, among other things, determine that certain of our capital expenditures should not be included in rates, or the PUCT could challenge other regulatory judgments, such as those related to affiliate charges, operations and maintenance expenses, tax elections, rate case expenses, regulatory assets and other matters. Also, if the PUCT makes a determination that adversely affects the amount of our rate base, we may need to take accounting charges that impair our assets, which could further adversely affect our results of operations and financial condition. Further, any transfer of our assets or change of control involving us would be subject to the approval of the PUCT.

A number of fundamental legal and policy issues were raised as part of our 2016 Rate Case, including questions regarding whether our leases with Sharyland are tariffs under PURA that are subject to regulation by the PUCT and challenges to the recovery of an income tax allowance by a utility organized in a REIT structure. The Rate Case Dismissal preserved the right of the parties to the 2016 Rate Case to address in a future proceeding all issues not mooted by the Rate Case Dismissal. Therefore, it is possible that in a future proceeding parties may again argue that our leases, including the rent rates that SDTS charges Sharyland for its lease of the regulated assets owned by SDTS, should be directly regulated by the PUCT as tariffs under PURA, question our ability to recover an income tax allowance or raise various other issues that were in dispute in our 2016 Rate Case.

Under the terms of the Rate Case Dismissal, Sharyland and SDTS are required to file a new rate case in the calendar year 2020, based on a test year ending December 31, 2019, and the PUCT has the authority to require us to file a new rate case earlier. Although we cannot predict what issues will be raised in that rate case or what the outcome of any particular issue will be, it is possible that the consideration and resolution of any of the issues that were previously raised in our 2016 Rate Case or other regulatory determinations could result in regulatory requirements or outcomes that adversely affect the amount of rent we receive from Sharyland or Sharyland's ability to meet its obligations to pay us rent pursuant to the leases, or that otherwise materially and adversely affect our operating results and financial condition, limit our ability to timely recover our capital investments, challenge our ability to continue to operate as a REIT under applicable tax laws or otherwise materially and adversely affect our business.

In addition, our regulated assets and Sharyland's operations are subject to a variety of other U.S. federal, state and local laws and regulations, including laws and regulations related to regulatory matters; environmental health and safety matters; and human health and safety matters. We generally rely on Sharyland to ensure compliance with these laws and rules, and, in most circumstances, Sharyland is required under our leases to remedy the effect of any non-compliance during the term of the applicable lease. Compliance with the requirements under these various regulatory regimes may cause us or Sharyland to incur significant additional costs, and failure to comply with these requirements could result in the shutdown of the non-complying assets and the imposition of liens, fines and/or civil or criminal liability. Utility operations may also be affected by legislative and regulatory changes, as well as changes to market design, market rules, tariffs and cost allocation by regulatory authorities. We cannot predict what effect any such changes in the regulatory environment will have on us or Sharyland's operations.

The enactment of the TCJA will, over time, have the effect of decreasing the relative advantages of our business model and, if we determine to terminate our REIT status, the effects of this change in tax status could have adverse implications on our financial results or otherwise have a negative effect on us or our stockholders.

The TCJA includes a reduction in the corporate federal income tax rate from 35% to 21%, effective for taxable years beginning on or after January 1, 2018. In accordance with Accounting Standards Codification Topic 980, *Regulated Operations*, Section 405, *Liabilities*, we have recorded a regulatory liability for the amount of excess accumulated deferred federal income tax (ADFIT) associated with the lower corporate federal income tax rate. See the caption *Tax Cuts and Jobs Act Regulatory Adjustment* under *Significant Components of Our Results of Operations* included in Part II, Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations*. Additionally, our lease supplements currently assume Sharyland's recovery in rates of an income tax allowance of the 35% corporate federal income tax rate; however, at the request of the PUCT, Sharyland has agreed to reduce its WTS rate to reflect an income tax allowance at the reduced corporate federal income tax rate. This reduction will impact our percentage rent revenues, which are calculated based on a percentage of Sharyland's gross revenue. Additionally, lease payments for future assets placed in service or upon the renewal of our leases will reflect a reduction in Sharyland's rates and the impact of the regulatory liability, which will result in a reduction, relative to the existing lease terms, in the amount of lease revenue we receive per dollar of rate base. Further, in the future Sharyland could request a reduction in the existing lease payments to reflect these changes. In light of the foregoing as well as the other potential impacts of the TCJA, the TCJA will, over time, have the effect of decreasing the relative economic benefits of owning utility assets in a REIT structure, as compared to a traditional C-corporation structure. See *Company Structure Review* under Item 1., *Business*.

Our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a corporation, without the vote of our stockholders. The ultimate impact of any decision to terminate our REIT status on us or on our financial position would be subject to a number of variables, both positive and negative, the net effect of which we cannot predict at this time. In addition, if we determine to terminate our REIT status, we would no longer be required to pay any dividends to our stockholders, and the amount of any dividend that we determine to pay may be reduced. Although our board of directors could cause us to terminate our REIT status only if it determined in good faith that it is in our best interest, it is possible that a change that the board of directors determines to be in our best interest may not be in the best interest of any particular stockholder.

Conflicts of interest may arise in the event that we receive a going private offer from Hunt, and our relationships with Hunt and its affiliates could have a negative effect on other transactions that might be in the best interests of our stockholders.

On January 16, 2018, HCI filed an amendment to its Schedule 13D with the SEC confirming that it has been engaged in developing and evaluating various alternative arrangements to the existing business structures in place between us and Hunt, including a De-REIT transaction in which we would elect to no longer be treated as a REIT for federal income tax purposes, a sale by us of all or certain of our assets or operations to a third party, a business combination between us and a third party, a business combination between us or SDTS and Sharyland or other transactions that would significantly alter our organizational structure, business or ownership. HCI also stated in its Schedule 13D that, although Hunt will continue to develop and evaluate scenarios and consider other alternative arrangements, it does not have a high level of interest in pursuing an alternative that would involve a disposition of HCI's entire interest in us or our Operating Partnership. HCI further stated that Hunt intends to focus on evaluating and developing a "going private" transaction in which we would no longer be a publicly traded entity. See the caption *Hunt's Schedule 13D under Our Relationship with Hunt* included in Item 1., *Business*. Due to Hunt's ownership and control of Hunt Manager and its relationships with our management team and with three members of our board of directors, conflicts of interest will likely arise in the event that we were to receive a going private offer from Hunt or in the event we were to pursue one of the other alternative arrangements. See the caption *Risks Related to Related Party Transactions and Conflicts of Interest* below.

We currently rely on Hunt or its affiliates to perform a variety of functions for us, and our relationships with Hunt Manager, Hunt Developer and Sharyland are interrelated and subject to certain contractual limitations. Specifically, there are restrictions on our ability to terminate the leases with Sharyland. Additionally, we are only allowed to terminate the management agreement with Hunt Manager on or before December 31, 2018, to be effective December 31, 2019, and we are required to pay a termination fee equal to three times the most recent annualized base management and incentive payment, in each case except in the event of a termination "for cause." There are also restrictions on our ability to terminate the development agreement with Hunt Developer. However, the development agreement with Hunt Developer expires automatically upon termination of the management agreement, regardless of whether the management agreement is terminated by us or by Hunt Manager (unless we terminate for cause), meaning that the termination of our relationship with Hunt Manager as our external manager would terminate our right of first offer with respect to ROFO Projects. Accordingly, the terms and limitations governing our arrangements with Hunt and Sharyland, and Hunt's stated intention to maintain a substantial equity stake in us that enables it to continue to actively participate in, and exercise a substantial degree of influence over, our business and affairs, may inhibit a competing acquisition proposal for us by any third party or lower the price we would receive in a competing transaction.

Because all of our lease revenues are currently generated by lease payments from Sharyland, our business, financial condition, results of operations and cash flows are dependent on Sharyland's financial and operating performance.

Sharyland's ability to make lease payments to us under our leases is subject to its ability to generate cash flows or raise additional capital sufficient to support its obligations. Sharyland has incurred both U.S. GAAP and management reported losses in the past. If Sharyland were to operate at a loss in future years, and if it is unable to obtain debt or equity capital to fund its cash needs, its financial condition and liquidity may suffer. Sharyland's liquidity and operating results will be negatively impacted by the decrease in its revenues that will result from its agreement to reduce its WTS rate to give effect to the TCJA, and may also be negatively impacted if its expenses increase rapidly, including for reasons outside of its control, before it is able to file and complete a full rate proceeding with the PUCT in order to recover the higher operation and maintenance expenses in its rates.

If Sharyland experiences declines in its financial and operating performance or liquidity constraints, it may request that we defer or waive its obligations under the leases, including its obligation to make lease payments to us or to cover certain emergency or other costs for which it is responsible under the leases, or, alternatively, it may seek to terminate its leases with us. In extraordinary circumstances, Sharyland may become insolvent or seek bankruptcy relief. Depending upon the sufficiency of assets available to pay claims, a rejection of the leases in bankruptcy or an insolvency of Sharyland could ultimately preclude full collection of sums due to us under our lease agreements and could place the financial burden for any of Sharyland's accrued obligations under the leases, such as costs for repairs, maintenance, and ad valorem or property taxes, on us without any corresponding ability on our part to either transfer the obligation for these costs to a new tenant, recoup these costs from third parties or otherwise avoid paying these costs. To the extent any such events occur, our financial condition and results of operations would be adversely affected.

We will not be able to materially increase our lease revenue unless the rate base of our regulated assets grows.

There are two ways for us to increase our rate base and, as a result, our lease revenues, namely funding capital expenditures under our leases or acquiring additional regulated assets from Hunt or third parties. In recent years, our primary method for increasing our rate base has been funding Footprint Projects under our leases. There are a number of factors that could impact the amount of available investment in Footprint Projects, including the number of and capital needs associated with requests by electricity generators to connect to our transmission facilities as well as population, economic and load growth in and around the Permian Basin, where growth may be adversely affected by the impact of lower oil and gas prices on economic activity in the region. Further, as a result of the Asset Exchange Transaction, we now are focused on a transmission-based strategy, and we will forgo future retail distribution capital expenditures. Transmission projects, as compared to distribution projects, are typically larger projects that require lengthy regulatory approval processes and longer construction times. As a result, we may experience significant variability in our capital expenditures and our ability to grow our rate base and lease revenue is uncertain. Additionally, although historically the PUCT has generally favored the expansion and updating of the transmission infrastructure within its jurisdiction, if the PUCT were to change its view on transmission needs in Texas, or if those needs do not continue or develop as projected, our strategy of investing in transmission could be impacted.

Under the development agreement, we are prohibited from funding projects that qualify as ROFO Projects, even, in some circumstances, certain projects that connect to our transmission assets. Consequently, our ability to grow our rate base and revenues also depends in part on Hunt's ability to develop and construct ROFO Projects and our ability to acquire ROFO Projects or other regulated assets on acceptable terms. Accordingly, if Hunt is unable to develop ROFO Projects or we do not identify regulated assets that are attractive to us, or if we are unable to acquire ROFO Projects or other regulated assets on terms that are acceptable to us, we will not experience the rate base and lease revenue growth that we would otherwise expect, which could affect our financial condition, results of operations and our ability to make distributions to our stockholders.

The results of our negotiations of future rent payments under our leases and our ability to renew our leases upon their expiration, or to identify new tenants under our leases, will affect our operating results and financial condition.

We generally do not negotiate lease payments with respect to the capital expenditures that we fund until shortly before the beginning of the year in which we expect the related assets to be placed in service. As a result, we have not yet negotiated lease payments under our existing leases with respect to capital expenditures that we expect to fund and place in service subsequent to 2018. Although our existing leases provide that our historical agreements with Sharyland will serve as the basis for new rent payments, we expect that, as a result of the TCJA, the amount of revenue we receive per dollar of rate base will be lower with respect to future assets placed in service or upon renewal of our leases, as compared to our existing lease terms. Further, even after the impacts of the TCJA are reflected in our lease payments, there is no assurance that future negotiations of new or amended lease supplements will result in a certain level of lease payments or lease revenues.

Furthermore, the leases relating to approximately 90% of our current net assets expire on December 31, 2020, and our other existing leases expire at various times between December 31, 2019 and December 31, 2022. Although we and Sharyland have been able to negotiate several new leases and lease extensions in the last several years, there is no assurance that we and Sharyland will be able to renew or extend our leases on acceptable terms upon their expiration. We also have the right to terminate our leases upon Sharyland's breach, subject in some circumstances to applicable cure periods. However, terminating the leases, or entering into new leases with a different tenant following expiration of our leases with Sharyland, would require the approval of the PUCT and any other applicable regulatory bodies, which could be complex and costly and which we may not be able to obtain. Because other utilities in the state of Texas are structured as integrated utilities that own the assets they operate, we may not be able to identify a new tenant that is willing to operate assets that they do not own. Further, any new tenant would need to be a qualified and reputable operator of regulated assets with the wherewithal and capability of acting as our tenant and, if leasing a significant portion of our assets, would need to agree to timely provide us with their financial statements for us to include in the periodic reports we file under the Securities Exchange Act of 1934, as amended (Exchange Act). There is no assurance that we would be able to identify a tenant that meets these criteria efficiently or at all, or, if we are able to identify such tenant, that we would receive lease terms from such new tenant that are as favorable as our lease terms with Sharyland.

There may be significant lag time between the time we make capital expenditures and when we begin receiving rent with respect to such expenditures and, because of the lessor/lessee structure, if Sharyland's revenue increases in the future, our lease revenue will not increase as quickly as it would if we were operating as an integrated utility.

All our lease revenues currently come from lease payments from Sharyland. Under our lease agreements, we and Sharyland negotiate lease payments for our capital expenditures before the applicable assets are placed in service. As a result, if, during the term of a lease, market conditions change in a manner that allows Sharyland to realize a greater rate of return than what was originally anticipated, we would not be able to force a renegotiation of our leases to reflect the higher rate of return.

Further, Sharyland's obligation to pay rent in connection with capital expenditures that we fund does not begin until the related assets are placed in service and, in most cases, a TCOS filing with respect to the assets has become effective. Under current PUCT rules, Sharyland is permitted to make only two TCOS filings per year. See the caption *Rate Setting* under *Regulatory Environment* included in Item 1., *Business*. Accordingly, the lag time between the time we fund capital expenditures with respect to a project and when we begin receiving lease revenue on the related assets can be lengthy. Although we will earn AFUDC on the amounts we have expended on capital expenditures that have not yet been placed in service, this accrual does not represent cash earnings, nor does it apply to assets that have been placed in service, but have not yet begun generating revenue.

Although the impact of this regulatory lag is partially mitigated by the percentage rent under our leases, which is based on Sharyland's revenues and therefore enables us to share in some of the benefit of any growth in Sharyland's revenues, our revenue will not increase as quickly as it would if we were operating as an integrated utility.

We may not be able to make cash distributions to holders of our common stock comparable to our current or targeted annualized distribution rate.

We intend to continue to make regular quarterly cash distributions to holders of our common stock. The dividend amount principally depends upon the amount of cash we generate from our operations, which may fluctuate from quarter to quarter based on, among other things:

- lease payments actually received;
- the level and timing of capital expenditures we make;
- our other expenses and working capital needs;
- our debt service requirements and restrictions contained in the agreements governing our indebtedness;
- our ability to borrow funds and access capital markets; and
- other business risks affecting our cash levels.

As a result of all these factors, we cannot guarantee that we will be able to generate sufficient cash from operations to pay a specific level of cash distributions to holders of our common stock.

Our structure and the terms of our leases limit our control over SDTS and our regulated assets.

Sharyland is the managing member of SDTS, and we are not able to remove Sharyland as managing member without prior PUCT permission. As the managing member, Sharyland has the exclusive power and authority on behalf of SDTS to manage, control, administer and operate the properties, business and affairs of SDTS in accordance with the limited liability company agreement governing SDTS, subject to a variety of negative control rights in favor of our subsidiary, Transmission and Distribution Company, L.L.C. (TDC), and a delegation agreement with us. TDC currently owns substantially all the economic interests in SDTS. Specifically, although our consent is generally required before SDTS may engage in any material action, Sharyland has the right, subject to certain limitations, to cause SDTS to raise equity capital through the admission of additional members of SDTS without our consent if necessary to fund improvements to our regulated assets that are required by a regulatory authority. As a result of this arrangement, we are limited in our ability to exert control over SDTS and our regulated assets, and Sharyland may exercise its rights in a manner that may dilute our economic interest in our regulated assets.

In addition, under the terms of our leases, Sharyland is responsible for, and fulfills, substantially all of the operational functions that, in an integrated utility, would be controlled and directed by the owner of the regulated assets. These functions include various operational matters such as repairing and maintaining the regulated assets leased from us; planning new projects; forecasting capital expenditures; administering the tariff and interacting with distribution service providers; handling community relations matters; accounting for substantially all of the utility's operations and maintenance costs; cybersecurity; construction management; primary responsibility for regulatory interactions and compliance; managing environmental matters; obtaining and maintaining necessary licenses and permits; and all other matters related to the operation of the utility. While we have influence over the manner in which Sharyland provides these functions pursuant to the terms of our leases and through Hunt Manager's and our working relationship with Sharyland, we do not control Sharyland and, as a result, do not have the same level of control as a similarly situated owner of regulated assets in an integrated utility. As a result, even if we believe that our assets are not being operated efficiently or effectively, we may not be able to require Sharyland to change the way it operates them, and our financial condition and results of operations may be adversely affected.

We rely on third parties to manage aspects of our growth, including the construction of our regulated assets, and our inability to find qualified third-party providers or the failure of third parties to provide timely and quality services would have an adverse impact on our ability to grow.

A substantial portion of the growth that we expect in our asset base is comprised of construction projects. We do not have internal operational or construction expertise and, therefore, we rely on third parties to manage the construction of our regulated assets. To date, Sharyland has managed the planning and construction of our projects, but, in some circumstances, Sharyland also relies on third-party contractors to complete these projects. As a result, we are particularly susceptible to risks generally applicable to construction projects, including:

- the ability to obtain labor or materials on favorable terms or at all;
- the ability to obtain rights-of-way on a timely basis;
- equipment, engineering and design failure;
- labor strikes;
- adverse weather conditions;
- the ability to obtain necessary operating permits in a timely manner;
- legal challenges;
- delays due to funding that is not yet secured by third parties;
- changes in applicable law or regulations;
- adverse interpretation or enforcement of permit conditions, laws and regulations by courts or the permitting agencies;
- other governmental actions; and
- events in the global economy.

Many of these risks, if they materialize, could adversely affect the timing of expected revenues from those projects, since we do not begin to recognize revenues under our leases with respect to Footprint Projects until at or after the time the related assets are placed in service, and also could subject Sharyland or us to fines and penalties for failure to complete projects on the agreed upon schedule.

Cyber breaches could negatively impact our business, assets and Sharyland's operations.

Cyber intrusions targeting our information systems could impair our ability to properly manage our data, networks, systems and programs. While we have implemented measures designed to prevent cyberattacks and mitigate their effects should they occur, the systems may be vulnerable to unauthorized access and cyber intrusions. In addition, we rely on Sharyland for the cybersecurity relating to its operations, breaches of which could lead to a loss of operational control or the release of certain confidential or critical operating information. If any such breach or intrusion were to occur, our business, assets and results of operation may be adversely affected.

We expect to raise funds regularly from the capital markets in order to support our growth.

We expect to raise equity and debt capital from public markets in the future to support our growth. As a result, our financial condition and liquidity will be adversely affected if market conditions prevent us from obtaining financing on favorable terms or at all. Adverse business developments or market disruptions could increase the cost of financing or prevent us from accessing the capital markets on the schedule or timeline we expect or at all. The dilution associated with issuing equity at unfavorable prices could adversely affect the amount and growth of our distributions per share, non-GAAP earnings per share, net income attributable to InfraREIT, Inc. per share and other per share metrics. In some scenarios, if debt or equity capital were unavailable on any terms, we may not be able to pay or grow our cash distributions, fund capital expenditures for Footprint Projects under the leases or refinance our existing debt.

If we fail to maintain an effective system of internal controls, we may not be able to report our financial results timely and accurately or prevent fraud, which would likely have a negative impact on the market price of our common stock.

We are subject to reporting and other obligations under the Exchange Act, including the requirements of Section 404 of the Sarbanes-Oxley Act. Section 404 requires management to annually assess the effectiveness of our internal controls over financial reporting. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected, and, if we experience a material weakness or significant deficiency in internal controls, there can be no assurance that we will be able to remediate any such weakness or deficiency in a timely manner or maintain all the controls necessary to remain in compliance. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud.

In addition, we are required to include Sharyland's financial statements in the periodic reports we file under the Exchange Act. However, we do not prepare Sharyland's financial statements, and we do not have any oversight over the preparation of those financial statements or over Sharyland's internal control over financial reporting. If Sharyland is unable to timely provide us with its financial statements, or if Sharyland's internal controls fail to prevent or detect a misstatement in its financial statements, we may be unable to file our periodic reports within the timeframe required by the Exchange Act, and there can be no assurance regarding the accuracy or completeness of Sharyland's financial statements included therein, which could result in certain penalties imposed by the SEC and could negatively impact our ability to access the capital markets or to comply with our obligations under our registration rights agreement.

Changes in technology or increased conservation efforts could adversely affect our business.

Improvements in existing technologies to produce electricity, including advancements related to self-generation and distributed generation, or the creation of new technologies or services could reduce the costs of electricity production from these technologies to a level that will enable these technologies to compete effectively with traditional generation plants. Self-generation itself may exacerbate these trends by reducing the pool of customers, subject to certain regulatory limits, from whom distribution service providers recover fixed costs, while potentially increasing costs of system modifications that may be needed to integrate the systemic effects of self-generation. To the extent self-generation facilities become a more cost effective option for certain end users, regulated asset investment opportunities generally may decrease, adversely affecting our growth prospects, and Sharyland's financial and operating performance may be adversely impacted, which in turn would decrease the amount of percentage rent Sharyland owes us and may lead it to request that we defer or waive its obligations under the leases, including its obligation to make lease payments to us, or to seek to terminate its leases with us. Such trends could also affect the terms to which Sharyland will agree upon any extension or renewal of the lease or that a replacement tenant would be willing to agree to if we chose not to renew the leases. Decreases in the amount of lease revenue received from Sharyland would adversely affect our business, financial condition, results of operations and cash flows.

Also, electricity demand could be reduced by increased conservation efforts, advances in technology or federal and state government incentives or mandates in support of energy efficiency, which could likewise reduce the relative value of our regulated assets. Effective energy conservation by end users could result in reduced energy demand, or significantly slow the growth in demand.

Utilities are subject to adverse publicity and reputational risks, which could lead to increased regulatory oversight, sanctions or other negative impacts.

Utility companies are important to transmitting and distributing electricity that is critical to end use customers and as a result have been the subject of public criticism focused on the reliability of their transmission and distribution services and speed with which they are able to respond to outages caused by storm damage or other events. Adverse publicity of this nature may render legislatures, public service commissions and other regulatory authorities and government officials less likely to view utilities in a favorable light and may cause them to be susceptible to less favorable legislative and regulatory outcomes or increased regulatory oversight. Unfavorable regulatory outcomes can include more stringent laws and regulations governing Sharyland's operations, such as reliability and service quality standards or vegetation management requirements, as well as fines, penalties or other sanctions or requirements. The imposition of any of the foregoing would likely increase the compliance costs borne by Sharyland, and could have a material negative impact on our lease rates as well as Sharyland's business, results of operations, cash flow and financial condition, which in turn could negatively impact its ability to make lease payments to us.

We have a significant amount of indebtedness that is subject to covenants with which we must comply, which may limit our operational flexibility. We rely on Sharyland to comply with some of the covenants under our credit arrangements.

We have a significant amount of indebtedness, which means that a material portion of our lease revenue will be dedicated to the payment of interest on our indebtedness, thereby reducing the funds available for working capital and capital expenditures and impacting our flexibility to react to changing business and economic conditions. Additionally, the agreements governing our indebtedness contain various covenants applicable to us and Sharyland, including restrictions on distributions or modifications to certain terms of our leases, as well as covenants that require us to maintain specified financial ratios and satisfy financial condition tests. In addition, our regulated assets are collateral under our secured financings. Furthermore, our debt arrangements require Sharyland to deliver certain financial statements and reports, maintain its licenses and permits, deliver certain required notices, operate and maintain our regulated assets and maintain proper books of records and account in conformity with U.S. GAAP and include events of default triggered by (1) a bankruptcy by Sharyland, (2) any judgment being entered against Sharyland for payment of money in excess of \$2 million, (3) a default by Sharyland with respect to any of its indebtedness in excess of \$2 million or any other default by Sharyland with respect to any of its indebtedness that could lead to a material adverse effect (as defined in the applicable debt agreements) and (4) in some cases, a default by Sharyland under our leases that could lead to a material adverse effect with respect to us (as defined in the applicable debt agreements). Our debt agreements also limit Sharyland's ability to incur indebtedness, subject to some exceptions. Sharyland has agreed to comply with these covenants. Our ability to continue to borrow is subject to continued compliance with these and other covenants by Sharyland and us, and failure to comply with these covenants could cause a default under our credit facilities, which could require us to repay the related debt with capital from other sources, all of which would adversely affect our financial condition and results of operations.

Our regulated assets and Sharyland's operations may be affected by hazards associated with electricity transmission and distribution and other events for which Sharyland's and/or our property insurance may not provide adequate coverage.

Our regulated assets and Sharyland's operations are subject to hazards associated with electricity transmission and distribution, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, equipment interruptions, remediation, discharges or releases of toxic or hazardous substances and other environmental risks. These hazards can cause severe damage to or destruction of property and equipment and may result in suspension of operations or the imposition of civil or criminal penalties. We and Sharyland are self-insured for a substantial portion of our regulated assets, and, as a result, there may not be adequate insurance to cover the associated costs of repair or reconstruction. Although it is possible that our capital expenditures to fund these remediation costs could be recoverable in rates, recovery of the related expenditures could be delayed or denied, in which case our rent revenues or Sharyland's financial condition, cash flows and revenues would be adversely affected.

We may incur unexpected liabilities with respect to regulated assets that we acquire and may not be able to achieve the benefits of any such acquisition that we expect.

We expect to conduct customary due diligence with respect to any regulated assets that we may acquire, but our assessment may not identify all existing or potential problems, nor enable us to become familiar enough with the acquired assets to fully assess any deficiencies. If we incur costs to remediate any deficiencies in the acquired assets that existed at closing or arise in the future, we may not have adequate recourse against the seller for such deficiencies, and there is no assurance that the PUCT will determine that all of such capital expenditures can be recovered through rates. Further, our ability to make specified claims against the seller of any regulated assets that we acquire will generally expire over time, and we may be left with no recourse for liabilities and other problems associated with the acquired assets that we do not discover prior to the expiration date related to such matters under the agreements governing the asset acquisition.

If we are unable to protect our rights to the land under our towers, lines and substations, it could adversely affect our business and operating results.

Our real property interests include fee interests, easements, licenses and rights-of-way. A loss of any or all these interests at a particular site may interfere with Sharyland's operations and ability to generate lease revenues from our regulated assets. In addition, any such loss could result in a default under our credit facilities, which could distract our management team, damage our relationship with our lenders and result in the acceleration of our indebtedness. We generally rely on Sharyland for title work related to our real property acquisitions. If we and Sharyland are unable to protect our real property rights related to our regulated assets, our results of operation and financial condition may be adversely affected.

The preparation of our financial statements involves the use of estimates, judgments and assumptions, and our financial statements may be materially affected if our estimates prove to be inaccurate.

Financial statements prepared in accordance with U.S. GAAP require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used, which could materially affect our financial statements. Further, changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management's judgment include determining the fair value of our assets. These estimates, judgments and assumptions are inherently uncertain and, if they prove to be wrong, we face the risk that charges to income will be required. Any such charges could significantly harm our business, financial condition, results of operations and the price of our securities. See *Summary of Critical Accounting Policies and Estimates* under Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations* for a discussion of the accounting estimates, judgments and assumptions that we believe are the most critical to an understanding of our business, financial condition and results of operations.

We have a significant goodwill balance related to the acquisition of Cap Rock Holding Corporation (Cap Rock) and our formation transactions, both of which occurred in 2010. A determination that goodwill is impaired could result in a significant non-cash charge to earnings.

Our goodwill balance at December 31, 2017 is \$138.4 million, of which \$83.4 million is attributable to our acquisition of Cap Rock and \$55.0 million is attributable to InfraREIT, L.L.C.'s formation transactions in 2010. An impairment charge must be recorded under U.S. GAAP to the extent that the implied fair value of goodwill is less than the carrying value of goodwill, as shown on our Consolidated Balance Sheets. We are required to test goodwill for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that may result in an interim impairment test include a decline in our stock price causing market capitalization to fall below book value, an adverse change in business conditions or an adverse regulatory action. If we were to determine that our goodwill is impaired, we would be required to reduce our goodwill balance by the amount of the impairment and record a corresponding non-cash charge to earnings. Depending on the amount of the impairment, an impairment determination could have a material adverse effect on our financial condition and results of operations, but would not have an impact on our cash flow.

As a holding company with no operations of our own, we depend on distributions from our subsidiaries to meet our payment obligations and make distributions to our stockholders.

We derive all our operating income from, and hold all our assets through, our subsidiaries. As a result, we depend on distributions from our subsidiaries in order to meet our payment obligations and make distributions to our stockholders. However, our subsidiaries generally have no obligation to distribute cash to us. Provisions of applicable law, contractual restrictions, covenants or claims of a subsidiary's creditors may limit our subsidiaries' ability to make payments or other distributions to us.

Risks Related to Related Party Transactions and Conflicts of Interest

Hunt's ownership and control of Hunt Manager and its current and prior relationships with our Chief Executive Officer and other officers and with three members of our board of directors give rise to conflicts of interest.

Our business originated in the Hunt organization, and Hunt Manager, our external manager, is a subsidiary of Hunt. All our officers, including our President and Chief Executive Officer, David A. Campbell, are employees of Hunt Manager. Mr. Campbell also serves as President and Chief Executive Officer of Sharyland, our sole tenant. Hunt controls the compensation of all our officers, including Mr. Campbell, and Hunt Manager's employees enjoy various employee perquisites and other benefits associated with being a Hunt employee. Hunt Manager has granted or in the future may grant compensation or awards to our officers, including Mr. Campbell, that are based upon the performance of Hunt Manager, Hunt Developer, Sharyland and Hunt generally. As a result, Mr. Campbell and our other officers and other employees of Hunt Manager may benefit from the financial performance of these entities, including the consideration paid by us under the management agreement and from any economic benefit that Hunt or Sharyland receives from the performance of Sharyland or from the sale of ROFO Projects to us pursuant to the development agreement; however, our executive officers have waived any benefit they may receive under certain Hunt incentive plans from any sale of the Golden Spread Project and Cross Valley Project to InfraREIT, to the extent that they participate in such plans, other than benefits under plans where the effect of those transactions will be immaterial to such individuals. Consequently, Mr. Campbell, our other officers and other employees of Hunt Manager, each of whom reports, either directly or indirectly, to Mr. Campbell, may consider the interests of these Hunt affiliates in any negotiations, including in any negotiations with Sharyland regarding our leases or in other transactions that we undertake with Sharyland, and may be incentivized to focus on ROFO Projects and divert attention from Footprint Projects. Additionally, the duties owed to us by our officers, including Mr. Campbell, and Mr. Campbell's duties to us as a director, may conflict with duties to, and pecuniary interests in, Hunt Manager, Hunt Developer, Sharyland and Hunt generally.

W. Kirk Baker, who is a member of our board of directors and served as Chairman until February 2018, was the President and Chief Executive Officer of Hunt Manager until August 2014, was a senior officer in the HCI organization until July 2012, and received compensation and other benefits from Hunt and its affiliates during these time periods. Additionally, Mr. Baker currently is the Managing Partner of Captra Capital, an investment and strategic advisory firm in which Hunt previously was an investor and client. Hunt and Mr. Baker have informed us that Mr. Baker and Captra Capital have received fees, various perquisites and incentive compensation from Hunt and may benefit from any payments that we make to Hunt Manager under the management agreement or from any other economic benefit that Hunt receives pursuant to our arrangements with them. As a result, Mr. Baker may consider the interests of Hunt Manager, Hunt Developer, Sharyland and Hunt generally in any negotiation between us and one of those entities.

Hunter L. Hunt, who is a member of our board of directors, is the Co-Chief Executive Officer of HCI, Chairman of Sharyland, President of Hunt Developer and directly or indirectly has a significant economic interest in, and controls, Hunt Manager, Hunt Developer and Sharyland. Accordingly, Mr. Hunt will benefit from the consideration paid to Hunt Manager under the management agreement, from any economic benefit that Hunt or Sharyland receives from the sale of ROFO Projects to us pursuant to the development agreement and from the performance of Sharyland under the leases. Mr. Hunt's duties to us as a director may conflict with his duties to, and pecuniary interest in, Hunt Manager, Hunt Developer, Sharyland and Hunt. As a result, Mr. Hunt may consider the interests of Hunt Manager, Hunt Developer, Sharyland and Hunt generally in any negotiation between us and one of those entities and may benefit from the consideration we pay Hunt Manager under the management agreement, from any economic benefit that Hunt or Sharyland receives from the sale of ROFO Projects to us pursuant to the development agreement and from the performance of Sharyland.

Although we intend to operate and manage our business for the benefit of our stockholders, there is a risk that actual or perceived conflicts of interest could affect the manner in which we treat Hunt as a limited partner in the Operating Partnership or how we manage our relationships with Hunt Manager, Hunt Developer and Sharyland under the management agreement, the development agreement and our leases and that the negotiations and agreements between us, our subsidiaries or our Operating Partnership, on the one hand, and these entities and their affiliates, on the other hand, may not solely reflect the interests of our stockholders. If we were to terminate any of our leases with Sharyland, we would lose the benefit of the relationship that we have cultivated with Sharyland and could damage our relationship with Hunt. Further, if we were to terminate the management agreement with Hunt Manager, the development agreement also would automatically expire. These complications and costs could adversely affect our results of operations, financial condition and relationship with regulators and ratepayers.

There are limited contractual or legal restrictions on Hunt's ability to compete with us, and we are prohibited from competing with Hunt in certain circumstances.

Our leases prohibit Sharyland from funding Footprint Projects unless we fail to do so, and our development agreement with Hunt Developer prohibits Hunt and its affiliates from owning or funding Footprint Projects. The development agreement also provides us with a right of first offer to acquire ROFO Projects. However, Hunt Developer has the exclusive right to fund the development and construction of ROFO Projects, and Hunt also is free to pursue the development and construction of other regulated asset projects. As a result, we are prohibited from funding projects that qualify as ROFO Projects, including in some circumstances projects that connect to our transmission assets, and Hunt may compete directly with us for the acquisition of other regulated assets and businesses, including within Texas. Additionally, as permitted by the Maryland General Corporation Law (MGCL), our charter contains provisions that permit our directors and officers, and their affiliates (including individuals serving in such capacities who are also directors, officers and/or employees of Hunt and its affiliates), to compete with us, own any investments or engage in any business activities, including investments and business activities that are similar to our current or proposed investments or business activities, without any obligation to present any such business opportunity to us unless the opportunity is expressly offered to such person in his or her capacity as our director or officer.

We are dependent on Hunt Manager and its executive officers and key personnel, who provide services to us through the management agreement. We may not find a suitable replacement for Hunt Manager if the management agreement is terminated or for these executive officers and key personnel if any of them leave Hunt Manager or otherwise become unavailable to us, and there is no contractual requirement that our executive officers and key personnel allocate a specific amount of time and attention to our business.

We are externally advised and managed by Hunt Manager, and all members of our senior management are employees of Hunt Manager. Pursuant to our management agreement, Hunt Manager is obligated to supply us with all our senior management team. Subject to the direction of our board of directors, Hunt Manager has significant discretion regarding the implementation of our investment and operating policies and strategies. Accordingly, our success depends significantly upon the experience, skill, resources, relationships and contacts of the executive officers and key personnel of Hunt Manager. The executive officers and key personnel of Hunt Manager have extensive knowledge of our business and industry. If any executive officer or key person leaves Hunt Manager or otherwise becomes unavailable to manage our business, our performance could be adversely impacted. If our management agreement with Hunt Manager were to terminate, we would have to replace our entire management team. It could be very difficult and time and resource intensive to identify and retain a new management team that has all the characteristics that we depend upon with our current management team. Accordingly, a termination of our management agreement with Hunt Manager could have a material adverse effect on our business. Furthermore, our management agreement with Hunt Manager does not specify a fixed amount of time that our officers and other employees of Hunt Manager who work on our behalf are to spend managing our business. Accordingly, the InfraREIT officers and directors and personnel of Hunt Manager may dedicate a large share of their time and efforts to the pursuit of and management of other businesses, which may adversely affect their ability to devote their time to our business.

The initial term of our management agreement with Hunt Manager expires on December 31, 2019, and termination of the management agreement would eliminate our rights to Hunt Developer's development projects and could harm our relationship with Sharyland. Additionally, Hunt Manager's interests and incentives relating to our business may differ from our long-term best interest.

The initial term of the management agreement will expire on December 31, 2019. The management agreement will automatically extend for additional five year terms, unless we decide to terminate it pursuant to its terms. We will also have the right to terminate the management agreement at any time for cause, and Hunt Manager may terminate the agreement at any time upon 365 days' prior notice to us, provided that Hunt Manager may not exercise this right in a manner that results in the management agreement terminating before December 31, 2019. Any termination of the management agreement would end Hunt Manager's obligation to provide us with the executive officers and key personnel upon whom we rely for the operation of our business and, unless we terminate for cause, would also terminate our rights to ROFO Projects under the development agreement. In addition, we are required to pay Hunt a termination fee equal to three times the most recent annualized base management and incentive payment if we terminate the agreement for any reason other than cause. Further, any termination of our relationships with Hunt Manager and Hunt Developer may negatively impact our relationship with Sharyland, including Sharyland's willingness to renew our leases or to negotiate lease supplements on terms that are favorable to us. Termination of or failure to renew our leases could result in a default under the agreements governing our indebtedness. Additionally, because the base fee payable to Hunt Manager under the management agreement is calculated by reference to our total equity and the incentive payment payable to Hunt Manager is calculated as a percentage of the per OP Unit distributions to the Operating Partnership's unitholders in excess of a threshold amount (\$0.27 per quarter), Hunt Manager may be motivated to grow total equity or make Operating Partnership distributions in a manner that is not in our long-term best interest or in the best interests of our other stockholders.

Hunt Manager's liability is limited under the management agreement, and we have agreed to indemnify Hunt Manager against certain liabilities. As a result, we could experience poor performance or losses for which Hunt Manager would not be liable.

Pursuant to the management agreement, Hunt Manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Although our directors and officers, in their capacity as such, have duties to us, Hunt Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the management agreement, Hunt Manager, its officers, members and personnel, any person controlling or controlled by Hunt Manager and any person providing sub-advisory services to Hunt Manager will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the management agreement, except those resulting from acts constituting gross negligence, willful misconduct, bad faith or reckless disregard of Hunt Manager's duties under the management agreement. In addition, we have agreed to indemnify Hunt Manager and each of its officers, directors, members, managers and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the management agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the management agreement. As a result, we could experience poor performance or losses for which Hunt Manager would not be liable.

The management agreement, the development agreement and our leases were not negotiated on an arm's-length basis and may not be as favorable to us as if they had been negotiated with unaffiliated third parties.

Our management agreement with Hunt Manager, the development agreement with Hunt Developer and the initial terms of our existing leases with Sharyland were negotiated between related parties and before our independent directors were elected, and their terms, including the consideration payable to Hunt Manager and lease payments to us, may not be as favorable to us as if they had been negotiated with unaffiliated third parties.

The terms of these agreements and leases may not solely reflect our best interest and may be overly favorable to the other party to such agreements and leases, including in terms of the substantial compensation to be paid to these parties under these agreements. Further, we may choose not to enforce, or to enforce less vigorously, our rights under the management agreement, the development agreement or our leases, as applicable, because of our desire to maintain our ongoing relationships with Hunt and Sharyland.

Risks Related to REIT Qualification and Federal Income Tax Laws

Qualifying as a REIT involves technical and complex provisions of the Internal Revenue Code of 1986, as amended (the Code), and our failure to remain qualified as a REIT would cause us to owe U.S. federal income tax, which would negatively impact our results of operations and reduce the amount of cash available for distribution to our stockholders.

We have elected to be taxed as a REIT for U.S. federal income tax purposes. The U.S. federal income tax laws governing REITs are complex and require us to meet, on an ongoing basis, various tests regarding the nature and diversification of our assets and income, the ownership of our outstanding shares and the amount of our distributions. Even a technical or inadvertent violation could jeopardize our REIT qualification.

We are one of only a few REITs engaged in owning and leasing regulated assets or similar assets. There is little or no guidance in the tax law regarding the qualification of regulated assets as real estate assets and the rent therefrom as qualifying rental income under the REIT asset and income tests. We hold a private letter ruling from the IRS that provides that regulated asset systems qualify as real estate assets and the rent therefrom generally constitutes qualifying rental income. We can rely upon that ruling for those assets that fit within the scope of the ruling only to the extent that (1) we have the legal and contractual rights described therein and are considered to be the same taxpayer as, or are treated for tax purposes as the successor to, the taxpayer that obtained the ruling, (2) we did not misstate or omit in the ruling request a relevant fact and (3) we continue to operate in the future in accordance with the relevant facts described in such request. No assurance can be given that we will always be able to operate in the future in accordance with the relevant facts described in such request. Further, to the extent our private letter ruling was determined to be inconsistent with subsequently adopted rules and regulations regarding the qualification of certain of our regulated assets as real estate assets, we would no longer be able to treat such regulated assets as real estate assets and/or rent therefrom as qualifying income for purposes of applying the REIT asset or income tests. In this regard, in August 2016, the U.S. Department of Treasury issued final regulations that clarify the definition of "real property" for purposes of the REIT asset and income tests. Although we do not believe that the new regulations are inconsistent with our private letter ruling, there can be no assurance that the IRS will agree with this position. If we were not able to treat our regulated assets as real estate assets and/or the rent therefrom as qualifying rental income for purposes of applying the REIT asset or income tests, we might fail to qualify as a REIT.

In addition, our compliance with the REIT income and quarterly asset requirements depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis in accordance with existing REIT regulations and rules and interpretations thereof. Furthermore, judicial and administrative interpretations of the U.S. federal income tax laws governing REIT qualification are limited, and new IRS guidance, legislation, court decisions or other administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT or adversely change the tax treatment of a REIT. Thus, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations and the possibility of future changes in our circumstances or the rules applicable to REITs, no assurance can be given that we will qualify as a REIT for any particular year, and we could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

If we fail to qualify as a REIT in any taxable year, unless we were eligible for certain statutory relief provisions:

- we would not be allowed a deduction for distributions to our stockholders in computing our taxable income and would be required to pay U.S. federal income tax on our taxable income at corporate income tax rates;
- we also could be liable for increased state and local taxes;
- we would be liable for interest and possible penalties for failure to make any required estimated tax payments in a year in which the failure occurred;
- we no longer would be required to distribute substantially all our taxable income to our stockholders; and
- we could not re-elect to be taxed as a REIT for four taxable years following the year in which we failed to qualify as a REIT.

In such a case, any such corporate tax liability could be substantial and would reduce our net income and cash available for distributions to stockholders, among other things. In addition, we might need to borrow money or sell assets in order to pay any corporate tax liability. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could materially and adversely affect our results of operations and financial condition and the trading price of our common stock.

If our Operating Partnership fails to qualify as a partnership for U.S. federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

We believe that our Operating Partnership is and will continue to be treated as a partnership for U.S. federal income tax purposes. As a partnership, our Operating Partnership is not subject to federal income tax on its income. Instead, for U.S. federal income tax purposes, each of its partners, including us, are allocated, and may be required to pay tax with respect to, such partner's share of the Operating Partnership's income. We cannot guarantee that the IRS will not challenge the status of our Operating Partnership or any other subsidiary partnership in which we own an interest as a partnership or disregarded entity for U.S. federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our Operating Partnership or certain subsidiary partnerships as an entity taxable as a corporation for U.S. federal income tax purposes, we would fail to meet the applicable REIT gross income tests and certain of the asset tests applicable to REITs and, accordingly, we would likely cease to qualify as a REIT. Also, the failure of our Operating Partnership or certain subsidiary partnerships to qualify as a partnership or disregarded entity could cause the applicable entity to become subject to federal corporate income tax, which would adversely affect our results of operations and significantly reduce the amount of cash the Operating Partnership has available for distribution to its partners, including us.

If InfraREIT, L.L.C. is determined to have failed to qualify as a REIT for any reason or if we acquire C corporations in the future, we may inherit material tax liabilities and other tax attributes from InfraREIT, L.L.C. or such acquired corporations, and we may be required to distribute earnings and profits.

InfraREIT, L.L.C. elected to be taxed as a REIT under the Code commencing with the taxable year ended December 31, 2010. The formation of a partnership unrelated to InfraREIT in 2011 between a Hunt affiliate and an affiliate of a former shareholder of InfraREIT, L.L.C. (Shareholder) triggered certain provisions in InfraREIT, L.L.C.'s limited liability company agreement designed to protect against rent received from Sharyland being deemed to be rent from a related party which could have caused InfraREIT, L.L.C. to fail to qualify as a REIT. As a result of the application of these provisions, shares held by the Shareholder that would have resulted in the Shareholder holding in excess of 9.8% of the total number of outstanding shares of InfraREIT, L.L.C. were automatically transferred to Westwood Trust, as trustee of a trust for the benefit of a charitable beneficiary. If these provisions were deemed to be ineffective, InfraREIT, L.L.C. would not have met the REIT requirements and, as a result, would have been taxed as a C corporation. If InfraREIT, L.L.C. is deemed to have failed to meet the REIT requirements as a result of the 2011 transaction or otherwise, we would be liable for the taxes InfraREIT, L.L.C. would have been required to pay, which could have an adverse effect on our financial condition and results of operations.

In addition, we have previously acquired, and from time to time we may acquire, C corporations or assets of C corporations in transactions in which the basis of the corporations' assets in our hands is determined by reference to the basis of the assets in the hands of the acquired corporations, or carry-over basis transactions. In this regard, in 2010, we acquired Cap Rock in a transaction that was treated as a carry-over basis transaction.

In the case of assets we acquire from a C corporation in a carry-over basis transaction, including the assets of InfraREIT, L.L.C. if it failed to meet the REIT requirements prior to its merger with InfraREIT, Inc., if we dispose of any such asset in a taxable transaction (including by deed in lieu of foreclosure) during the five year period beginning on the date of the carry-over basis transaction, then we may be required to pay tax at the highest regular corporate tax rate on the gain recognized to the extent of the excess of (1) the fair market value of the asset over (2) our adjusted tax basis in the asset, in each case determined as of the date of the carry-over basis transaction. Any taxes we pay as a result of such gain would reduce the amount available for distribution to our stockholders. The imposition of such tax may require us to forgo an otherwise attractive disposition of any assets we acquire from a C corporation in a carry-over basis transaction, and as a result may reduce the liquidity of our portfolio of investments. In addition, in such a carry-over basis transaction, we will succeed to any tax liabilities and earnings and profits of the acquired C corporation. To qualify as a REIT, we must distribute any non-REIT earnings and profits by the close of the taxable year in which such transaction occurs. If the IRS were to determine that we acquired non-REIT earnings and profits from a corporation that we failed to distribute prior to the end of the taxable year in which the carry-over basis transaction occurred, we could avoid disqualification as a REIT by paying a “deficiency dividend.” Under these procedures, we generally would be required to distribute any such non-REIT earnings and profits to our stockholders within 90 days of the determination and pay a statutory interest charge at a specified rate to the IRS. Such a distribution would be in addition to the distribution of REIT taxable income necessary to satisfy the REIT distribution requirement and may require that we borrow funds to make the distribution even if the prevailing market conditions are not favorable for borrowings. In addition, payment of the statutory interest charge could materially and adversely affect us.

If InfraREIT, L.L.C. failed to qualify as a REIT and we are considered a “successor” to InfraREIT, L.L.C. under applicable income tax regulations, our election to be taxed as a REIT could be challenged with respect to the four taxable years following the year in which InfraREIT, L.L.C. ceased to qualify as a REIT. However, we would be considered a “successor” for these purposes only if, among other requirements, persons who own, directly or indirectly, 50% or more in value of our shares at any time during the taxable year owned, directly or indirectly, 50% or more in value of the shares of InfraREIT, L.L.C. during the first year in which it ceased to qualify as a REIT. We believe that we would not be considered a “successor” to InfraREIT, L.L.C. for purposes of such provisions.

The IRS may treat sale-leaseback transactions as loans, which could jeopardize our REIT status or require us to make an unexpected distribution.

The IRS may take the position that specific sale-leaseback transactions that we treat as leases are not true leases for U.S. federal income tax purposes but are, instead, financing arrangements or loans. If a sale-leaseback transaction were so re-characterized, we might fail to satisfy the REIT asset tests, the income tests or distribution requirements and consequently lose our REIT status effective with the year of re-characterization. The primary risk relates to our loss of previously incurred depreciation expenses, which could affect the calculation of our REIT taxable income and could (unless we were able to take other mitigating steps or were eligible for certain statutory relief provisions) cause us to fail the REIT distribution test that requires a REIT to distribute at least 90% of its REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In this circumstance, we may elect to distribute an additional dividend of the increased taxable income so we do not fail the REIT distribution test. This distribution would be paid to all stockholders at the time of declaration rather than the stockholders existing in the taxable year affected by the re-characterization.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The current maximum U.S. federal income tax rate for certain qualified dividends paid by corporations to U.S. stockholders that are individuals, trusts and estates is 20%, or 23.8% including investment taxes on investment income applicable to certain stockholders under the Patient Protection and Affordable Care Act (PPACA). Dividends payable by REITs are generally not qualified dividends eligible for these reduced rates. The TCJA includes other provisions that generally have the effect of reducing the maximum income tax rate applicable to REIT dividends (other than capital gain dividends) paid to individual REIT shareholders from 39.6% to 29.6%, or 33.4% including PPACA investment taxes. However, these provisions are set to expire after 2025 and, thus, if these provisions are not extended by subsequent legislation, dividends payable by REITs after 2025 would be subject to a 39.6%, or 43.4% including PPACA investment taxes, maximum U.S. federal income tax rate. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the per share trading price of our common stock. States may also choose to tax investment and dividend income at higher rates than ordinary income, and to the extent more states do so, then such taxes may further reduce the attractiveness of REITs from an investment standpoint. Any future changes in the federal, state or local income tax laws regarding the taxation of dividends payable to stockholders could also impact the attractiveness of REITs from an investment standpoint.

Complying with REIT requirements may affect our profitability and may force us to liquidate or forgo otherwise attractive investments.

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the nature and diversification of our assets, sources of our income and amounts we distribute to our stockholders. We may be required to liquidate or forgo otherwise attractive investments in order to satisfy the asset and income tests or to qualify under certain statutory relief provisions. From time to time, we may generate taxable income greater than our cash flow as a result of differences in timing between the recognition of taxable income and the actual receipt of cash or the effect of nondeductible capital expenditures, the creation of reserves or required debt amortization payments. If we do not have other funds available in these situations, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. As a result, having to comply with the distribution requirement and to avoid corporate income tax and the 4% excise tax in any particular year could cause us to sell assets in adverse market conditions, issue equity or incur debt on unfavorable terms or distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt. These alternatives could increase our costs or reduce the value of our equity. Accordingly, satisfying the REIT requirements could hinder our ability to grow, which could adversely affect the value of our stock, or could cause holders of our stock to incur tax liabilities in excess of cash distributions.

Recent changes to the U.S. tax laws or future changes affecting REITs could have a negative effect on us.

The TCJA is a complex revision to the U.S. federal income tax laws and will require subsequent rulemaking and interpretation in a number of areas. As a result, the effect of the changes made in the TCJA is highly uncertain, both in terms of their direct effect on the taxation of an investment in our common stock and their indirect effect on the value of our assets or market conditions generally. There may be substantial delay before administrative guidance is issued or other drafting errors or other unintended consequences of the TCJA are addressed in subsequent legislation, the effect of which cannot be predicted and may have unanticipated or unfavorable effects on us or our stockholders.

Further, the rules dealing with federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Future changes to the tax laws, with or without retroactive application, could materially and adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, new income tax regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the income tax consequences of such qualification.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, any income that we generate from transactions intended to hedge our interest rate exposure will be excluded from gross income for purposes of the gross income tests if the instrument hedges interest rate risk on liabilities used to carry or acquire real estate assets, or certain other specified types of risk, and such instrument is properly identified under applicable income tax regulations. Income from hedging transactions that do not meet these requirements will generally constitute nonqualifying income. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous or implement those hedges through a taxable REIT subsidiary, which would be liable for tax on gains and for which we would not receive any tax benefit for losses, except to the extent they were carried forward to offset future taxable income of the taxable REIT subsidiary.

Liquidation of our assets may jeopardize our REIT qualification.

If we are compelled to liquidate our assets to repay obligations to our lenders, we may be unable to comply with the requirements relating to our assets and our sources of income, thereby jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as inventory or property held primarily for sale to customers in the ordinary course of business.

Even if we qualify as a REIT, we may face tax liabilities that reduce our cash flows.

Even if we qualify for taxation as a REIT, we may be liable for certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, a 100% penalty tax on any gain if we sell property as a dealer, alternative minimum tax, tax on income from some activities conducted as a result of a foreclosure and state or local income, franchise, property and transfer taxes, including mortgage recording taxes.

In addition, although we do not currently own any taxable REIT subsidiaries, we may form or hold an interest in taxable REIT subsidiaries in the future. Any such taxable REIT subsidiary would be subject to U.S. federal, state and local corporate income or franchise taxes, and our ownership of any taxable REIT subsidiary would be subject to certain restrictions, including that we structure transactions with our taxable REIT subsidiary on an arm's length basis. Any taxes paid by such taxable REIT subsidiary would decrease the cash available for distribution to our stockholders. In addition, we would be subject to a 100% excise tax on transactions between us and our taxable REIT subsidiary that are not conducted on an arm's length basis.

The TCJA may impact our ability to utilize our interest expense deductions to fully offset our taxable income in future periods.

The recently enacted TCJA includes provisions which, beginning in 2018, generally will limit our annual deductions for interest expense to no more than 30% of our "adjusted taxable income" (plus 100% of our business interest income) for the year. Interest expense subject to this limitation may be carried forward by us for use in later years, subject to these limitations. This interest deductibility limitation is not applicable, however, to interest paid or accrued on indebtedness properly allocable to a rate-regulated electricity transmission or distribution business (the public utility exception).

It is unclear whether the public utility exception applies to interest on indebtedness of SDTS's direct parent, TDC, because TDC is a holding company. If the interest deductibility limitation does apply to us and our unregulated subsidiaries, it would have the effect of increasing our taxable income without a corresponding increase in our cash flow. Based on current projections, we do not anticipate that the application of the interest deductibility limitation would have a material adverse impact on us. There can be no assurance, however, that our actual results will match projections and, thus, it is possible that the interest deductibility limitation, if applicable, could result in our (1) inability to distribute all of our taxable income and, thus, avoid corporate level taxation or (2) having to borrow funds or sell assets in order satisfy REIT distribution requirements and/or pay corporate level taxes.

Risks Related to Ownership of Our Common Stock

The market price and trading volume of shares of our common stock may fluctuate significantly.

The market price of our common stock may be highly volatile and subject to wide fluctuations. Our financial performance, governmental action, tax laws, interest rates and market conditions in general could have a significant impact on the future market price of our common stock. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, and you choose to sell your shares, you may receive a lower price than the amount you paid or you may not be able to sell your shares at all.

Some of the factors that could negatively affect our share price or result in fluctuations in the price of our stock include:

- market expectations regarding our evaluation of our REIT status or Hunt's consideration of various alternative arrangements, including its focus on evaluating a potential going private transaction, as discussed under the caption *Hunt's Schedule 13D under Our Relationship with Hunt* included in Item 1., *Business*;
- the value and timing of our quarterly distributions;
- changes in our lease payments or the rates Sharyland can charge its customers;
- our operating performance and deviations from estimates of funds from operations, adjusted funds from operations, capital needs or earnings;
- the termination of or failure to renew a lease with Sharyland;
- changes in the laws applicable to REITs and legislative or regulatory developments that affect us or our industry;
- future offerings of debt or equity, including preferred equity securities that are senior to our common stock; and
- other factors described in these *Risk Factors* or elsewhere in this Annual Report on Form 10-K.

Future sales of shares of our common stock (or securities redeemable for shares of our common stock), or the perception that such sales might occur, may cause you to incur significant dilution and may depress the price of our shares.

We expect to raise equity and debt capital from public markets in the future to support our growth and the distributions we are required to make to our stockholders. Future issuances of shares of our common stock and the perception that these issuances may occur may cause you to suffer significant dilution in your ownership of our common stock and could decrease the market price per share of our common stock. Further, any sales by us or our stockholders of a substantial number of shares of our common stock in the public market, or the perception that such sales might occur, may cause the market price of our shares to decline.

Subject to the terms of our Operating Partnership's partnership agreement, OP Units in our Operating Partnership held by limited partners may be redeemed for cash or, at our election, shares of our common stock. If we choose to satisfy this redemption right through issuance of shares of our common stock, it could result in the issuance of a large number of new shares of our common stock. In addition, pursuant to a registration rights agreement among certain of our pre-IPO investors, including Hunt, we have filed a shelf registration statement that registers for resale under the Securities Act of 1933, as amended (Securities Act), the shares of our common stock that constitute "registrable securities" under the registration rights agreement, including certain shares that may be issued upon the redemption of outstanding OP Units. We also have the obligation to register additional shares of common stock beneficially owned by Hunt in the future. Registration of the resale of these shares of our common stock facilitates their sale into the public market. If any or all of these holders cause a large number of their shares to be sold in the public market, or if investors believe that these sales could occur, such sales and beliefs could reduce the trading price of our common stock and could impede our ability to raise future capital.

Risks Related to Our Organization and Structure

Certain provisions of Maryland law and our charter and bylaws could inhibit changes in control, preventing our stockholders from realizing a potential premium over the market price of our stock in a proposed acquisition.

Certain provisions of the MGCL may have the effect of inhibiting or deterring a third party from making a proposal to acquire us or impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then current market price of such shares, including:

- "Business Combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two year period immediately prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of our then outstanding voting stock) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special stockholder voting requirements and special appraisal rights on these combinations; and
- "Control Share" provisions that provide that holders of "control shares" of InfraREIT (defined as shares which, when aggregated with other voting shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares") have no voting rights with respect to such shares except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

As permitted by the MGCL, we have elected, by resolution of our board of directors, to exempt from the business combination provisions of the MGCL any business combination between us and any other person that is first approved by our board of directors (including a majority of our directors who are not affiliates or associates of such person), and our bylaws contain a provision exempting any and all acquisitions of our stock from the control share provisions of the MGCL. However, our board of directors may by resolution elect to repeal the exemption from the business combination provisions of the MGCL and may by amendment to our bylaws opt in to the control share provisions of the MGCL at any time in the future.

Certain provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain corporate governance provisions. Our charter contains a provision whereby we elect to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of directors. In addition, through provisions in our charter and bylaws unrelated to Subtitle 8, we already (1) have a board of directors that is classified in three classes serving staggered three year terms, (2) require a two-thirds vote for the removal of any director from the board of directors, which removal must be for cause, (3) vest in the board of directors the exclusive power to fix the number of directorships, subject to limitations set forth in our charter and bylaws and (4) require that, for stockholders to call a special meeting, the request must be made by stockholders entitled to cast not less than a majority of all votes entitled to be cast on a matter at such meeting, unless the meeting is called by the chairman of our board of directors, our lead director, if any, our chief executive officer, our president or our board of directors. These provisions may have the effect of limiting or precluding a third party from making an unsolicited acquisition proposal for us or of delaying, deferring or preventing a change in control of us under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then current market price.

In addition, the advance notice provisions of our bylaws could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interests.

Our charter contains restrictions on the ownership and transfer of our stock that may delay, defer or prevent a change of control transaction.

Our charter, subject to certain exceptions, authorizes our board of directors to take such actions as it determines are necessary or advisable to preserve our qualification as a REIT. Our charter also prohibits, among other things, the beneficial or constructive ownership by any person (which includes any “group” as defined by Section 13(d)(3) of the Exchange Act) of more than 9.8% in value or number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock or more than 9.8% in value of the aggregate of the outstanding shares of all classes or series of our capital stock, in each case excluding any shares that are not treated as outstanding for federal income tax purposes. Our board of directors may exempt a person, prospectively or retroactively, from these ownership limits if certain conditions are satisfied. The restrictions on ownership and transfer of our stock may:

- discourage a tender offer or other transactions or a change in management or control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests; or
- result in the transfer of shares acquired in excess of the restrictions to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of the benefits of owning the additional shares.

Our structure as an UPREIT may give rise to conflicts of interest.

Our directors and officers have duties to us under Maryland law. At the same time, we have fiduciary duties, as general partner, to our Operating Partnership and to its limited partners under Delaware law. Our duties as the general partner of the Operating Partnership may come into conflict with the duties of our directors and officers to us. Although our Operating Partnership’s partnership agreement generally limits our liability for our acts or omissions in our capacity as the general partner of the Operating Partnership, provided we acted in good faith, Delaware law is not settled on these types of modifications to fiduciary duties, and we have not obtained an opinion of counsel as to the validity or enforceability of such provisions.

We may structure acquisitions of assets in exchange for OP Units on terms that could limit our liquidity or our flexibility.

We may acquire assets by issuing OP Units in exchange for an asset owner contributing assets to our Operating Partnership. If we enter into such transactions, in order to induce the contributors of such assets to accept OP Units, rather than cash, in exchange for their assets, it may be necessary for us to provide them additional incentives. For instance, our Operating Partnership’s partnership agreement provides that any holder of OP Units may exchange such units for cash equal to the value of an equivalent number of shares of our common stock or, at our option, for shares of our common stock on a one-for-one basis. Finally, in order to allow a contributor of assets to defer taxable gain on the contribution of assets to our Operating Partnership, we might agree not to sell a contributed asset for a defined period of time or until the contributor exchanged the contributor’s units for cash or shares. Such an agreement would prevent us from selling those assets, even if market conditions made such a sale favorable to us.

Our authorized but unissued shares of common and preferred stock may prevent a change in our control.

Our charter authorizes our board of directors to issue additional authorized but unissued shares of common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of our authorized shares of stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a class or series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our shares of common stock or otherwise be in the best interests of our stockholders.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our board of directors.

Our board of directors is classified into three classes, and our charter provides that, subject to the rights of holders of any class or series of preferred stock, a director may be removed only for cause (as defined in our charter) and then only by the affirmative vote of holders of shares entitled to cast at least two-thirds of all the votes entitled to be cast generally in the election of directors. Further, our charter and bylaws provide that, except as may be provided by our board of directors in setting the terms of any class or series of stock under the provisions of Title 3, Subtitle 8 of the MGCL, any and all vacancies on our board of directors shall be filled only by the affirmative vote of a majority of the remaining directors in office, even if less than a quorum, for the full term of the class of directors in which the vacancy occurred and until a successor is elected and qualifies. These requirements prevent stockholders from removing directors except for cause and with a substantial affirmative vote and from replacing directors with their own nominees and may prevent a change in control of our company that is in the best interests of our stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

See *Our Regulated Assets* in Item 1., *Business* for a description of our properties.

Item 3. Legal Proceedings

From time to time, we are party to various legal proceedings arising in the ordinary course of our business. Although we cannot predict the outcomes of any such legal proceedings, we do not believe the resolution of these proceedings, individually or in the aggregate, will have a material impact on our business, financial condition or results of operations, liquidity and cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II**Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the NYSE under the symbol “HIFR.” The following table sets forth the range of daily high and low prices per share of common stock and dividends declared per share of common stock for the periods indicated:

	High	Low	Dividends
Year Ended December 31, 2017			
First quarter	\$ 18.08	\$ 16.00	\$ 0.250
Second quarter	20.08	17.74	0.250
Third quarter	23.12	18.88	0.250
Fourth quarter	23.22	18.04	0.250
Year Ended December 31, 2016			
First quarter	\$ 21.69	\$ 13.61	\$ 0.250
Second quarter	17.54	15.95	0.250
Third quarter	19.51	17.06	0.250
Fourth quarter	18.33	14.59	0.250

As of February 23, 2018, there were 128 holders of record of our common stock. The closing price of our common stock on February 23, 2018 was \$19.64.

As a REIT, we must make current distributions of at least 90% of our annual taxable income, excluding capital gains and other adjustments; and as such, we expect to distribute at least 100% of our taxable income. For a description of restrictions on our subsidiaries’ ability to make distributions to us, which impacts our ability to pay dividends to our stockholders, see Note 7, *Borrowings Under Credit Facilities* and Note 8, *Long-Term Debt* in the Notes to the Consolidated Financial Statements beginning on page F-1. However, we do not expect these limitations to adversely affect our ability to make dividend payments to our stockholders.

Securities Authorized for Issuance Under Equity Compensation Plans

Prior to the consummation of our IPO, the InfraREIT, Inc. 2015 Equity Incentive Plan (2015 Equity Incentive Plan) and the InfraREIT, Inc. Non-Qualified Employee Stock Purchase Plan (ESPP) were adopted by our pre-IPO board of directors and approved by a wholly owned subsidiary of HCI, which was our sole stockholder at the time. We currently intend to utilize the 2015 Equity Incentive Plan to compensate our non-executive directors for their service on our board of directors. As of December 31, 2017, no shares have been purchased or offered for purchase under the ESPP. For more information about the 2015 Equity Incentive Plan and the ESPP, see Note 16, *Share-Based Compensation* in the Notes to the Consolidated Financial Statements beginning on page F-1.

The following table sets forth certain information regarding the 2015 Equity Incentive Plan and ESPP as of December 31, 2017:

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuances Under Equity Compensation Plans Excluding Securities Reflected in Column (a)
Equity compensation plans approved by stockholders:			
2015 Equity Incentive Plan	89,355	(1) (2)	265,353
ESPP	—	N/A	250,000
Total equity compensation plans approved by stockholders	89,355		515,353
Equity compensation plans not approved by stockholders	—	N/A	—
Total	<u>89,355</u>	N/A	<u>515,353</u>

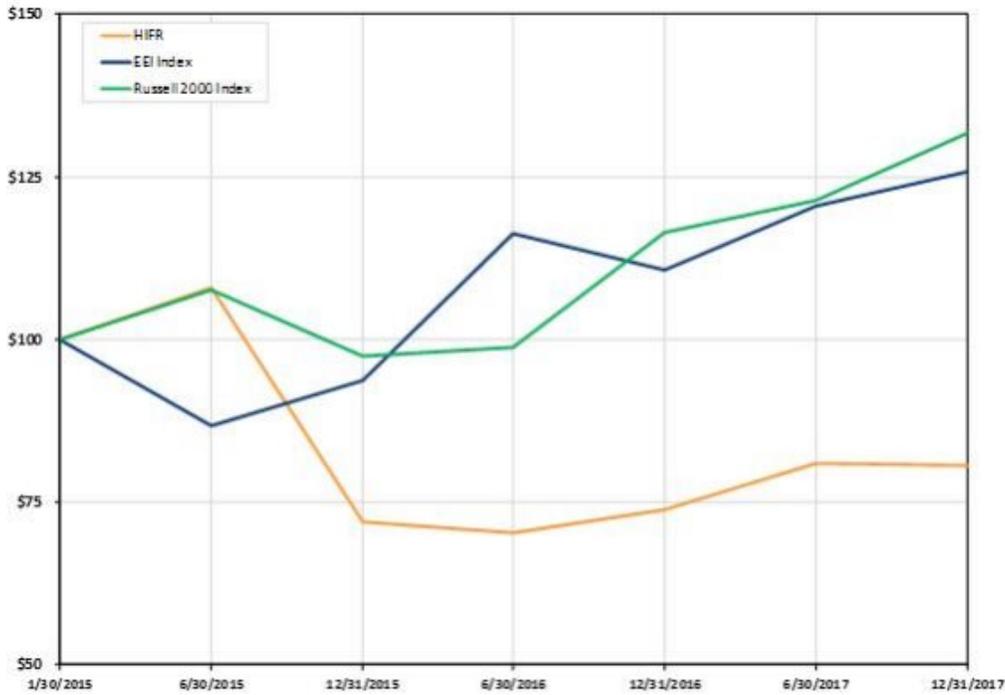
- (1) Represents long-term incentive units (LTIP Units), all of which vested by the end of January 2018, that are convertible into common units, which may be presented to the Operating Partnership for redemption and acquired by us for shares of our common stock. Because there is no exercise price associated with the LTIP Units, there is no weighted average exercise price presented.
- (2) On January 3, 2018, we granted an aggregate of 28,952 LTIP Units to members of our board of directors, other than David A. Campbell and Hunter L. Hunt, which are scheduled to vest January 2019.

Performance Graph

The following graph shows our cumulative total stockholder return for the period beginning January 30, 2015, the date our stock began trading on the NYSE, and ending on December 31, 2017. The graph also shows the cumulative total returns of the Russell 2000 Index, in which we are included, and the Edison Electric Institute (EEI) Index.

The comparison below assumed \$100 was invested on January 30, 2015 in our common stock and in each index shown and assumes that all dividends are reinvested. Our stock performance shown in the following graph is not indicative of future stock price performance.

COMPARISON OF CUMULATIVE RETURN FROM JANUARY 30, 2015 THROUGH DECEMBER 31, 2017 AMONG INFRAREIT, INC., THE RUSSELL 2000 INDEX AND THE EEI INDEX



This graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act or Exchange Act, except to the extent that we specifically incorporate this information by reference therein, and shall not otherwise be deemed filed under either the Securities Act or the Exchange Act.

The EEI Index is a non-traded index that measures total shareholder return for the 43 U.S. shareholder owned electric utilities and is comprised of the following as of December 31, 2017:

Company Name	Ticker Symbol	Company Name	Ticker Symbol
ALLETE, Inc.	ALE	MDU Resources Group Inc.	MDU
Alliant Energy Corporation	LNT	MGE Energy, Inc.	MGEE
Ameren Corporation	AEE	NextEra Energy, Inc.	NEE
American Electric Power Company, Inc.	AEP	NiSource Inc.	NI
Avangrid, Inc.	AGR	NorthWestern Corporation	NWE
Avista Corporation	AVA	OGE Energy Corp.	OGE
Black Hills Corporation	BKH	Otter Tail Corporation	OTTR
CenterPoint Energy, Inc.	CNP	PG&E Corporation	PCG
CMS Energy Corporation	CMS	Pinnacle West Capital Corporation	PNW
Consolidated Edison, Inc.	ED	PNM Resources, Inc.	PNM
Dominion Resources, Inc.	D	Portland General Electric Company	POR
DTE Energy Company	DTE	PPL Corporation	PPL
Duke Energy Corporation	DUK	Public Service Enterprise Group Incorporated	PEG
Edison International	EIX	SCANA Corporation	SCG
El Paso Electric Company	EE	Sempra Energy	SRE
Entergy Corporation	ETR	The Southern Company	SO
Eversource Energy	ES	Unitil Corporation	UTL
Exelon Corporation	EXC	Vectren Corporation	VVC
FirstEnergy Corp.	FE	WEC Energy Group, Inc.	WEC
Great Plains Energy Incorporated	GXP	Westar Energy, Inc.	WR
Hawaiian Electric Industries, Inc.	HE	Xcel Energy Inc.	XEL
IDACORP, Inc.	IDA		

Item 6. Selected Financial Data

Because InfraREIT, Inc.'s historical financial operating results primarily reflect costs related to a private letter ruling from the IRS in 2006 and accounting services in 2014, we present the historical financial information of InfraREIT, L.L.C. for the years ended December 31, 2013 and 2014 and its 2015 results through February 4, 2015 when InfraREIT, L.L.C. was merged with and into InfraREIT, Inc. (Merger), along with the operations of InfraREIT, Inc. thereafter. Unless otherwise indicated or the context requires, all information presented gives effect to a 1 for 0.938550 reverse split of the shares of InfraREIT, L.L.C. and a concurrent 1 for 0.938550 reverse split of the units representing limited partnership interests in our Operating Partnership, which was effected on January 29, 2015.

The following tables show our selected financial information. These tables should be read in conjunction with Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* and our consolidated financial statements and related notes thereto included in this Annual Report on Form 10-K beginning on page F-1.

Operating Information

<i>(In thousands, except per share amounts)</i>	Years Ended December 31,				
	2017	2016	2015	2014	2013
Revenue					
Base rent	\$ 165,264	\$ 145,030	\$ 125,669	\$ 106,746	\$ 57,979
Percentage rent	25,077	27,069	25,534	27,669	15,214
Total lease revenue	190,341	172,099	151,203	134,415	73,193
Tax Cuts and Jobs Act regulatory adjustment	(55,779)	—	—	—	—
Net revenue	134,562	172,099	151,203	134,415	73,193
Operating costs and expenses					
General and administrative expense	25,388	21,852	64,606	18,625	13,691
Depreciation	51,207	46,704	40,211	35,080	20,024
Gain on asset exchange transaction	(257)	—	—	—	—
Total operating costs and expenses	76,338	68,556	104,817	53,705	33,715
Income from operations	58,224	103,543	46,386	80,710	39,478
Other (expense) income					
Interest expense, net	(40,671)	(36,920)	(28,554)	(32,741)	(17,384)
Other income (expense), net	718	3,781	3,048	(17,236)	20,932
Total other (expense) income	(39,953)	(33,139)	(25,506)	(49,977)	3,548
Income before income taxes	18,271	70,404	20,880	30,733	43,026
Income tax expense	1,218	1,103	949	953	616
Net income	17,053	69,301	19,931	29,780	42,410
Less: Net income attributable to noncontrolling interest	4,751	19,347	6,664	6,882	10,288
Net income attributable to InfraREIT, Inc.	\$ 12,302	\$ 49,954	\$ 13,267	\$ 22,898	\$ 32,122
Net income attributable to InfraREIT, Inc. common shareholders per share:					
Basic	\$ 0.28	\$ 1.14	\$ 0.31	\$ 0.65	\$ 1.07
Diluted	\$ 0.28	\$ 1.14	\$ 0.31	\$ 0.65	\$ 1.07

Other Information

<i>(In thousands, except per share amounts)</i>	Years Ended December 31,				
	2017	2016	2015	2014	2013
Cash dividends declared per common share (1)	\$ 1.000	\$ 1.000	\$ 1.075	\$ 0.310	\$ —
Cash flows provided by operating activities	117,582	123,134	105,794	82,500	21,321
Cash flows used in investing activities	(166,500)	(231,312)	(369,281)	(210,791)	(390,283)
Cash flows provided by financing activities	34,173	116,319	257,346	136,157	360,266
Non-GAAP EPS (2) (3)	1.26	1.21	1.21	1.24	1.07
CAD (2) (3)	80,433	74,547	72,570	59,936	23,715
EBITDA (2) (3)	110,149	154,028	89,645	98,554	80,434
Adjusted EBITDA (2) (3)	168,786	154,282	138,365	124,207	58,151
FFO (2) (3)	68,260	116,005	60,142	64,860	62,434
AFFO (2) (3)	126,897	116,259	108,862	90,513	40,151

(1) Calculated based on dividends declared in period regardless of period paid.

(2) Unaudited.

- (3) For a discussion of non-GAAP earnings per share (Non-GAAP EPS); cash available for distribution (CAD); earnings before interest, taxes, depreciation and amortization (EBITDA); Adjusted EBITDA; funds from operations (FFO); and adjusted FFO (AFFO) and a reconciliation to their nearest U.S. GAAP counterparts, see *Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles* included in Part II, Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Balance Sheet

<i>(In thousands)</i>	December 31,				
	2017	2016	2015	2014	2013
Electric plant, net	\$ 1,772,229	\$ 1,640,820	\$ 1,434,531	\$ 1,227,146	\$ 1,104,377
Cash and cash equivalents	2,867	17,612	9,471	15,612	7,746
Total assets	1,993,868	1,876,700	1,663,510	1,503,467	1,326,149
Short-term borrowings and current portion of long-term debt	109,305	145,349	61,423	237,280	79,777
Long-term debt	841,215	709,488	617,305	610,329	627,699
Other liabilities	142,490	77,952	50,514	70,404	54,480
Total liabilities	1,093,010	932,789	729,242	918,013	761,956
Total InfraREIT, Inc. equity	657,067	688,040	678,123	440,387	427,709
Noncontrolling interest	243,791	255,871	256,145	145,067	136,484
Total equity	900,858	943,911	934,268	585,454	564,193
Total equity and liabilities	1,993,868	1,876,700	1,663,510	1,503,467	1,326,149

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This item contains a discussion of our business, including a general overview of our properties, results of operations, liquidity and capital resources and quantitative and qualitative disclosures about market risk. Before our IPO, which closed on February 4, 2015, substantially all our business and assets were owned, directly or indirectly, by InfraREIT, L.L.C. On February 4, 2015, immediately following the consummation of our IPO, the Merger occurred with InfraREIT, Inc. as the surviving company. InfraREIT, Inc.'s operating results before the Merger primarily reflected costs related to obtaining a private letter ruling from the IRS and accounting services. As a result, this Management's Discussion and Analysis of Financial Condition and Results of Operations presents the operating results of InfraREIT, L.L.C. for 2015 through the effectiveness of the Merger along with the operations of InfraREIT, Inc. thereafter. Unless otherwise indicated or the context requires, all information presented gives effect to a 1 for 0.938550 reverse split of the shares of InfraREIT, L.L.C. and a concurrent 1 for 0.938550 reverse split of the OP Units, which was effected on January 29, 2015.

The following discussion should be read in conjunction with the consolidated financial statements and related notes beginning on page F-1. This Item 7 contains "forward-looking" statements that involve risks and uncertainties. See *Forward-Looking Statements* at the beginning of this Annual Report on Form 10-K.

Overview

We are engaged in owning and leasing rate-regulated assets in Texas. We are structured as a REIT and lease all our regulated assets to Sharyland, a Texas-based regulated electric utility. Currently, our assets are located in the Texas Panhandle; near Wichita Falls, Abilene and Brownwood; in the Permian Basin; and in South Texas. We have grown rapidly since our formation, with our rate base increasing from approximately \$60 million as of December 31, 2009 to \$1.5 billion as of December 31, 2017. For additional information on our assets, see the captions *Company Overview* and *Our Regulated Assets* in Part I, Item 1., *Business*.

We are externally managed by Hunt Manager. All our officers are employees of Hunt Manager. We expect to benefit from the experience, skill, resources, relationships and contacts of the executive officers and key personnel of Hunt Manager. Pursuant to our management agreement with Hunt Manager, Hunt Manager provides for our day-to-day management, subject to the oversight of our board of directors. In exchange for these management services, we pay a management fee to Hunt Manager.

Recent Events

Asset Exchange Transaction

In July 2017, SDTS and Sharyland signed a Definitive Agreement with Oncor to enter into the Asset Exchange Transaction. The Asset Exchange Transaction closed in November 2017 and, among other things, resulted in SDTS receiving \$383 million of transmission assets owned by Oncor and \$20 million of net cash in exchange for \$403 million of SDTS's net assets. These transactions were structured to qualify, in part, as a simultaneous tax deferred like-kind exchange of assets to the extent that the assets exchanged are of "like kind" (within the meaning of Section 1031 of the Internal Revenue Code of 1986, as amended). See Note 2, *Asset Exchange Transaction* in the Notes to the Consolidated Financial Statements beginning on page F-1 for additional information.

As part of the PUCT order approving the Asset Exchange Transaction, the PUCT granted SDTS a CCN to continue to own and lease its assets to Sharyland. At closing, the acquired transmission assets were added to the existing CREZ Lease, pursuant to which Sharyland leases and operates them under an amended CCN. The distribution assets that were transferred to Oncor were previously leased by Sharyland under the S/B/C Lease and McAllen Lease, but were transferred from the applicable lease upon the closing of the Asset Exchange Transaction. SDTS continues to own and lease to Sharyland certain substations related to its wholesale distribution assets, but Sharyland no longer operates in the retail distribution business.

Rate Case Dismissal

With the closing of the Asset Exchange Transaction on November 9, 2017, the Rate Case Dismissal became effective. For further information related to the Rate Case and the dismissal, see the caption *Regulatory Matters* below.

Our Business Model

We lease all our regulated assets to our tenant, Sharyland, which makes lease payments to us consisting of base and percentage rent. To support its lease payments to us, Sharyland provides transmission and wholesale distribution service and collects revenue from other utilities through PUCT-approved rates. Prior to the closing of the Asset Exchange Transaction, Sharyland also delivered electric service directly to end use customers. Under the terms of our leases, Sharyland is responsible for the operation of our assets, payment of all property related expenses associated with our assets, including repairs, maintenance, insurance and taxes (other than income and REIT excise taxes) and construction of Footprint Projects. Sharyland is also primarily responsible for regulatory compliance and reporting requirements related to our assets. As a utility operating within a REIT structure, there are two ways for us to increase our rate base and, as a result, our lease revenues, namely funding capital expenditures for Footprint Projects under our leases or acquiring additional regulated assets from Hunt or third parties.

Significant Components of Our Results of Operations

Lease Revenue

All our lease revenue consists of rental payments from Sharyland under our leases. Sharyland makes scheduled lease payments to us that primarily consist of base rent, which is a fixed amount, but certain lease supplements contain percentage rent as well, which is a percentage of Sharyland's gross revenue, as defined in the leases, earned through its PUCT-approved rates. We recognize base rent under these leases on a straight-line basis over the applicable term. We recognize percentage rent under these leases once the gross revenue earned by Sharyland on the leased assets exceeds the annual specified breakpoints established in our leases. Because these annual specified breakpoints must be met before we can recognize any percentage rent revenue, we anticipate our revenue will grow over the year with little to no percentage rent recognized during the first and second quarters of each year and with the largest amounts recognized during the third and fourth quarters of each year.

Tax Cuts and Jobs Act Regulatory Adjustment

As an owner of regulated utility assets, we have established an ADFIT balance for regulatory purposes primarily associated with the difference between U.S. GAAP and federal income tax depreciation on our assets. This ADFIT was calculated based on a 35% corporate federal income tax rate, but was not recorded on our balance sheet or income statement due to our expectation that we will not pay corporate federal income taxes as a result of our REIT structure. With the enactment of the TCJA, the corporate federal income tax rate was reduced to 21% effective for tax years beginning on or after January 1, 2018. Regulatory accounting rules require utilities to revalue their ADFIT balances based on a change in corporate federal income tax rates, to remove the difference from ADFIT and to create a regulatory liability for the reduction in ADFIT. Therefore, we reduced our ADFIT by \$55.8 million and created a regulatory liability for regulatory purposes. Additionally, we recorded the \$55.8 million regulatory liability on our balance sheet with a corresponding reduction to our 2017 revenue as deferred tax liabilities have not been previously recorded on our balance sheet.

Operating Expenses

General and Administrative

Our general and administrative expenses include management fees to Hunt Manager and professional services costs we incur such as: director compensation, stock exchange listing fees, transfer agent costs, legal and audit costs related to filings with the SEC, transaction costs related to our Asset Exchange Transaction in 2017 and, in 2015, a non-cash reorganization advisory fee related to our IPO.

Depreciation

Depreciation expense consists primarily of depreciation of electric plant using the straight-line method of accounting based on rates established in the most recent approved rate case related to our assets. We begin to recognize depreciation on our assets when they are placed in service, which reduces our rate base in those assets.

Other Items of Income or Expense

AFUDC is a non-cash accounting accrual that increases our CWIP balance. AFUDC rates are determined based on electric plant instructions found in the FERC regulations. Once our regulated assets are placed in service, we stop accruing AFUDC on those assets.

Interest Expense, net

Interest expense, net is comprised of interest expense associated with our outstanding borrowings, increased or decreased by realized gains or losses on our cash flow hedging instruments, increased by amortization of deferred financing costs and decreased by the portion of AFUDC that relates to our cost of borrowed funds (AFUDC on debt).

Other Income (Expense), net

Other income (expense), net is comprised of AFUDC that relates to the cost of our equity (AFUDC on other funds) and the change in fair value of the Operating Partnership's contingent consideration owed to Hunt-InfraREIT, L.L.C. (Hunt-InfraREIT), a subsidiary of HCI, pursuant to the provisions of the Operating Partnership's partnership agreement, which arrangement concluded during 2015. See *Contingent Consideration and Deemed Capital Contributions* below for additional information regarding this contingent consideration.

Factors Expected To Affect Our Operating Results and Financial Condition

Our results of operations and financial condition are affected by numerous factors, many of which are beyond our control. The key factors we expect to impact our results of operations and financial condition include our lease revenues and the amount of additional capital expenditures we make to fund Footprint Projects.

TCJA Impacts and Company Structure Review

Sharyland's rates have historically incorporated an income tax allowance at a 35% corporate federal income tax rate, and our lease supplements with Sharyland reflect this assumption. However, due to the enactment of the TCJA and at the request of the PUCT, Sharyland has agreed to reduce its WTS rate to reflect an income tax allowance at the 21% corporate federal income tax rate. As a result, we expect our percentage rent revenues, which are calculated based on a percentage of Sharyland's gross revenue, to be lower as Sharyland begins to implement the lower WTS rate.

Further, when we and Sharyland enter into new lease supplements for future assets placed in service or upon the renewal of our leases, the lease payments for those assets will reflect a reduction in Sharyland's rates and the other impacts of the TCJA, resulting in a reduction, relative to the existing lease terms, in the amount of lease revenue we receive per dollar of rate base. It is possible that, in the future, Sharyland could request a reduction in rent for existing assets already under leases to reflect the impacts of the TCJA on its rates and financials results; if such a request is made, we are not obligated under the leases to agree to the requested change. Sharyland has indicated that it currently does not intend to make such a request with respect to the 2018 lease payments.

Although the revenue requirement of all utilities will eventually be impacted by the lower corporate federal income tax rate in the TCJA, utilities organized in a traditional C-corporation structure generally will experience a corresponding offset in income tax expense. However, for so long as we qualify as a REIT, we will not pay corporate federal income taxes, and as such, once the lower tax rate is incorporated into our leases, we will begin to receive lower lease revenue without an offsetting reduction in our expenses. Accordingly, the reduction in the corporate federal income tax rate from 35% to 21% in the TCJA will, over time, have the effect of decreasing the relative economic benefits of owning utility assets in a REIT structure, as compared to a traditional C-corporation structure, and we are considering whether to pursue a De-REIT transaction. The ultimate impact of any decision to terminate our REIT status on us or our financial position would be subject to a number of variables, both positive and negative, the net effect of which we cannot predict at this time. In addition, if we determine to terminate our REIT status, we would no longer be required to pay dividends to our stockholders of at least 90% of our taxable income, and the amount of any dividend that we determine to pay may be reduced.

For additional information regarding the impacts of the TCJA, see the captions *Dividends and Distributions*, *Regulatory Matters* and *Income Taxes* below. For a further discussion of these and other factors that could impact our operating results and financial condition, see Part I, Item 1A., *Risk Factors*.

Lease Revenues

All our lease revenue is derived from rental payments from Sharyland. We lease all our assets to Sharyland pursuant to five separate leases. Rental payments under the leases primarily consist of base rent, but certain lease supplements contain percentage rent as well. Percentage rent is based on a percentage of Sharyland's gross revenue, as defined in the leases, in excess of annual specified breakpoints. Due to the percentage rent component in our leases, our revenue will vary based on Sharyland's revenue, which is earned through the PUCT-approved rates that it charges. However, because percentage rent only constitutes a portion of the revenue under our leases, our revenue will not vary as significantly as it would if we were an integrated utility.

A percentage rent component was included in lease supplements related to 98% versus 50% of our net assets as of December 31, 2016 and 2017, respectively. Further, transmission assets comprised approximately 70% and 90% of our rate base as of December 31, 2016 and 2017, respectively. In general, transmission revenues are subject to a lower level of variability than distribution revenues due to consumer demand variability associated with the distribution business. Accordingly, with respect to the change in the composition of our asset base and lease supplements, we do not expect as much variability in our lease revenues as we have experienced in the past.

The rental payments under our leases are based on the premise that we, as the owner of the regulated assets, should receive most of the regulated return on our invested capital, while leaving Sharyland with a portion of the return that gives it the opportunity to operate prudently and remain financially stable. Because our existing rate base will decrease over time as our regulated assets depreciate, revenue under our leases will decrease over time unless we add to our existing rate base by making additional capital expenditures to offset the decreases in rent resulting from depreciation.

Capital Expenditures

Sharyland is required to provide a capital expenditure budget on a rolling three-year basis that sets forth anticipated capital expenditures related to Footprint Projects. Our capitalization policies, consistent with standard utility practice under U.S. GAAP, determine whether a particular expenditure is characterized as a Footprint Project, which we are required to fund, or a repair, which Sharyland is required to fund. Footprint Projects expenditures are capitalized and increase our net electric plant while expenditures relating to repairs of our existing regulated assets are expensed.

InfraREIT, Inc. Results of Operations

<i>(In thousands)</i>	Years Ended December 31,		
	2017	2016	2015
Revenue			
Base rent	\$ 165,264	\$ 145,030	\$ 125,669
Percentage rent	25,077	27,069	25,534
Total lease revenue	190,341	172,099	151,203
Tax Cuts and Jobs Act regulatory adjustment	(55,779)	—	—
Net revenues	134,562	172,099	151,203
Operating costs and expenses			
General and administrative expense	25,388	21,852	64,606
Depreciation	51,207	46,704	40,211
Gain on asset exchange transaction	(257)	—	—
Total operating costs and expenses	76,338	68,556	104,817
Income from operations	58,224	103,543	46,386
Other (expense) income			
Interest expense, net	(40,671)	(36,920)	(28,554)
Other income, net	718	3,781	3,048
Total other expense	(39,953)	(33,139)	(25,506)
Income before income taxes	18,271	70,404	20,880
Income tax expense	1,218	1,103	949
Net income	17,053	69,301	19,931
Less: Net income attributable to noncontrolling interest	4,751	19,347	6,664
Net income attributable to InfraREIT, Inc.	<u>\$ 12,302</u>	<u>\$ 49,954</u>	<u>\$ 13,267</u>

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Lease revenue — Lease revenue was \$190.3 million and \$172.1 million for the years ended December 31, 2017 and 2016, respectively, representing an increase of \$18.2 million, or 10.6%. Base rent was \$165.2 million, or 86.8% of total revenue, and \$145.0 million, or 84.3% of total revenue, for the years ended December 31, 2017 and 2016, respectively, representing an increase of \$20.2 million, or 13.9%. The increase in base rent was driven by the addition of assets under lease and a larger portion of our total rent being allocated to fixed rent. Percentage rent was \$25.1 million, or 13.2% of total revenue, and \$27.1 million, or 15.7% of total revenue, for the years ended December 31, 2017 and 2016, respectively, representing a decrease of \$2.0 million, or 7.4%. The decrease in percentage rent was due to higher annual specified breakpoints and lower percentage rent rates leading to a lower allocation of percentage rent, partially offset by higher Sharyland revenues in 2017 as compared to 2016. Growth in lease revenue was mitigated by lower lease pricing assumptions embedded in our leases in the second half of 2017. See Note 15, *Leases* in the Notes to the Consolidated Financial Statements beginning on page F-1 for additional information.

Tax Cuts and Jobs Act regulatory adjustment — The Tax Cuts and Jobs Act regulatory adjustment was a non-cash reduction to revenue of \$55.8 million for the year ended December 31, 2017. As an owner of regulated utility assets, we have historically established an ADFIT balance for regulatory purposes; however, the ADFIT balance was previously not recorded on our consolidated balance sheet or income statement due to our REIT structure. With the reduction in the corporate federal income tax rate resulting from the TCJA, we were required to revalue our ADFIT balance to remove the difference between the 35% and 21% corporate federal income tax rates and reclassify the resulting reduction in ADFIT from a deferred tax liability to a regulatory liability, which we refer to as the Tax Cuts and Jobs Act regulatory adjustment. This resulted in a reduction to revenue since deferred tax liabilities have not been previously recorded on our consolidated balance sheets. This Tax Cuts and Jobs Act regulatory adjustment did not exist during 2016. See Note 10, *Regulatory Matters* in the Notes to the Consolidated Financial Statements beginning on page F-1 for additional information.

General and administrative expense — General and administrative expense was \$ 25.4 million and \$21.9 million for the years ended December 31, 2017 and 2016, respectively, representing an increase of \$ 3.5 million, or 16.0 %. The increase in general and administrative expense between the two periods was primarily driven by an increase of \$ 0.3 million in management fees owed to Hunt Manager under our management agreement and \$ 3.7 million in professional services partially offset by a decrease of \$ 0.4 million in stock-based compensation. The increase in professional services represents \$ 4.7 million of costs related to the Asset Exchange Transaction partially offset by a \$0.4 million decrease in annual software license and maintenance fees and a \$ 0.6 million decrease in regulatory expenses. See *Recent Events* above and *Regulatory Matters* below for additional information. We expect a decrease in our general and administrative expense throughout 2018 due to a decrease in the management fee owed to Hunt Manager for the period from April 1, 2018 through March 31, 2019, primarily related to the impact of the Tax Cuts and Jobs Act regulatory adjustment on our 2017 net income without a corresponding reduction in dividends paid during 2017.

Depreciation — Depreciation expense was \$51.2 million and \$46.7 million for the years ended December 31, 2017 and 2016, respectively, representing an increase of \$4.5 million, or 9.6%. The increase in depreciation expense was due to additional assets placed in service during 2016 and 2017.

Gain on asset exchange transaction — The \$0.3 million gain on asset exchange transaction represents the gain associated with inventory that was sold to Oncor as part of the Asset Exchange Transaction in November 2017.

Interest expense, net — Interest expense, net was \$40.7 million and \$36.9 million during the years ended December 31, 2017 and 2016, respectively, representing an increase of \$3.8 million, or 10.3%. The increase in interest expense, net was due to higher average debt balances during 2017 as compared to 2016. Interest expense was partially offset by \$3.0 million of AFUDC on debt in 2017 as compared to \$3.1 million of AFUDC on debt in 2016. See Note 7, *Borrowings Under Credit Facilities* and Note 8, *Long-Term Debt* in the Notes to the Consolidated Financial Statements beginning on page F-1 for additional information.

Other income, net — Other income, net was \$0.7 million and \$3.8 million during the years ended December 31, 2017 and 2016, respectively, representing a decrease of \$3.1 million. The decrease in other income, net was primarily driven by the reduction in AFUDC on other funds due to short-term borrowing in excess of the CWIP balance for the majority of the year resulting in CWIP mainly being financed with debt during 2017.

Net income — Net income was \$17.1 million and \$69.3 million during the years ended December 31, 2017 and 2016, respectively, representing a decrease of \$52.2 million. The decrease in net income between the two years was mainly attributable to the non-cash \$55.8 million Tax Cuts and Jobs Act regulatory adjustment. The remaining \$3.6 million increase is a result of an \$18.2 million increase in lease revenue and a \$0.3 million gain on the Asset Exchange Transaction, partially offset by a \$3.5 million increase in general and administrative expense, \$4.5 million increase in depreciation expense, \$3.8 million increase in interest expense, net and \$3.1 million decrease in other income, net.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Lease revenue — Lease revenue was \$172.1 million for the year ended December 31, 2016 compared to \$151.2 million for the year ended December 31, 2015, representing an increase of \$20.9 million, or 13.8%. Base rent was \$145.0 million, or 84.3% of total revenue, and \$125.7 million, or 83.1% of the total revenue, for the years ended December 31, 2016 and 2015, respectively, representing an increase of \$19.3 million, or 15.4%. The increase in base rent was driven by the addition of assets under lease. Percentage rent was \$27.1 million, or 15.7% of total revenue, and \$25.5 million, or 16.9% of total revenue, during the years ended December 31, 2016 and 2015, respectively, representing an increase of \$1.6 million, or 6.3%, due to an increase in Sharyland's gross revenues during 2016 compared to 2015. See Note 15, *Leases* in the Notes to the Consolidated Financial Statements beginning on page F-1 for additional information.

General and administrative expense — General and administrative expenses were \$21.9 million and \$64.6 million for the years ended December 31, 2016 and 2015, respectively, representing a decrease of \$42.7 million. During the first quarter of 2015, we incurred a \$44.9 million expense in connection with the issuance by InfraREIT, Inc. of common stock to Hunt-InfraREIT as a non-cash reorganization advisory fee. We did not have a similar expense in 2016. The elimination of this \$44.9 million expense was partially offset by an increase of \$1.5 million in management fees owed to Hunt Manager under our management agreement, \$0.6 million in professional services and \$0.3 million of stock compensation expense.

Depreciation — Depreciation expense was \$46.7 million and \$40.2 million for the years ended December 31, 2016 and 2015, respectively, representing an increase of \$6.5 million, or 16.2%. The increase in depreciation expense was due to additional assets being placed in service during 2016 and 2015.

Interest expense, net — Interest expense, net was \$36.9 million and \$28.6 million during the years ended December 31, 2016 and 2015, respectively, representing an increase of \$8.3 million. The increase in interest expense, net was due to the refinancing of our variable rate debt in December 2015 with fixed rate debt bearing interest at a higher interest rate, plus higher average debt balances during 2016. The increase in interest expense was partially offset by an additional \$1.4 million of AFUDC on debt resulting from higher CWIP balances and applicable rates during 2016 compared to 2015. See Note 7, *Borrowings Under Credit Facilities* and Note 8, *Long-Term Debt* in the Notes to the Consolidated Financial Statements beginning on page F-1 for additional information.

Other income, net — Other expense, net was \$3.8 million and \$3.0 million during the years ended December 31, 2016 and 2015, respectively, representing an increase of \$0.8 million. The increase in other income, net was primarily driven by an increase of \$0.7 million in AFUDC on other funds resulting from higher CWIP balances and applicable rates during 2016 compared to 2015.

Net income — Net income was \$69.3 million and \$19.9 million during the years ended December 31, 2016 and 2015, respectively, representing an increase of \$49.4 million. The increase in net income between the two years was attributable to a \$20.9 million increase in lease revenue and a decrease of \$44.9 million in general and administrative expense representing the non-cash reorganization advisory fee in the first quarter of 2015, partially offset by a \$6.5 million increase in depreciation expense and an \$8.3 million increase in interest expense, net.

Liquidity and Capital Resources

As of December 31, 2017, we had \$2.9 million of unrestricted cash and cash equivalents. As of December 31, 2017, we also had \$1.7 million of restricted cash and \$284.0 million of unused capacity under our revolving credit facilities.

We use our cash on hand, cash flows from operations and borrowings under our credit facilities to fund current obligations, working capital requirements, operating expenses, maturities of long-term debt, budgeted capital spending and dividend payments. We expect that we will be able to fund estimated capital expenditures associated with Footprint Projects through the end of 2020 without raising proceeds from additional equity offerings. However, if (1) we acquire additional regulated assets, (2) debt capital is unavailable on favorable terms, or at all, at a time when we would choose to access debt capital markets, (3) the capital expenditure requirements of our business are different than our expectations, (4) our credit metrics are weaker than our targeted levels, (5) the cash flows from operations do not meet our current estimates or (6) any other unexpected factors, such as changes imposed by the PUCT, were to impact our liquidity and cash position, we may seek to raise proceeds from the equity markets at an earlier time.

Management expects that future operating cash flows, along with access to financial markets, will be sufficient to meet any future operating requirements and forecasted capital investment opportunities. As part of our financing strategy, we will periodically issue long-term debt or enter into term loan arrangements and use the proceeds to reduce borrowings under our revolving credit facilities or refinance other debt. If our ability to access the capital markets is restricted or if debt or equity capital were unavailable on favorable terms, or at all, at a time when we would like, or need, to access those markets, our ability to fund capital expenditures under our leases or to comply with the REIT distribution rules could be adversely affected.

Capital Expenditures

We fund Footprint Projects related to our regulated assets as we and Sharyland determine such Footprint Projects are required pursuant to the terms of our leases. Our total capital expenditures, cash for additions to electric plant on the Consolidated Statements of Cash Flows, for the years ended December 31, 2017, 2016 and 2015 were \$184.4 million, \$231.3 million and \$239.2 million, respectively.

On an accrual basis, capital expenditures for the years ended December 31, 2017, 2016 and 2015 were \$170.1 million, \$224.1 million and \$230.4 million, respectively. Capital expenditures on an accrual basis differ from our total capital expenditures due in part to differences in construction costs incurred during the period versus cash paid during the period.

Under the terms of our leases, Sharyland provides a capital expenditure forecast on a rolling three year basis that sets forth anticipated capital expenditures related to our regulated assets. We expect estimated Footprint Projects capital expenditures for the calendar years 2018 through 2020 in the range of \$70 million to \$180 million as set forth in the table below. We intend to fund these capital expenditures with a mix of debt and cash flows from operations.

<i>(In millions)</i>	Years Ending December 31,		
	2018	2019	2020
Total estimated Footprint Projects capital expenditures	\$ 50-80	\$ 10-50	\$ 10-50

In recent years, we made significant capital investments in our former Stanton/Brady/Celeste, Texas distribution service territory to reinforce and upgrade our existing assets and to support load growth. Additionally, we expanded the capacity of our Panhandle assets to transmit additional electricity from wind farms. As a result of the Asset Exchange Transaction and with many of these projects coming to a conclusion during 2017 and 2018, our capital expenditures forecast for 2019 and 2020 is primarily driven by expectations regarding maintenance capital expenditure requirements and new assets that either relieve congestion or expand our footprint to connect new generation supply in the Texas Panhandle and West Texas.

Although we believe the assumptions and estimates underlying our forecast to be reasonable as of the date of this report, they are inherently uncertain and subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause the amount and timing of our capital expenditures to differ materially from our current expectations. See *Forward-Looking Statements* at the beginning of this Annual Report on Form 10-K.

Dividends and Distributions

As a REIT, we must make current distributions of at least 90% of our annual taxable income, excluding capital gains and other adjustments; and as such, we expect to distribute at least 100% of our taxable income. Our 2017 quarterly dividend rate was \$0.25 per share, or \$1.00 per share on an annualized basis.

We paid a total of \$60.7 million, \$59.1 million and \$61.6 million in dividends or distributions during the years ended December 31, 2017, 2016 and 2015, respectively. Of the \$61.6 million of dividends and distributions paid in 2015, \$25.8 million was paid prior to our IPO.

On February 27, 2018, our board of directors declared a dividend of \$0.25 per share of common stock, or \$1.00 per share on an annualized basis, payable on April 19, 2018 to holders of record as of March 29, 2018. Our board of directors also authorized our Operating Partnership to make a distribution of \$0.25 per OP Unit to the partners in our Operating Partnership, which includes affiliates of Hunt.

The TCJA includes provisions that reduce the tax rates applicable to individuals and that treat dividends paid to REIT shareholders as income eligible for the new 20% deduction for business income earned from passthrough entities. These changes will have the effect of reducing the maximum income tax rate applicable to REIT dividends paid to individual REIT shareholders from 39.6% to 29.6%. These provisions are set to expire after 2025.

Credit Arrangements

We have two revolving credit facilities, a senior secured term loan and senior secured notes. Our assets are collateral under our various debt arrangements. See Note 7, *Borrowings Under Credit Facilities* and Note 8, *Long-Term Debt* in the Notes to the Consolidated Financial Statements beginning on page F-1 for additional information.

Operating Partnership Revolving Credit Facility

Our Operating Partnership is party to a \$75.0 million revolving credit facility with up to \$15.0 million available for issuance of letters of credit and a maturity date of December 10, 2019.

As of December 31, 2017 and 2016, there were no outstanding borrowings or letters of credit, and there was \$75.0 million of borrowing capacity available under the revolving credit facility. As of December 31, 2017 and 2016, the Operating Partnership was in compliance with all covenants under the credit agreement.

SDTS Revolving Credit Facility

SDTS has a \$250.0 million revolving credit facility, with up to \$25.0 million of the revolving credit facility available for issuance of letters of credit and up to \$5.0 million of the revolving credit facility available for swingline loans. The revolving credit facility matures on December 10, 2019.

As of December 31, 2017, SDTS had \$41.0 million of borrowings outstanding at a weighted average interest rate of 3.12%, no letters of credit outstanding and \$209.0 million of borrowing capacity available under this revolving credit facility. As of December 31, 2016, SDTS had \$137.5 million of borrowings outstanding at a weighted average interest rate of 2.50% with no letters of credit outstanding and \$112.5 million of borrowing capacity available under this revolving credit facility. As of December 31, 2017 and 2016, SDTS was in compliance with all covenants under the credit agreement.

Senior Secured Debt

TDC issued \$25.0 million aggregate principal amount of 8.50% per annum senior secured notes to The Prudential Insurance Company of America and affiliates (TDC Notes) with a maturity date of December 30, 2020. Principal and interest on the TDC Notes are payable quarterly. As of December 31, 2017, \$16.3 million of principal was outstanding under the TDC Notes.

SDTS has 5.04% per annum senior secured notes issued to The Prudential Insurance Company of America and affiliates (2011 Notes) with a principal balance of \$60.0 million, which is due in full on June 20, 2018. Interest is payable quarterly with no principal payments until maturity. The carrying amount of the 2011 Notes was \$60.0 million at December 31, 2017. We plan to use borrowings under the SDTS revolving credit facility to repay the principal balance on the 2011 Notes at maturity.

In June 2017, SDTS entered into a \$200.0 million senior secured term loan credit facility (2017 Term Loan) with a maturity date of June 5, 2020. Interest is payable at least quarterly at the option of SDTS with the full principal amount due at maturity. As of December 31, 2017, \$200.0 million was outstanding at a weighted average interest rate of 2.71% under the 2017 Term Loan. The proceeds from the issuance of the 2017 Term Loan were used to repay the outstanding balance on the SDTS revolving credit facility and for general corporate purposes.

SDTS has \$400.0 million in 10 year senior secured notes, series A (Series A Notes), due December 3, 2025 and \$100.0 million in 10 year senior secured notes, series B (Series B Notes), due January 14, 2026. These senior secured notes bear interest at a rate of 3.86% per annum, payable semi-annually. The Series A Notes are due at maturity with outstanding accrued interest payable each June and December. The Series B Notes are due at maturity with outstanding accrued interest payable each January and July. As of December 31, 2017, \$400.0 million and \$100.0 million were outstanding under the Series A Notes and Series B Notes, respectively.

SDTS issued \$53.5 million aggregate principal amount of 7.25% per annum senior secured notes to The Prudential Insurance Company of America and affiliates (2009 Notes) with a maturity date of December 30, 2029. Principal and interest on the 2009 Notes are payable quarterly. As of December 31, 2017, \$40.5 million of principal was outstanding under the 2009 Notes. Additionally, SDTS issued \$110.0 million aggregate principal amount of 6.47% per annum senior secured notes to The Prudential Insurance Company of America (2010 Notes) with a maturity date of September 30, 2030. Principal and interest on the 2010 Notes are payable quarterly. As of December 31, 2017, \$92.8 million of principal was outstanding under the 2010 Notes.

As of December 31, 2017 and 2016, SDTS and TDC were in compliance with all debt covenants under the applicable agreements governing the senior secured notes and 2017 Term Loan.

For a complete description of our credit arrangements, refer to the credit documents which are incorporated by reference as filed exhibits to this Annual Report on Form 10-K.

Cash Flows

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Cash flows from operating activities — Net cash provided by operating activities was \$117.6 million and \$123.1 million during the years ended December 31, 2017 and 2016, respectively. The decrease in net cash provided by operating activities related primarily to less cash provided by working capital changes during 2017 compared to 2016, partially offset by higher lease revenue during 2017 compared to 2016.

Cash flows from investing activities — Net cash used in investing activities was \$166.5 million and \$231.3 million during the years ended December 31, 2017 and 2016, respectively. During 2017 and 2016, \$184.4 million and \$231.3 million represented capital expenditures related to the construction of our regulated assets, respectively. Additionally, during 2017, \$17.9 million was received related to the Asset Exchange Transaction.

Cash flows from financing activities — Net cash provided by financing activities was \$34.2 million and \$116.3 million during the years ended December 31, 2017 and 2016, respectively. The decrease related primarily to the additional \$179.4 million repayment of short-term and long-term borrowings in 2017 compared to 2016. This was partially offset by a \$99.0 million increase in proceeds from the issuance of short-term and long-term debt during 2017 compared to 2016. Additionally, the payment of dividends and distributions was \$1.6 million higher in 2017 compared to 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Cash flows from operating activities — Net cash provided by operating activities was \$123.1 million and \$105.8 million during the years ended December 31, 2016 and 2015, respectively. The increase in net cash provided by operating activities related primarily to higher lease revenue during 2016 compared to 2015, combined with more cash provided by working capital changes during 2016 compared to 2015.

Cash flows from investing activities — Net cash used in investing activities was \$231.3 million and \$369.3 million during the years ended December 31, 2016 and 2015, respectively. During 2016, we used \$231.3 million for capital expenditures related to the construction of our regulated assets compared to \$239.2 million during 2015. During 2015, we used \$172.4 million of our IPO proceeds as cash consideration in the Merger, which was partially offset by our receipt of cash proceeds of \$41.2 million from the sale of the Cross Valley Project and Golden Spread Project to Hunt or one of its affiliates and our sale of marketable securities for \$1.1 million. We did not have similar transactions during 2016.

Cash flows from financing activities — Net cash provided by financing activities was \$116.3 million and \$257.3 million during the years ended December 31, 2016 and 2015, respectively. The decrease related to not receiving any cash proceeds from the issuance of equity and a \$247.5 million reduction in proceeds from the issuance of short-term and long-term debt during 2016. Additionally, repayment of short-term and long-term borrowings of \$63.4 million was substantially less than the \$657.9 million of repayments during 2015. The payment of dividends and distributions was \$2.5 million lower in 2016 than 2015.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2017 and 2016.

Regulatory Matters

Rate Cases

In January 2014, the PUCT approved the 2013 Rate Case, which provided for a capital structure consisting of 55% debt and 45% equity, a cost of debt of 6.73%, a return on equity of 9.70% and a return on invested capital of 8.06% in calculating rates. The new rates became effective May 1, 2014. Under the order approving the 2013 Rate Case, Sharyland was required to file its next rate case in 2016. The 2016 Rate Case was dismissed in November 2017, which resulted in the 2013 Rate Case regulatory parameters remaining in place. As part of the PUCT order approving the Asset Exchange Transaction, the PUCT also granted SDTS a CCN to continue to own and lease its assets to Sharyland. SDTS and Sharyland are required to file a new rate case in the calendar year 2020 with a test year ending December 31, 2019.

TCJA Impacts

Sharyland's rates have historically incorporated an income tax allowance at the 35% corporate federal income tax rate, and our lease supplements with Sharyland reflect this assumption. However, due to the enactment of the TCJA and at the request of the PUCT, Sharyland has agreed to reduce its WTS rate to reflect an income tax allowance at the reduced 21% corporate federal income tax rate.

Contingent Consideration and Deemed Capital Contributions

In connection with the organization of InfraREIT, L.L.C. in 2010, the Operating Partnership agreed to issue deemed capital credits and Class A OP Units to Hunt-InfraREIT. The Operating Partnership agreed to issue up to \$82.5 million to Hunt-InfraREIT, pro-rata, as the capital expenditures were funded for the CREZ project up to \$737.0 million. In addition, the Operating Partnership also agreed to issue Hunt-InfraREIT deemed capital credits equal to 5% of the capital expenditures on certain development projects. As of December 31, 2014, the Operating Partnership issued Hunt-InfraREIT an aggregate 6.8 million of Class A OP Units in respect of these obligations. On January 1, 2015, the Operating Partnership issued an additional 70,848 Class A OP Units to Hunt-InfraREIT, and, upon completion of our IPO, the Operating Partnership issued Hunt-InfraREIT an accelerated deemed capital credit equal to 983,418 Class A OP Units, which settled the related obligations to Hunt-InfraREIT. Following this issuance, the Operating Partnership no longer had the obligation to issue deemed capital credits or related equity to Hunt-InfraREIT.

There was no expense recorded during the years ended December 31, 2017, 2016 and 2015 related to our contingent consideration.

Contractual Obligations

The table below summarizes our contractual obligations and other commitments as of December 31, 2017.

<i>(In thousands)</i>	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt - principal	\$ 909,617	\$ 68,305	\$ 230,605	\$ 17,837	\$ 592,870
Long-term debt - interest	239,599	36,257	65,001	52,424	85,917
Management fee (1)	27,188	13,675	13,513	—	—
Total	\$ 1,176,404	\$ 118,237	\$ 309,119	\$ 70,261	\$ 678,787

- (1) The management fee for the less than one year period is based on the current fee of \$14.2 million and the annual amount of \$13.5 million for April 1, 2018 through March 31, 2019. The remaining time periods are estimated based on the annual base fee of \$13.5 million for April 1, 2018 to March 31, 2019. However, the management fee presented does not include any incentive payments, termination fees or renewal period payments that may be owed to Hunt Manager.

Summary of Critical Accounting Policies and Estimates

The selection and application of accounting policies is an important process that has developed as our business activities have evolved and as the accounting rules have developed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules, and the use of judgment regarding the specific set of circumstances existing in our business. Compliance with the rules necessarily involves reducing a number of very subjective judgments to a quantifiable accounting entry or valuation. We endeavor to properly comply with all applicable rules on or before their adoption, and we believe the proper implementation and consistent application of the accounting rules are critical. Our most significant accounting policies are discussed below. See Note 1, *Description of Business and Summary of Significant Accounting Policies* in the Notes to the Consolidated Financial Statements beginning on page F-1 for further detail on our accounting policies.

Regulatory

As the owner of rate-regulated electric assets, regulatory principles applicable to the utility industry also apply to us. The financial statements reflect regulatory assets and liabilities under cost-based rate regulation in accordance with accounting standards related to the effect of certain types of regulation. Regulatory decisions can have an impact on the recovery of costs, the rate earned on invested capital and the timing and amount of assets to be recovered by rates.

We capitalize AFUDC during the construction period of our regulated assets, and our lease agreements with Sharyland rely on FERC definitions and policies regarding capitalization of expenses to define the term Footprint Projects, which are the amounts we are obligated to fund pursuant to our leases. The amounts we fund for these Footprint Projects include allocations of Sharyland employees' time, including overhead allocations consistent with FERC policies and U.S. GAAP.

Electric Plant, net

Electric plant is stated at the original cost of acquisition or construction, which includes the cost of contracted services, direct labor, materials, acquisition adjustments and overhead items. In accordance with the FERC uniform system of accounts guidance, we capitalize AFUDC, which represents the approximate cost of debt and equity to finance plant under construction. AFUDC on debt is classified on our Consolidated Statements of Operations as a reduction of our interest expense, while AFUDC on other funds is classified as other income. AFUDC rates are determined based on electric plant instructions found in the FERC regulations.

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

Whether a particular expenditure is characterized as a Footprint Project, which we are required to fund, or a repair, which Sharyland is required to fund, depends on its characterization based on our capitalization policies following standard utility practices under U.S. GAAP. We fund expenditures relating to Footprint Projects, which are capitalized and increase our net electric plant. Sharyland funds expenditures relating to repairs of our existing regulated assets and expenses such costs.

Goodwill

Goodwill represents the excess of costs of an acquired business over the fair value of the assets acquired, less the amount of liabilities assumed. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances arise. As of December 31, 2017 and 2016, we had \$138.4 million in goodwill recorded on our Consolidated Balance Sheets, of which \$83.4 million related to the acquisition of Cap Rock and \$55.0 million related to InfraREIT, L.L.C.'s formation transactions, each of which occurred in 2010. These amounts are not reflected as goodwill for federal income tax purposes.

Business Combinations

As the acquirer of a business, we recognize and measure in our financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, measured at their fair values as of the acquisition date. We recognize contingent consideration arrangements at their acquisition date fair values with subsequent changes in fair value reflected in earnings. Significant estimates and management assumptions are used to determine the fair value of business combinations and the accounting for contingent consideration.

Income Taxes

InfraREIT, L.L.C. elected to be treated as a REIT under Sections 856 through 860 of the Code, commencing with the taxable year ended December 31, 2010, and InfraREIT, Inc. elected to be taxed as a REIT commencing with the taxable year ended December 31, 2015. To maintain our qualification as a REIT, we are required to annually distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided that we qualify for taxation as a REIT, we generally will receive a deduction for dividends paid to our stockholders for U.S. federal income tax purposes, which will reduce our taxable income. We are still liable for state and local income tax, franchise tax, federal income tax and excise tax on our undistributed income. If we fail to qualify as a REIT in any taxable year and are unable to avail ourselves of certain savings provisions set forth in the Code, all our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. Unless entitled to relief under specific statutory provisions, we would be ineligible to elect to be treated as a REIT for the four taxable years following the year for which we lose our qualification. It is not possible to state whether in all circumstances we would be entitled to this statutory relief.

The TCJA was signed into law in December 2017 reducing the federal income tax rate from 35% to 21% effective for taxable years beginning on or after January 1, 2018. For additional information regarding the TCJA and its effect on Sharyland's revenue requirement and on us, see *TCJA Impacts and Company Structure Review* and *Regulatory Matters* above.

Revenue Recognition

Our lease revenue consists of annual base rent and percentage rent based upon a percentage of the revenue Sharyland generates on our leased regulated assets in excess of annual specified breakpoints. Applicable guidance provides that we recognize lease revenue over the term of lease agreements with Sharyland. Applying this principle, we recognize the base rent amounts that were in effect at the time the original leases were executed over the term of the applicable lease on a straight-line basis. Our current leases provide that, as the completion of Footprint Projects or acquisition of regulated assets increase our rate base, we and Sharyland will negotiate amended and restated lease supplements that will update the scheduled rent payments to include additional rent payments related to this incremental rate base. We recognize the increases to base rent related to these incremental capital expenditures or acquisitions on a straight-line basis over the lease term. We recognize percentage rent under the leases at such time as the revenue earned by Sharyland on the leased assets exceeds the annual specified breakpoint for the applicable lease.

Deferred Financing Costs and Other Regulatory Assets

Amortization of deferred financing costs associated with TDC's debt issuance is computed using the straight-line method over the life of the loan, which approximates the effective interest method. Amortization of deferred financing costs associated with the debt of SDTS is computed using the straight-line method over the life of the loan in accordance with the applicable regulatory guidance.

Deferred costs recoverable in future years of \$23.8 million at December 31, 2017 and 2016 represent operating costs incurred from inception of Sharyland through December 31, 2007. We have determined that these costs are probable of recovery through future rates based on orders of the PUCT in Sharyland's prior rate cases and regulatory precedent.

Derivative Instruments

We may use derivatives from time to time to hedge against changes in cash flows related to interest rate risk (cash flow hedging instrument). We record all derivatives on our Consolidated Balance Sheets at fair value. We determine the fair value of the cash flow hedging instrument based on the difference between the cash flow hedging instrument's fixed contract price and the underlying market price at the determination date. The asset or liability related to the cash flow hedging instrument is recorded on our Consolidated Balance Sheets at its fair value.

We record unrealized gains and losses on the effective cash flow hedging instrument as components of accumulated other comprehensive income. We record realized gains and losses on the cash flow hedging instrument as adjustments to interest expense, net. Settlements of derivatives are included within operating activities on our Consolidated Statements of Cash Flows. Any ineffectiveness in the cash flow hedging instrument would be recorded as an adjustment to interest expense in the current period.

Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles

We use certain financial measures that are not recognized under U.S. GAAP. The non-GAAP financial measures used in this report include Non-GAAP EPS; CAD; EBITDA; EBITDA as adjusted in the manner described below (Adjusted EBITDA); FFO and FFO adjusted in the manner described below (AFFO).

We derive our non-GAAP measures as follows to show our core operational performance:

- We define our non-GAAP net income as net income adjusted in a manner we believe is appropriate to show our core operational performance, which includes:
 - an adjustment for the difference between the amount of base rent payments that we receive with respect to the applicable period and the amount of straight-line base rent recognized under U.S. GAAP;
 - adding back the Tax Cuts and Jobs Act regulatory adjustment related to the establishment of the regulatory liability related to the excess ADFIT as a result of the enactment of the TCJA reducing the corporate federal income tax rate from 35% to 21%;
 - adding back the transaction costs related to the Asset Exchange Transaction as these costs are exclusive of our routine business operations or typical rate case costs;
 - removing the effect of the gain associated with the inventory that was sold in the Asset Exchange Transaction;
 - adding back the non-cash reorganization structuring fee related to our reorganization transactions;
 - adding back the reorganization expense related to our IPO and related reorganization transactions; and
 - adding back the expense related to the contingent consideration issued as deemed capital credits.
- We define Non-GAAP EPS as non-GAAP net income divided by the weighted average shares outstanding calculated in the manner described in the footnotes in the Non-GAAP EPS reconciliation tables below.
- We define CAD in a manner we believe is appropriate to show our core operational performance, which includes a deduction of the portion of capital expenditures needed to maintain our net assets. This deduction equals depreciation expense within the applicable period. The portion of capital expenditures in excess of depreciation, which we refer to as growth capital expenditures, will increase net assets. The CAD calculation also includes adjustments for the amortization of deferred financing costs and stock compensation expense along with various other adjustments from net income that are consistent with the adjustments made to Non-GAAP EPS, FFO or EBITDA, which are more fully explained above and below.
- We define EBITDA as net income before interest expense, net; income tax expense; depreciation and amortization.
- Adjusted EBITDA is defined as EBITDA adjusted in a manner we believe is appropriate to show our core operational performance, including:
 - an adjustment for the difference between the amount of base rent payments we receive with respect to the applicable period and the amount of straight-line base rent recognized under U.S. GAAP;
 - adding back the Tax Cuts and Jobs Act regulatory adjustment related to the establishment of the regulatory liability related to the excess ADFIT as a result of the enactment of the TCJA reducing the corporate federal income tax rate from 35% to 21%;
 - adding back the transaction costs related to the Asset Exchange Transaction as these costs are exclusive of our routine business operations or typical rate case costs;

- removing the effect of the gain associated with the inventory that was sold in the Asset Exchange Transaction ;
- adding back the non-cash reorganization structuring fee related to our reorganization transactions;
- adding back the reorganization expense related to our IPO and related reorganization transactions; and
- adjusting for other income (expense), net.
- The National Association of Real Estate Investment Trusts (NAREIT) defines FFO as net income (loss) (computed in accordance with U.S. GAAP), excluding gains and losses from sales of property, net and impairments of depreciated real estate, plus real estate depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. Applying the NAREIT definition to our consolidated financial statements results in FFO representing net income (loss) before depreciation, impairment of assets and gain (loss) on sale of assets. FFO does not represent cash generated from operations as defined by U.S. GAAP and it is not indicative of cash available to fund all cash needs, including distributions.
- AFFO is FFO adjusted for the same items that are used to adjust net income for Adjusted EBITDA.

Our management uses Non-GAAP EPS, CAD, EBITDA, Adjusted EBITDA, FFO and AFFO as important supplemental measures of our operating performance. For example, management uses the CAD measurement when recommending dividends to our board of directors. We also present non-GAAP performance measures because we believe they help investors understand our business, performance and ability to earn and distribute cash to our stockholders by providing perspectives not immediately apparent from net income. We have a diverse set of investors, including investors that primarily focus on utilities, yieldcos, master limited partnerships (MLPs) or REITs. Our management believes that each of these different classes of investors focuses on different types of metrics in their evaluation of us. For instance, many utility investors focus on earnings per share (EPS), and we believe our presentation of Non-GAAP EPS enables a better comparison to other utilities. Our management believes it is appropriate to calculate and provide these measures in order to be responsive to these investors. Including reporting on these measures in our public disclosures also ensures that this information is available to all our investors. The presentation of Non-GAAP EPS, CAD, EBITDA, Adjusted EBITDA, FFO and AFFO are not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with U.S. GAAP.

We offer these measures to assist the users of our financial statements in assessing our operating performance under U.S. GAAP, but these measures are non-GAAP measures and should not be considered measures of liquidity, alternatives to net income or indicators of any other performance measure determined in accordance with U.S. GAAP, nor are they indicative of funds available to fund our cash needs, including capital expenditures, make payments on our indebtedness or make distributions. Our method of calculating these measures may be different from methods used by other companies and, accordingly, may not be comparable to similar measures as calculated by other companies. Investors should not rely on these measures as a substitute for any U.S. GAAP measure, including net income, cash flows provided by operating activities or revenues.

Below we provide the tabular calculations of Non-GAAP EPS, CAD, EBITDA, Adjusted EBITDA, FFO and AFFO for the years ended December 31, 2017, 2016 and 2015. To provide more analysis around these metrics, the following narratives are provided comparing the year ended December 31, 2017 to the year ended December 31, 2016 and the year ended December 31, 2016 to the year ended December 31, 2015.

Non-GAAP EPS was \$1.26 per share and \$1.21 per share for the years ended December 31, 2017 and 2016, respectively. Non-GAAP EPS during the years ended December 31, 2017 and 2016 was based on 60.7 million and 60.6 million weighted average shares outstanding, respectively. Non-GAAP EPS reflected a \$3.1 million, or 4.2%, increase in Non-GAAP net income from \$73.3 million for 2016 to \$76.4 million for 2017, resulting from an increase in lease revenues of \$18.2 million reduced by increases of \$3.5 million in general and administrative expense, \$4.5 million in depreciation expense and \$3.8 million in interest expense, net. Additionally, other income, net decreased by \$3.1 million as a result of the reduction in our AFUDC on other funds. The increase in lease revenues was impacted by lower lease pricing levels embedded in our leases in the second half of 2017 and further offset by a \$4.9 million decrease in the base rent adjustment due to timing difference associated with our recognition of base rent. Additionally, the \$4.7 million adjustment for transaction costs representing the costs related to the Asset Exchange Transaction offset the increase in general and administrative expense.

For the year ended December 31, 2017, CAD increased \$5.9 million, or 7.9%, to \$80.4 million as compared to \$74.5 million for the year ended December 31, 2016. Adjusted EBITDA was \$168.8 million for the year ended December 31, 2017 compared to \$154.3 million for the year ended December 31, 2016, representing an increase of \$14.5 million, or 9.4%. For the year ended December 31, 2017, AFFO was \$126.9 million compared to \$116.3 million in 2016, representing an increase of \$10.6 million, or 9.1%.

Non-GAAP EPS was \$1.21 per share for the years ended December 31, 2016 and 2015. Non-GAAP EPS during the years ended December 31, 2016 and 2015 was based on 60.6 million and 59.2 million, respectively, weighted average shares outstanding. For the year ended December 31, 2016, CAD was \$74.5 million compared to \$72.6 million for the year ended December 31, 2015, representing an increase of \$1.9 million, or 2.6%.

Adjusted EBITDA was \$154.3 million for the year ended December 31, 2016 compared to \$138.4 million for the year ended December 31, 2015, representing an increase of \$15.9 million, or 11.5%. For the year ended December 31, 2016, AFFO was \$116.3 million compared to \$108.9 million in 2015, representing an increase of \$7.4 million, or 6.8%.

Non-GAAP EPS

The following sets forth a reconciliation of net income attributable to InfraREIT, Inc. per diluted share to Non-GAAP EPS per share:

<i>(In thousands, except per share amounts)</i>	Year Ended December 31, 2017	
	Amount	Per Share (1)
Net income attributable to InfraREIT, Inc.	\$ 12,302	\$ 0.28
Net income attributable to noncontrolling interest	4,751	0.28
Net income	17,053	0.28
Base rent adjustment	(843)	(0.02)
Non-cash reorganization structuring fee	—	—
Reorganization expenses	—	—
Tax Cuts and Jobs Act regulatory adjustment	55,779	0.92
Transaction costs	4,676	0.08
Gain on asset exchange transaction	(257)	—
Non-GAAP net income	\$ 76,408	\$ 1.26

<i>(In thousands, except per share amounts)</i>	Year Ended December 31, 2016	
	Amount	Per Share (2)
Net income attributable to InfraREIT, Inc.	\$ 49,954	\$ 1.14
Net income attributable to noncontrolling interest	19,347	1.14
Net income	69,301	1.14
Base rent adjustment	4,035	0.07
Non-cash reorganization structuring fee	—	—
Reorganization expenses	—	—
Tax Cuts and Jobs Act regulatory adjustment	—	—
Transaction costs	—	—
Gain on asset exchange transaction	—	—
Non-GAAP net income	\$ 73,336	\$ 1.21

<i>(In thousands, except share amounts)</i>	Year Ended December 31, 2015	
	Amount	Per Share (3)
Net income attributable to InfraREIT, Inc.	\$ 13,267	\$ 0.31
Net income attributable to noncontrolling interest	6,664	0.41
Net income	19,931	0.34
Base rent adjustment	6,538	0.11
Non-cash reorganization structuring fee	44,897	0.76
Reorganization expenses	333	—
Tax Cuts and Jobs Act regulatory adjustment	—	—
Transaction costs	—	—
Gain on asset exchange transaction	—	—
Non-GAAP net income	\$ 71,699	\$ 1.21

- (1) The weighted average common shares outstanding of 43.8 million was used to calculate net income attributable to InfraREIT, Inc. per diluted share. The weighted average redeemable partnership units outstanding of 16.9 million was used to calculate the net income attributable to noncontrolling interest per share. The combination of the weighted average common shares and redeemable partnership units outstanding of 60.7 million was used for the remainder of the per share calculations.

- (2) The weighted average common shares outstanding of 43.6 million was used to calculate net income attributable to InfraREIT, Inc. per diluted share. The weighted average redeemable partnership units outstanding of 17.0 million was used to calculate the net income attributable to noncontrolling interest per share. The combination of the weighted average common shares and redeemable partnership units outstanding of 60.6 million was used for the remainder of the per share calculations.
- (3) The weighted average shares outstanding of 43.0 million was used to calculate net income attributable to InfraREIT, Inc. per diluted share. The weighted average redeemable partnership units outstanding of 16.2 million was used to calculate the net income attributable to noncontrolling interest per share. The combination of the weighted average shares and redeemable partnership units outstanding of 59.2 million was used for the remainder of the per share calculations.

CAD

The following sets forth a reconciliation of net income to CAD:

<i>(In thousands, except share amounts)</i>	Years Ended December 31,		
	2017	2016	2015
Net income	\$ 17,053	\$ 69,301	\$ 19,931
Depreciation	51,207	46,704	40,211
Base rent adjustment	(843)	4,035	6,538
Non-cash equity compensation	570	978	678
Amortization of deferred financing costs	4,173	4,014	3,241
Other income, net (1)	(718)	(3,781)	(3,048)
Capital expenditures to maintain net assets	(51,207)	(46,704)	(40,211)
Non-cash reorganization structuring fee	—	—	44,897
Reorganization expenses	—	—	333
Tax Cuts and Jobs Act regulatory adjustment	55,779	—	—
Transaction costs	4,676	—	—
Gain on asset exchange transaction	(257)	—	—
CAD	\$ 80,433	\$ 74,547	\$ 72,570

- (1) Includes AFUDC on other funds of \$0.7 million, \$3.7 million and \$3.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

EBITDA and Adjusted EBITDA

The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA:

<i>(In thousands)</i>	Years Ended December 31,		
	2017	2016	2015
Net income	\$ 17,053	\$ 69,301	\$ 19,931
Interest expense, net	40,671	36,920	28,554
Income tax expense	1,218	1,103	949
Depreciation	51,207	46,704	40,211
EBITDA	110,149	154,028	89,645
Base rent adjustment	(843)	4,035	6,538
Other income, net (1)	(718)	(3,781)	(3,048)
Non-cash reorganization structuring fee	—	—	44,897
Reorganization expenses	—	—	333
Tax Cuts and Jobs Act regulatory adjustment	55,779	—	—
Transaction costs	4,676	—	—
Gain on asset exchange transaction	(257)	—	—
Adjusted EBITDA	\$ 168,786	\$ 154,282	\$ 138,365

- (1) See footnote (1) to the reconciliation of CAD above.

FFO and Adjusted FFO

The following table sets forth a reconciliation of net income to FFO and AFFO:

<i>(In thousands)</i>	Years Ended December 31,		
	2017	2016	2015
Net income	\$ 17,053	\$ 69,301	\$ 19,931
Depreciation	51,207	46,704	40,211
FFO	68,260	116,005	60,142
Base rent adjustment	(843)	4,035	6,538
Other income, net (1)	(718)	(3,781)	(3,048)
Non-cash reorganization structuring fee	—	—	44,897
Reorganization expenses	—	—	333
Tax Cuts and Jobs Act regulatory adjustment	55,779	—	—
Transaction costs	4,676	—	—
Gain on asset exchange transaction	(257)	—	—
AFFO	\$ 126,897	\$ 116,259	\$ 108,862

(1) See footnote (1) to the reconciliation of CAD above.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We have floating rate debt under our 2017 Term Loan and revolving credit facilities and are exposed to changes in interest rates on these debt instruments. In recent years, the credit markets have experienced historical lows in interest rates. If interest rates rise, the rates on our floating rate debt and future debt offerings could be higher than current levels, causing our financing costs to increase accordingly.

As of December 31, 2017, the outstanding balances under our revolving credit facilities and 2017 Term Loan were \$41.0 million and \$200.0 million, respectively. A hypothetical increase or decrease in interest rates by 1.00% would have changed our interest expense by \$2.4 million for the year ended December 31, 2017.

Item 8. Financial Statements and Supplementary Data

See *Index to Consolidated Financial Statements* on page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. In designing and evaluating these disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of management, including our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, we evaluated the effectiveness of our internal controls over financial reporting as of December 31, 2017 using the criteria set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this evaluation, we have concluded that, as of December 31, 2017, our internal control over financial reporting was effective.

Ernst & Young LLP has audited our internal control over financial reporting as of December 31, 2017 and their report is included below.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We review our disclosure controls and procedures, which may include internal controls over financial reporting, on an ongoing basis. From time to time, management makes changes to enhance the effectiveness of these controls and ensure that they continue to meet the needs of our business activities over time.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of InfraREIT, Inc.

Opinion on Internal Controls Over Financial Reporting

We have audited InfraREIT, Inc.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). In our opinion, InfraREIT, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Company and our report dated March 5, 2018, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Dallas, Texas
March 5, 2018

Item 9B. Other Information

Amended and Restated Lease Supplements

On February 28, 2018, we amended and restated our existing lease supplements with Sharyland (other than the lease supplement with respect to our Stanton Transmission Loop Lease) to effect a rent validation to reflect the difference between the capital expenditures we expected and the capital expenditures that were actually placed in service during 2017. For a description of the validation process and the lease supplements generally, see the caption *Rental Rates* under *Provisions of Our Leases* included under *Leases* in Part I, Item 1., *Business*.

PART III

Information required by Items 10, 11, 12, 13 and 14 of Form 10-K is omitted for this annual report and will be filed in a definitive proxy statement or by an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K in response to this item will be set forth in our definitive proxy statement for the annual meeting of stockholders to be held on May 16, 2018 and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K in response to this item will be set forth in our definitive proxy statement for the annual meeting of stockholders to be held on May 16, 2018 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The equity compensation plan information required by Item 201(d) is set forth in Item 5 of this Annual Report on Form 10-K and is incorporated by reference. The information required by Item 403 of Regulation S-K in response to this item will be set forth in our definitive proxy statement for the annual meeting of stockholders to be held on May 16, 2018 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Party Transactions, and Director Independence

The information required by Items 404 and 407(a) of Regulation S-K in response to this item will be set forth in our definitive proxy statement for the annual meeting of stockholders to be held on May 16, 2018 and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 9(e) of Schedule 14A in response to this item will be set forth in our definitive proxy statement for the annual meeting of stockholders to be held on May 16, 2018 and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of report on Form 10-K

The following documents are filed as part of this report on Form 10-K:

1. Financial Statements

See *Index to Consolidated Financial Statements* on page F-1 of this Form 10-K.

2. Financial Statement Schedules

See *Index to Consolidated Financial Statements* on page F-1 of this Form 10-K.

3. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.1	— Merger and Transaction Agreement dated as of January 29, 2015 among InfraREIT, L.L.C., InfraREIT, Inc. and InfraREIT Partners, LP (filed as exhibit 2.1 to the Company's Current Report on Form 8-K dated January 29, 2015 and filed February 4, 2015 and incorporated herein by reference).
2.2**	— Agreement and Plan of Merger, dated as of July 21, 2017, by and among Sharyland Distribution & Transmission Services, L.L.C., Sharyland Utilities, L.P., SU AssetCo, L.L.C., Oncor Electric Delivery Company LLC and Oncor AssetCo LLC (filed as exhibit 2.1 to the Company's Current Report on Form 8-K dated July 21, 2017 and incorporated herein by reference).
2.3	— Amendment to Merger Agreement, dated as of November 9, 2017, among Sharyland Distribution & Transmission Services, L.L.C., SDTS AssetCo, L.L.C., Sharyland Utilities, L.P., SU AssetCo, L.L.C., Oncor Electric Delivery Company LLC and Oncor AssetCo LLC (filed as exhibit 2.2 to the Company's Current Report on Form 8-K dated November 9, 2017 and filed November 16, 2017 and incorporated herein by reference).
3.1	— Articles of Restatement of the Registrant (filed as exhibit 3.3 to the Company's Current Report on Form 8-K dated March 9, 2015 and filed March 10, 2015 and incorporated herein by reference).
3.2	— Amended and Restated Bylaws of the Registrant (filed as exhibit 3.5 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
4.1	— Form of Certificate of Common Stock of Registrant (filed as exhibit 4.1 to Amendment No. 3 of the Company's Registration Statement on Form S-11 filed January 20, 2015 and incorporated herein by reference).
10.1	— Third Amended and Restated Agreement of Limited Partnership of InfraREIT Partners, LP, dated as of March 10, 2015, among the Registrant, Hunt-InfraREIT, L.L.C. and the other persons whose names are set forth on the partner registry as limited partners (filed as exhibit 10.1 to the Company's Current Report on Form 8-K dated March 9, 2015 and filed March 10, 2015 and incorporated herein by reference).
10.2	— Third Amended and Restated Company Agreement of Sharyland Distribution & Transmission Services, L.L.C., dated as of January 29, 2015, between Sharyland Utilities, L.P. and Transmission and Distribution Company, L.L.C. (filed as exhibit 10.11 to the Company's Current Report on Form 8-K dated January 29, 2015 and filed February 4, 2015 and incorporated herein by reference).
10.3	— Delegation Agreement, dated as of January 29, 2015, between the Registrant and Sharyland Utilities, L.P. (filed as exhibit 10.12 to the Company's Current Report on Form 8-K dated January 29, 2015 and filed February 4, 2015 and incorporated herein by reference).
10.4	— Development Agreement, dated as of January 29, 2015, among the Registrant, InfraREIT Partners, LP, Hunt-InfraREIT, L.L.C. and Hunt Transmission Services, L.L.C. (filed as exhibit 10.7 to the Company's Current Report on Form 8-K dated January 29, 2015 and filed February 4, 2015 and incorporated herein by reference).
10.5	— First Amendment to Development Agreement, dated November 9, 2017, among Hunt Transmission Services, L.L.C., Sharyland Utilities, L.P., InfraREIT Partners, LP and InfraREIT, Inc. (filed as exhibit 10.9 to the Company's Current Report on Form 8-K dated November 9, 2017 and filed November 16, 2017 and incorporated herein by reference).
10.6	— Management Agreement, dated as of January 29, 2015, among the Registrant, InfraREIT Partners, LP and Hunt Utility Services, L.L.C. (filed as exhibit 10.8 to the Company's Current Report on Form 8-K dated January 29, 2015 and filed February 4, 2015 and incorporated herein by reference).

Exhibit Number	Description
10.7	— Letter Agreement, dated as of July 21, 2017, by and between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.1 to the Company’s Current Report on Form 8-K dated July 21, 2017 and filed July 24, 2017 and incorporated herein by reference).
10.8	— Third Amended and Restated Master System Lease Agreement (McAllen Lease), dated December 1, 2014, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.7 to Amendment No. 1 to the Company’s Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.9	— First Amendment to Third Amended and Restated Master System Lease Agreement (McAllen Lease), dated November 9, 2017, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.5 to the Company’s Current Report on Form 8-K dated November 9, 2017 and filed November 16, 2017 and incorporated herein by reference).
10.10*	— Fifteenth Amended and Restated Rent Supplement (McAllen Lease), dated February 28, 2018, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P.
10.11	— Third Amended and Restated Lease Agreement (Stanton Transmission Loop Lease), dated December 1, 2014, between SDTS FERC, L.L.C. (predecessor in interest to Sharyland Distribution & Transmission Services, L.L.C.) and SU FERC, L.L.C. (predecessor in interest to Sharyland Utilities, L.P.) (filed as exhibit 10.11 to Amendment No. 1 to the Company’s Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.12	— First Amendment to Third Amended and Restated Lease Agreement (Stanton Transmission Loop Lease), dated November 9, 2017, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.7 to the Company’s Current Report on Form 8-K dated November 9, 2017 and filed November 16, 2017 and incorporated herein by reference).
10.13	— Fourth Amended and Restated Rent Supplement (Stanton Transmission Loop Lease), dated January 1, 2015, between SDTS FERC, L.L.C. (predecessor in interest to Sharyland Distribution & Transmission Services, L.L.C.) and SU FERC, L.L.C. (predecessor in interest to Sharyland Utilities, L.P.) (filed as exhibit 10.12 to Amendment No. 3 to the Company’s Registration Statement on Form S-11 filed January 20, 2015 and incorporated herein by reference).
10.14	— Lease Agreement (ERCOT Transmission Lease), dated December 1, 2014, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.15 to Amendment No. 1 to the Company’s Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.15	— First Amendment to Lease Agreement (ERCOT Transmission Lease) and Seventh Amended and Restated Rent Supplement, dated November 9, 2017, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.8 to the Company’s Current Report on Form 8-K dated November 9, 2017 and filed November 16, 2017 and incorporated herein by reference).
10.16*	— Ninth Amended and Restated Rent Supplement (ERCOT Transmission Lease), dated February 28, 2018, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P.
10.17	— Fourth Amended and Restated CREZ Lease Agreement, dated November 9, 2017, among Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.1 to the Company’s Current Report on Form 8-K dated November 9, 2017 and filed November 16, 2017 and incorporated herein by reference).
10.18*	— Thirteenth Amended and Restated Rent Supplement (CREZ Lease), dated February 28, 2018, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P.
10.19	— Permian Lease Agreement, dated December 31, 2017, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P. (filed as exhibit 10.1 to the Company’s Current Report on Form 8-K dated December 31, 2017 and filed January 5, 2018 and incorporated herein by reference).
10.20*	— First Amended and Restated Rent Supplement (Permian Lease), dated February 28, 2018, between Sharyland Distribution & Transmission Services, L.L.C. and Sharyland Utilities, L.P.
10.21	— Third Amended and Restated Credit Agreement, dated December 10, 2014 (SDTS Credit Agreement), among Sharyland Distribution & Transmission Services, L.L.C., the several lenders from time to time parties thereto and Royal Bank of Canada, as administrative agent (filed as exhibit 10.17 to Amendment No. 1 to the Company’s Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).

Exhibit Number	Description
10.22	— First Amendment, Direction and Consent, dated September 25, 2015, to the SDTS Credit Agreement (filed as exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and filed on November 6, 2015 and incorporated herein by reference).
10.23	— Second Amendment to Credit Agreement, Direction and Waiver, dated November 1, 2017, to the SDTS Credit Agreement (filed as exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 and filed on November 2, 2017 and incorporated herein by reference).
10.24	— Term Loan Credit Agreement, dated as of June 5, 2017 (Term Loan Agreement), among Sharyland Distribution & Transmission Services, L.L.C., the several lenders from time to time parties thereto and Canadian Imperial Bank of Commerce, New York Branch, as administrative agent (filed as exhibit 10.1 to the Company's Current Report on Form 8-K dated June 5, 2017 and filed June 6, 2017 and incorporated herein by reference).
10.25	— Amendment to Credit Agreement, Direction and Waiver, dated November 1, 2017, to the Term Loan Agreement (filed as exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 and filed on November 2, 2017 and incorporated herein by reference).
10.26	— Amended and Restated Credit Agreement, dated as of December 3, 2015 (2015 Credit Agreement), among Sharyland Projects, L.L.C. (predecessor in interest to Sharyland Distribution & Transmission Services, L.L.C.) and The Prudential Insurance Company of America, Pruco Life Insurance Company of New Jersey and Prudential Annuities Life Assurance Corporation (filed as exhibit 10.2 to the Company's Current Report on Form 8-K dated December 3, 2015 and filed December 4, 2015 and incorporated herein by reference).
10.27	— First Amendment to Amended and Restated Credit Agreement, Direction and Waiver, dated November 1, 2017, to the 2015 Credit Agreement (filed as exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 and filed on November 2, 2017 and incorporated herein by reference).
10.28	— Credit Agreement, dated December 10, 2014, among InfraREIT Partners, L.P, Bank of America, N.A., as administrative agent and L/C issuer and the other lenders party thereto (filed as exhibit 10.23 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.29	— Amended and Restated Note Purchase Agreement, dated July 13, 2010 (2010 SDTS NPA), between Sharyland Distribution & Transmission Services, L.L.C. and The Prudential Insurance Company of America (filed as exhibit 10.24 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.30	— First Amendment, dated June 9, 2011, to the 2010 SDTS NPA (filed as exhibit 10.25 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.31	— Second Amendment, dated October 15, 2013, to the 2010 SDTS NPA (filed as exhibit 10.26 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.32	— Third Amendment, Direction and Waiver, dated December 10, 2014, to the 2010 SDTS NPA (filed as exhibit 10.27 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.33	— Fourth Amendment, dated as of September 28, 2015, to the 2010 SDTS NPA (filed as exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and filed on November 6, 2015 and incorporated herein by reference).
10.34	— Fifth Amendment to Note Purchase Agreement, Direction and Waiver, dated November 1, 2017, to the 2010 SDTS NPA (filed as exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 and filed on November 2, 2017 and incorporated herein by reference).
10.35	— Amended and Restated Note Purchase Agreement, dated July 13, 2010 (TDC NPA), among Transmission and Distribution Company, L.L.C., The Prudential Insurance Company of America, PRUCO Life Insurance Company and Prudential Retirement Insurance and Annuity Company (filed as exhibit 10.28 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.36	— First Amendment, dated June 9, 2011, to the TDC NPA (filed as exhibit 10.29 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.37	— Second Amendment, dated December 10, 2014, to the TDC NPA (filed as exhibit 10.30 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).

Exhibit Number	Description
10.38	— <u>Third Amendment, dated February 19, 2016, to the TDC NPA (filed as exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and filed on March 3, 2016 and incorporated herein by reference).</u>
10.39	— <u>Amended and Restated Note Purchase Agreement, dated September 14, 2010 (2009 SDTS NPA), among Sharyland Distribution & Transmission Services, L.L.C., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company (filed as exhibit 10.31 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).</u>
10.40	— <u>First Amendment, dated June 9, 2011, to the 2009 SDTS NPA (filed as exhibit 10.32 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).</u>
10.41	— <u>Second Amendment, dated October 15, 2013, to the 2009 SDTS NPA (filed as exhibit 10.33 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).</u>
10.42	— <u>Third Amendment, Direction and Waiver, dated December 10, 2014, to the 2009 SDTS NPA (filed as exhibit 10.34 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).</u>
10.43	— <u>Fourth Amendment, dated as of September 28, 2015, to the 2009 SDTS NPA (filed as exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and filed on November 6, 2015 and incorporated herein by reference).</u>
10.44	— <u>Fifth Amendment to Note Purchase Agreement, Direction and Waiver, dated November 1, 2017, to the 2009 SDTS NPA (filed as exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 and filed on November 2, 2017 and incorporated herein by reference).</u>
10.45	— <u>Note Purchase Agreement, dated as of December 3, 2015, among Sharyland Distribution & Transmission Services, L.L.C. and the purchasers listed in Schedule B thereto (filed as exhibit 10.1 to the Company's Current Report on Form 8-K dated December 3, 2015 and filed on December 4, 2015 and incorporated herein by reference).</u>
10.46	— <u>Amendment to Note Purchase Agreement, Direction and Waiver, dated November 1, 2017, to the 2009 SDTS NPA (filed as exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 and filed on November 2, 2017 and incorporated herein by reference).</u>
10.47	— <u>InfraREIT, Inc. Second Amended and Restated Registration Rights and Lock-Up Agreement (Registration Rights Agreement), dated as of March 1, 2016, among the Registrant and each of the persons listed on Schedule A thereto (filed as exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and filed on March 3, 2016 and incorporated herein by reference).</u>
10.48*	— <u>First Amendment to Registration Rights Agreement, dated as of February 28, 2018, among the Registrant, Hunt Transmission Services, L.L.C. and Electricity Participant Partnership, LLC.</u>
10.49	— <u>Lock-Up Agreement, dated as of January 29, 2015, among the Registrant, InfraREIT Partners, LP, Hunt-InfraREIT, L.L.C. and Hunt Consolidated, Inc. (filed as exhibit 10.10 to the Company's Current Report on Form 8-K dated January 29, 2015 and filed February 4, 2015 and incorporated herein by reference).</u>
10.50	— <u>License Agreement, dated November 23, 2010, between Hunt Utility Services, LLC (formerly known as Energy Infrastructure Alliance of America, L.L.C.), InfraREIT, L.L.C. (formerly known as Electric Infrastructure Alliance of America, L.L.C.) and InfraREIT Partners, LP (formerly known as Electric Infrastructure Alliance of America, L.P.) (filed as exhibit 10.37 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).</u>
10.51	— <u>Intellectual Property Assignment Agreement, dated December 1, 2014, between the Registrant and Hunt Utility Services, LLC (formerly known as InfraREIT Capital Partners, LLC) (filed as exhibit 10.38 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).</u>
10.52+	— <u>Form of Director and Officer Indemnification Agreement (filed as exhibit 10.39 to Amendment No. 3 to the Company's Registration Statement on Form S-11 filed January 20, 2015 and incorporated herein by reference).</u>
10.53	— <u>General Release Agreement, dated as of January 29, 2015, among the Registrant, InfraREIT, L.L.C., InfraREIT Partners, LP, Hunt Transmission Services, L.L.C., Marubeni Corporation, John Hancock Life Insurance Company (U.S.A.), OpTrust Infrastructure N.A. Inc., OpTrust N.A. Holdings Trust and Teachers Insurance and Annuity Association of America (filed as exhibit 10.6 to the Company's Current Report on Form 8-K dated January 29, 2015 and filed February 4, 2015 and incorporated herein by reference).</u>

Exhibit Number	Description
10.54+	— InfraREIT, Inc. 2015 Equity Incentive Plan (filed as exhibit 10.47 to Amendment No. 1 to the Company's Registration Statement on Form S-11 filed December 31, 2014 and incorporated herein by reference).
10.55+	— Form of Restricted Stock Unit Agreement (filed as exhibit 10.48 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and filed on March 3, 2016 and incorporated herein by reference).
10.56+	— Form of InfraREIT Partners, LP LTIP Unit Award Agreement (filed as exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and filed on March 3, 2016 and incorporated herein by reference).
10.57+	— InfraREIT, Inc. 2015 Non-Qualified Employee Stock Purchase Plan (filed as exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and filed on March 18, 2015 and incorporated herein by reference).
21.1*	— List of Subsidiaries of the Registrant
23.1*	— Consent of Ernst & Young LLP
31.1*	— Rule 13A-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2*	— Rule 13A-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	— Section 1350 Certification of Chief Executive Officer
32.2*	— Section 1350 Certification of Chief Financial Officer
99.1***	— Consolidated Financial Statements of Sharyland Utilities, L.P.
101.INS*	— XBRL Instance Document
101.SCH*	— XBRL Taxonomy Extension Schema Document
101.CAL*	— XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	— XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	— XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	— XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

+ As required by Item 15(a)(3), this exhibit is identified as a management contract or compensatory plan or arrangement.

** Pursuant to Item 601(b)(2) of Regulation S-K, the registrant agrees to furnish supplementally a copy of any omitted exhibit or schedule to the Commission upon request.

*** In accordance with Section 2340 of the SEC Financial Reporting Manual, consolidated financial statements of Sharyland Utilities, L.P. will be filed by amendment to this Annual Report on Form 10-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 and 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

InfraREIT, Inc.
(Registrant)

/s/ David A. Campbell
David A. Campbell
President, Chief Executive Officer and Director

Date: March 5, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and as of the date indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ David A. Campbell</u> David A. Campbell	President, Chief Executive Officer and Director (Principal Executive Officer)	March 5, 2018
<u>/s/ Brant Meleski</u> Brant Meleski	Senior Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)	March 5, 2018
<u>/s/ Harold R. Logan, Jr.</u> Harold R. Logan, Jr.	Chairman of the Board of Directors	March 5, 2018
<u>/s/ W. Kirk Baker</u> W. Kirk Baker	Director	March 5, 2018
<u>/s/ John Gates</u> John Gates	Director	March 5, 2018
<u>/s/ Storrow M. Gordon</u> Storrow M. Gordon	Director	March 5, 2018
<u>/s/ Trudy A. Harper</u> Trudy A. Harper	Director	March 5, 2018
<u>/s/ Hunter L. Hunt</u> Hunter L. Hunt	Director	March 5, 2018
<u>/s/ Harvey Rosenblum</u> Harvey Rosenblum	Director	March 5, 2018
<u>/s/ Ellen C. Wolf</u> Ellen C. Wolf	Director	March 5, 2018

InfraREIT, Inc.

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All other schedules for which provision is made in the applicable accounting regulation of the U. S. Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore are omitted.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of InfraREIT, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of InfraREIT, Inc. (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017 and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 5, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchanges Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2010.
Dallas, Texas
March 5, 2018

InfraREIT, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31,	
	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,867	\$ 17,612
Restricted cash	1,683	1,682
Due from affiliates	35,172	32,554
Inventory	6,759	7,276
Prepays and other current assets	2,460	726
Total current assets	48,941	59,850
Electric Plant, net	1,772,229	1,640,820
Goodwill	138,384	138,384
Other Assets	34,314	37,646
Total Assets	\$ 1,993,868	\$ 1,876,700
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 21,230	\$ 37,372
Short-term borrowings	41,000	137,500
Current portion of long-term debt	68,305	7,849
Dividends and distributions payable	15,169	15,161
Accrued taxes	5,633	4,415
Total current liabilities	151,337	202,297
Long-Term Debt, Less Deferred Financing Costs	841,215	709,488
Regulatory Liabilities	100,458	21,004
Total liabilities	1,093,010	932,789
Commitments and Contingencies		
Equity		
Common stock, \$0.01 par value; 450,000,000 shares authorized; 43,796,915 and 43,772,283 issued and outstanding as of December 31, 2017 and 2016, respectively	438	438
Additional paid-in capital	706,357	705,845
Accumulated deficit	(49,728)	(18,243)
Total InfraREIT, Inc. equity	657,067	688,040
Noncontrolling interest	243,791	255,871
Total equity	900,858	943,911
Total Liabilities and Equity	\$ 1,993,868	\$ 1,876,700

See accompanying notes to the consolidated financial statements.

InfraREIT, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Years Ended December 31,		
	2017	2016	2015
Lease revenue	\$ 190,341	\$ 172,099	\$ 151,203
Tax Cuts and Jobs Act regulatory adjustment	(55,779)	—	—
Net revenues	<u>134,562</u>	<u>172,099</u>	<u>151,203</u>
Operating costs and expenses			
General and administrative expense	25,388	21,852	64,606
Depreciation	51,207	46,704	40,211
Gain on asset exchange transaction	(257)	—	—
Total operating costs and expenses	<u>76,338</u>	<u>68,556</u>	<u>104,817</u>
Income from operations	<u>58,224</u>	<u>103,543</u>	<u>46,386</u>
Other (expense) income			
Interest expense, net	(40,671)	(36,920)	(28,554)
Other income, net	718	3,781	3,048
Total other expense	<u>(39,953)</u>	<u>(33,139)</u>	<u>(25,506)</u>
Income before income taxes	<u>18,271</u>	<u>70,404</u>	<u>20,880</u>
Income tax expense	1,218	1,103	949
Net income	<u>17,053</u>	<u>69,301</u>	<u>19,931</u>
Less: Net income attributable to noncontrolling interest	<u>4,751</u>	<u>19,347</u>	<u>6,664</u>
Net income attributable to InfraREIT, Inc.	<u>\$ 12,302</u>	<u>\$ 49,954</u>	<u>\$ 13,267</u>
Net income attributable to InfraREIT, Inc. common stockholders per share:			
Basic	<u>\$ 0.28</u>	<u>\$ 1.14</u>	<u>\$ 0.31</u>
Diluted	<u>\$ 0.28</u>	<u>\$ 1.14</u>	<u>\$ 0.31</u>
Cash dividends declared per common share	<u>\$ 1.000</u>	<u>\$ 1.000</u>	<u>\$ 1.075</u>

See accompanying notes to the consolidated financial statements.

InfraREIT, Inc.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

(In thousands, except share data)

	Number of Common Shares Outstanding	Members' Capital	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total InfraREIT, Inc. Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2014	—	\$ 440,387	\$ —	\$ —	\$ —	\$ 440,387	\$ 145,067	\$ 585,454
Dividends and distributions	—	(8,964)	—	—	(35,508)	(44,472)	(16,627)	(61,099)
Repurchase of common shares	(6,242,999)	(66,517)	—	—	—	(66,517)	—	(66,517)
Initial public offering, net of offering costs	23,000,000	—	230	490,203	—	490,433	—	490,433
Merger of InfraREIT, L.L.C. and InfraREIT, Inc. and related reorganization transactions	26,808,494	(367,191)	206	212,010	—	(154,975)	53,090	(101,885)
Net income	—	2,285	—	—	10,982	13,267	6,664	19,931
Equity based compensation	—	—	—	—	—	—	678	678
Non-cash noncontrolling interest equity issuance	—	—	—	—	—	—	67,273	67,273
Balance December 31, 2015	43,565,495	—	436	702,213	(24,526)	678,123	256,145	934,268
Dividends and distributions	—	—	—	—	(43,671)	(43,671)	(16,965)	(60,636)
Redemption of operating partnership units for common stock	186,496	—	2	3,275	—	3,277	(3,277)	—
Net income	—	—	—	—	49,954	49,954	19,347	69,301
Equity based compensation	20,292	—	—	357	—	357	621	978
Balance at December 31, 2016	43,772,283	—	438	705,845	(18,243)	688,040	255,871	943,911
Dividends and distributions	—	—	—	—	(43,787)	(43,787)	(16,889)	(60,676)
Redemption of operating partnership units for common stock	24,632	—	—	512	—	512	(512)	—
Net income	—	—	—	—	12,302	12,302	4,751	17,053
Equity based compensation	—	—	—	—	—	—	570	570
Balance at December 31, 2017	43,796,915	\$ —	\$ 438	\$ 706,357	\$ (49,728)	\$ 657,067	\$ 243,791	\$ 900,858

See accompanying notes to the consolidated financial statements.

InfraREIT, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended December 31,		
	2017	2016	2015
Cash flows from operating activities			
Net income	\$ 17,053	\$ 69,301	\$ 19,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	51,207	46,704	40,211
Amortization of deferred financing costs	4,173	4,014	3,241
Allowance for funds used during construction - other funds	(681)	(3,728)	(3,048)
Tax Cuts and Jobs Act regulatory adjustment	55,779	—	—
Gain on asset exchange transaction	(257)	—	—
Reorganization structuring fee	—	—	44,897
Realized gain on sale of marketable securities	—	—	(66)
Equity based compensation	570	978	678
Changes in assets and liabilities:			
Due from affiliates	(2,618)	(1,382)	(3,350)
Inventory	479	(545)	662
Prepays and other current assets	(102)	(166)	(6)
Accounts payable and accrued liabilities	(8,021)	7,958	2,644
Net cash provided by operating activities	117,582	123,134	105,794
Cash flows from investing activities			
Additions to electric plant	(184,435)	(231,312)	(239,157)
Proceeds from asset exchange transaction	17,935	—	—
Proceeds from sale of assets	—	—	41,211
Sale of marketable securities	—	—	1,065
Cash paid to InfraREIT, L.L.C. investors in the merger, net of cash assumed	—	—	(172,400)
Net cash used in investing activities	(166,500)	(231,312)	(369,281)
Cash flows from financing activities			
Net proceeds from issuance of common stock upon initial public offering	—	—	493,722
Proceeds from short-term borrowings	138,500	139,500	87,000
Repayments of short-term borrowings	(235,000)	(56,000)	(253,000)
Proceeds from borrowings of long-term debt	200,000	100,000	400,000
Repayments of long-term debt	(7,849)	(7,423)	(404,867)
Net change in restricted cash	(1)	—	—
Deferred financing costs	(809)	(649)	(3,914)
Dividends and distributions paid	(60,668)	(59,109)	(61,595)
Net cash provided by financing activities	34,173	116,319	257,346
Net (decrease) increase in cash and cash equivalents	(14,745)	8,141	(6,141)
Cash and cash equivalents at beginning of year	17,612	9,471	15,612
Cash and cash equivalents at end of year	\$ 2,867	\$ 17,612	\$ 9,471

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

InfraREIT, Inc. is a Maryland corporation and the surviving corporation of a merger (Merger) with InfraREIT, L.L.C., a Delaware limited liability company, completed on February 4, 2015 in connection with the initial public offering (IPO) of InfraREIT, Inc. and related transactions effected during the first quarter of 2015 (collectively, the Reorganization). As used in these financial statements, unless the context requires otherwise or except as otherwise noted, the words “Company” and “InfraREIT” refer to InfraREIT, L.L.C., before giving effect to the Merger, and InfraREIT, Inc., after giving effect to the Merger, as the context requires, and also refer to the registrant’s subsidiaries, including InfraREIT Partners, LP (Operating Partnership or InfraREIT LP), a Delaware limited partnership, of which InfraREIT, Inc. is the general partner.

The Merger was accounted for as a reverse acquisition, which means for accounting purposes the Company treated the assets and liabilities of InfraREIT, Inc. as assumed and incorporated with the assets and liabilities of InfraREIT, L.L.C. InfraREIT, Inc.’s operating results before the Merger primarily reflected costs related to obtaining a private letter ruling from the Internal Revenue Service and accounting services. The main assets and liabilities assumed were marketable securities of \$1.1 million and a note payable of \$1.0 million. The marketable securities were sold during February 2015 for \$1.1 million resulting in a realized gain of \$0.1 million which was recorded in other income (expense), net in the Consolidated Statements of Operations. Additionally, the note payable and associated interest were paid in full in February 2015. As a result, these financial statements present the 2015 operating results of InfraREIT, L.L.C. through the effectiveness of the Merger along with the operations of InfraREIT, Inc. thereafter.

The Company has elected to be taxed as a real estate investment trust (REIT) for federal income tax purposes. The Company is externally managed and advised by Hunt Utility Services, LLC (Hunt Manager), a Delaware limited liability company. Hunt Manager is responsible for managing the Company’s day-to-day affairs, subject to the oversight of the Company’s board of directors. All of the Company’s officers, including the Company’s President and Chief Executive Officer, David A. Campbell, are employees of Hunt Manager. Mr. Campbell also serves as President and Chief Executive Officer of Sharyland Utilities, L.P. (Sharyland), a Texas-based utility and the Company’s sole tenant.

The Company holds 72.2% of the outstanding partnership units (OP Units) in the Operating Partnership as of December 31, 2017. The Company includes the accounts of the Operating Partnership and its subsidiaries in the consolidated financial statements. Hunt Consolidated, Inc. (HCI) affiliates, current or former employees and members of the Company’s board of directors hold the other 27.8% of the outstanding OP Units as of December 31, 2017.

Sharyland Distribution & Transmission Services, L.L.C. (SDTS) is the owner of rate-regulated assets located in the Texas. On November 9, 2017, SDTS exchanged its retail distribution assets and certain transmission assets for a group of transmission assets owned by Oncor Electric Delivery Company LLC (Oncor), as more fully described below in Note 2, *Asset Exchange Transaction*. Following the transaction, SDTS’s assets are located in the Texas Panhandle; near Wichita Falls, Abilene and Brownwood; in the Permian Basin; and in South Texas.

SDTS leases all its regulated assets under several lease agreements to Sharyland, which operates and maintains the regulated assets. SDTS and Sharyland are each subject to regulation as an electric utility by the Public Utility Commission of Texas (PUCT). SDTS is authorized to own and lease its assets to Sharyland under a certificate of convenience and necessity (CCN) granted by the PUCT.

Initial Public Offering and Reorganization

InfraREIT, Inc. completed its IPO on February 4, 2015, issuing 23,000,000 shares of common stock at a price of \$23.00 per share, resulting in gross proceeds of \$529.0 million.

Immediately after the closing of the IPO, InfraREIT, Inc. completed the Merger, with InfraREIT, L.L.C. merging with and into InfraREIT, Inc., and InfraREIT, Inc. as the surviving entity and general partner of the Operating Partnership. InfraREIT, Inc. used \$172.4 million of the net proceeds from the IPO to fund the cash portion of the consideration issued in the Merger, as described in greater detail below. InfraREIT, Inc. contributed the remaining \$323.2 million to the Operating Partnership in exchange for common OP Units (Common OP Units).

The Operating Partnership used the net proceeds from the IPO that it received from InfraREIT, Inc.:

- to repay an aggregate of \$1.0 million of indebtedness to HCI;
- to repay an aggregate of \$72.0 million of indebtedness outstanding under the Operating Partnership's revolving credit facility and \$150.0 million of indebtedness outstanding under SDTS's revolving credit facility;
- to pay offering expenses (other than the underwriting discounts and commissions and the underwriter structuring fee) of \$6.3 million; and
- for general corporate purposes.

The following bullets describe the Merger and related Reorganization that were effected in the first quarter of 2015.

- On January 29, 2015, the Operating Partnership effected a reverse unit split whereby each holder of OP Units received 0.938550 OP Units of the same class in exchange for each such unit it held immediately prior to such time, which is referred to as the reverse unit split. Also, on January 29, 2015, InfraREIT, L.L.C. effected a reverse share split whereby each holder of shares received 0.938550 shares of the same class in exchange for each such share it held immediately prior to such time, which is referred to as the reverse share split. All references to unit, share, per unit and per share amounts in these consolidated financial statements and related disclosures have been adjusted to reflect the reverse share split and reverse unit split for all periods presented.
- On January 29, 2015, InfraREIT, Inc. issued 1,700,000 shares of common stock to Hunt-InfraREIT, L.L.C. (Hunt-InfraREIT) as a non-cash reorganization advisory fee in accordance with a structuring fee agreement, resulting in the recognition of a \$44.9 million non-cash expense in the first quarter of 2015.
- On February 4, 2015, the Operating Partnership issued 1,700,000 OP Units to InfraREIT, Inc. in connection with the structuring fee issuance of 1,700,000 shares of InfraREIT, Inc. common stock described immediately above.
- On February 4, 2015, the Operating Partnership issued an aggregate of 28,000 of its profit interest OP Units (LTIP Units) to members of InfraREIT's board of directors.
- On February 4, 2015, the Operating Partnership issued 983,418 Common OP Units to Hunt-InfraREIT in settlement of the Operating Partnership's obligation to issue OP Units to Hunt-InfraREIT related to the competitive renewable energy zone (CREZ) project.
- On February 4, 2015, the Operating Partnership issued Hunt-InfraREIT 1,167,287 Common OP Units as an accelerated payment of a portion of the carried interest agreed to in 2010 in connection with the organization of InfraREIT, L.L.C. To effect the shift in ownership from the pre-IPO investors to Hunt-InfraREIT, an equal number of OP Units held by InfraREIT, L.L.C. in the Operating Partnership were canceled at the same time.
- On February 4, 2015, as a result of the Merger, (1) holders of 8,000,000 common shares of InfraREIT, L.L.C. received \$21.551 per common share, which was equal to the IPO price less the underwriting discounts and commissions and an underwriting structuring fee, (2) holders of the remaining 19,617,755 common shares of InfraREIT, L.L.C. received 19,617,755 shares of InfraREIT, Inc. Class A common stock and (3) holders of 25,145 Class C shares of InfraREIT, L.L.C. received 25,145 shares of InfraREIT, Inc. Class C common stock.
- On February 4, 2015, InfraREIT, Inc. contributed \$323.2 million to the Operating Partnership in exchange for 15,000,000 Common OP Units.
- On February 4, 2015, InfraREIT, Inc. issued 1,551,878 shares of common stock to Hunt-InfraREIT in exchange for 1,551,878 OP Units tendered for redemption by Hunt-InfraREIT in accordance with a redemption agreement.
- On February 4, 2015, concurrently with the Merger, InfraREIT, Inc. purchased 6,242,999 common shares in consideration for the issuance of a promissory note to Westwood Trust, as trustee of a trust for the benefit of a charitable beneficiary, in the principal amount of \$66.5 million.
- Westwood Trust immediately transferred the promissory note to MC Transmission Holdings, Inc. (MC Transmission), and, immediately following receipt of the promissory note, MC Transmission purchased 3,325,874 Common OP Units from the Operating Partnership in consideration for the assignment of the promissory note. The promissory note was then transferred to InfraREIT, Inc. in exchange for the redemption of 6,242,999 OP Units held by InfraREIT, Inc. and the subsequent cancellation of such promissory note, resulting in no cash consideration being paid or received pursuant to the purchase from Westwood Trust or the sale of Common OP Units to MC Transmission.

- On March 9, 2015, the Operating Partnership issued 2,329,283 Common OP Units to Hunt-InfraREIT, and InfraREIT, Inc. canceled an equal number of shares of Class A common stock and Class C common stock. Each remaining share of Class A common stock and Class C common stock then converted to common stock on a one-for-one basis. This issuance settled InfraREIT, L.L.C.'s pre-IPO investors' carried interest obligation agreed to with Hunt-InfraREIT under the investment documents entered into by the parties in 2010.
- On March 9, 2015, the 11,264 long-term incentive plan units issued to two of InfraREIT, L.L.C.'s non-voting directors in May 2014 converted on a one-to-one basis to Common OP Units.

Limited Partnership Agreement

In connection with the Reorganization, the Company adopted a Second Amended and Restated Limited Partnership Agreement which became effective with the closing of the IPO. Upon completion of the IPO, the Operating Partnership had five types of OP Units outstanding: Common OP Units, Class A OP Units, Class B OP Units, Class C OP Units and LTIP Units.

On March 9, 2015, the Operating Partnership issued Common OP Units in exchange for outstanding Class A OP Units and Class C OP Units. Such Common OP Units were allocated among the holders of Class A OP Units and Class C OP Units, and the Class A OP Units, Class B OP Units and Class C OP Units were canceled. Following such allocation, the Company adopted a Third Amended and Restated Limited Partnership Agreement that eliminated the provisions related to the Reorganization and the description of the Class A OP Units, Class B OP Units and Class C OP Units; however, it continues to allow amendments to authorize and issue additional classes of OP Units in the future.

Principles of Consolidation and Presentation

The consolidated financial statements include the Company's accounts and the accounts of all other entities in which the Company has a controlling financial interest with noncontrolling interest of consolidated subsidiaries reported separately. All significant intercompany balances and transactions have been eliminated. SDTS maintains accounting records in accordance with the uniform system of accounts, as prescribed by the Federal Energy Regulatory Commission (FERC). In accordance with the applicable consolidation guidance, the Company's consolidated financial statements reflect the effects of the different rate making principles mandated by the FERC and the PUCT which regulate its subsidiaries' operations.

The accompanying historical consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The historical financial information is not necessarily indicative of the Company's future results of operations, financial position and cash flows.

Use of Estimates

The preparation of the Company's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Regulation

As the owner of rate-regulated assets, regulatory principles applicable to the utility industry also apply to SDTS. The financial statements reflect regulatory assets and liabilities under cost based rate regulation in accordance with accounting standards related to the effect of certain types of regulation. Regulatory decisions can have an impact on the recovery of costs, the rate earned on invested capital and the timing and amount of assets to be recovered by rates. See Note 6, *Other Assets*.

SDTS capitalizes allowance for funds used during construction (AFUDC) during the construction of its regulated assets, and SDTS's lease agreements with Sharyland rely on FERC definitions and accepted standards regarding capitalization of expense to define key terms in the lease such as footprint projects, which are the expenditures SDTS is obligated to fund pursuant to the leases. The amounts funded for these footprint projects include allocations of Sharyland employees' time and overhead allocations consistent with FERC policies and U.S. GAAP. The leases define "footprint projects" to be transmission or, if applicable, distribution projects that (1) are primarily situated within the Company's current or previous distribution service territory, as applicable; (2) physically hang from the Company's existing transmission assets, such as the addition of another circuit to the Company's existing transmission lines or that are physically located within one of its substations or (3) connect or are otherwise added to transmission lines or other properties that comprise a part of the transmission assets acquired from Oncor.

Sharyland cannot be removed as lessee without prior approval from the PUCT. SDTS transacts with Sharyland through several lease arrangements covering all the regulated assets. These lease agreements include provisions for additions and retirements of the regulated assets in the form of new construction or other capitalized projects.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The Company's account balances at one or more institutions periodically exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage and, as a result, there could be a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. The Company has not experienced any losses and believes the risk is not significant.

Restricted Cash

Restricted cash represents the principal and interest payable for two consecutive periods associated with the \$25.0 million senior secured notes described in Note 8, *Long-Term Debt*.

Concentration of Credit Risk

Sharyland is the Company's sole tenant and all the Company's revenue is driven by the leases with Sharyland.

Inventory

Inventory consists primarily of transmission and distribution parts and materials used in the construction of electric plant. Inventory is valued at average cost when it is acquired and used.

Assets Held for Sale

The Company records assets held for sale when certain criteria have been met as specified by Accounting Standard Codification (ASC) Topic 360, *Property, Plant and Equipment*. These criteria include management's commitment to a plan to sell the assets; the availability of the assets for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets has been initiated; the sale of the assets is probable and their transfer is expected to be completed within one year; the assets are being marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets. Assets held for sale are reported at the lower of their carrying amount or fair value less cost to sell.

Electric Plant, net

Electric plant equipment is stated at the original cost of acquisition or construction, which includes the cost of contracted services, direct labor, materials, acquisition adjustments and overhead items. In accordance with the FERC uniform system of accounts guidance, SDTS recognizes, as a cost to construction work in progress (CWIP), AFUDC on other funds classified as other income (expense), net and AFUDC on borrowed funds classified as a reduction of the interest expense, net on the Consolidated Statements of Operations.

The AFUDC blended rate utilized was 4.0%, 6.7% and 6.6% for the years ended December 31, 2017, 2016 and 2015, respectively.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated service lives of the properties based on depreciation rates approved by the PUCT. Depreciation rates include plant removal costs as a component of depreciation expense, consistent with regulatory treatment. Actual removal costs incurred are charged to accumulated depreciation. When accrued removal costs exceed incurred removal costs, the difference is reclassified as a regulatory liability to retire assets in the future. The regulatory liability will be relieved as cost of removal charges are incurred upon asset retirement.

Repairs are the responsibility of Sharyland as the lessee under the lease agreements. Betterments and improvements generally are the responsibility of SDTS and are capitalized.

Provision for depreciation of electric plant is computed using composite straight-line rates as follows for each of the years ended December 31, 2017, 2016 and 2015:

	<u>Rates</u>
Transmission plant	1.69% - 3.15%
Distribution plant	1.74% - 5.96%
General plant	0.80% - 5.12%

Impairment of Long-Lived Assets

The Company evaluates impairment of its long-lived assets annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable through expected future cash flows. Regulatory assets are charged to expense in the period in which they are no longer probable of future recovery.

Goodwill

Goodwill represents the excess of costs of an acquired business over the fair value of the assets acquired, less liabilities assumed. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances arise.

Accounting Standard Update (ASU) 2011-08, *Testing of Goodwill for Impairment* allows entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit (i.e. the first step of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not greater than the carrying amount, a quantitative calculation would not be needed.

The Company's annual goodwill impairment analysis, which was performed qualitatively during the fourth quarter of 2017, did not result in an impairment charge. As of December 31, 2017 and 2016, \$138.4 million was recorded as goodwill on the Consolidated Balance Sheets.

Investments

An investment is considered impaired if the fair value of the investment is less than its cost. Generally, an impairment is considered other-than-temporary unless (1) the Company has the ability and intent to hold an investment for a reasonable period of time sufficient for an anticipated recovery of fair value up to (or beyond) the cost of the investment; and (2) evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. If impairment is determined to be other than temporary, then an impairment loss is recognized equal to the difference between the investment's cost and its fair value.

Deferred Financing Costs

Amortization of deferred financing costs associated with the issuance of the \$25.0 million senior secured notes and the revolving credit facilities is computed using the straight-line method over the life of the loan which approximates the effective interest method. Amortization of deferred financing costs associated with SDTS is computed using the straight-line method over the life of the loan in accordance with applicable regulatory guidance.

Derivative Instruments

The Company may use derivatives from time to time to hedge against changes in cash flows related to interest rate risk (cash flow hedging instrument). ASC Topic 815, *Derivatives and Hedging* requires all derivatives be recorded on the Consolidated Balance Sheets at fair value. The Company determines the fair value of the cash flow hedging instrument based on the difference between the cash flow hedging instrument's fixed contract price and the underlying market price at the determination date. The asset or liability related to the cash flow hedging instrument is recorded on the Consolidated Balance Sheets at its fair value.

Unrealized gains and losses on the effective cash flow hedging instrument are recorded as components of accumulated other comprehensive income. Realized gains and losses on the cash flow hedging instrument are recorded as adjustments to interest expense. Settlements of derivatives are included within operating activities on the Consolidated Statements of Cash Flows. Any ineffectiveness in the cash flow hedging instrument is recorded as an adjustment to interest expense in the current period.

Income Taxes

InfraREIT, L.L.C. elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, commencing with its taxable year ended December 31, 2010, and InfraREIT, Inc. elected to be treated as a REIT commencing with its taxable year ended December 31, 2015. As a result, the Company generally will not be subject to federal income tax on its taxable income that is distributed to its stockholders. A REIT is subject to a number of other organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual taxable income (with certain adjustments). As a REIT, the Company expects to distribute at least 100% of its taxable income. Accordingly, there is no provision for federal income taxes in the accompanying consolidated financial statements. Even if the Company maintains its qualification for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, including excise taxes, and federal corporate income taxes on any undistributed income.

At December 31, 2016, the Company had net operating loss carryforwards for federal income tax purposes of \$95.1 million. No net operating losses were used for the year ended December 31, 2017. The estimated net operating loss carryforward for federal tax purposes was \$96.2 million at December 31, 2017 and will begin expiring in 2026. However, the Tax Cuts and Jobs Act (TCJA) repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017 thereby nullifying the Company's AMT net operating loss carryover.

The Company recognizes the impact of tax return positions that are more-likely-than-not to be sustained upon audit. Significant judgment is required to evaluate uncertain tax positions. The evaluation of uncertain tax positions is based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues.

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

<i>(In thousands)</i>	Years Ended December 31,	
	2017	2016
Balance at January 1	\$ 3,827	\$ 2,924
Additions based on tax positions related to the current year	1,037	903
Balance at December 31	<u>\$ 4,864</u>	<u>\$ 3,827</u>

The balance of unrecognized tax benefits relates to state taxes, all of which would impact the effective tax rate if recognized. It is reasonably possible that the amount of the Company's unrecognized tax benefits will decrease in the next twelve months either because the Company's position is approved through a ruling by the taxing jurisdiction or the Company agrees to a settlement. At this time, an estimate of the range of the reasonably possible change cannot be made. The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense in the Consolidated Statements of Operations.

During each of the years ended December 31, 2017, 2016 and 2015, the Company recognized interest and penalties of \$0.2 million. The Company had accrued interest and penalties of \$0.8 million and \$0.6 million at December 31, 2017 and 2016, respectively. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2013.

On December 22, 2017, the TCJA was signed into law reducing the corporate federal income tax rate from 35% to 21%, effective for taxable years beginning on or after January 1, 2018. The TCJA also includes provisions that reduce the tax rates applicable to individuals and that treat dividends paid to REIT shareholders as income eligible for the new 20% deduction for business income earned from passthrough entities. These changes will have the effect of reducing the maximum income tax rate applicable to REIT dividends paid to individual REIT shareholders from 39.6% to 29.6%. These provisions, other than the reduction in the corporate federal income tax rate, are set to expire after 2025.

The Company has recorded \$55.8 million as a regulatory liability as of December 31, 2017 related to the creation of excess accumulated deferred federal income tax (ADFIT), related to the Company's assets, due to the reduction in the corporate federal income tax rate. See Note 10, *Regulatory Matters* for additional information.

Revenue Recognition

The Company, through its subsidiaries, is the owner of regulated assets and recognizes lease revenue over the term of lease agreements with Sharyland. The Company's lease revenue includes annual payments and additional rents based upon a percentage of revenue earned by Sharyland on the leased assets in excess of annual specified breakpoints. In accordance with the lease agreements, Sharyland, the lessee and operator of the regulated assets, is responsible for the maintenance and operation of the regulated assets and primarily responsible for compliance with all regulatory requirements of the PUCT, the FERC or any other regulatory entity with jurisdiction over the regulated assets on the Company's behalf and with the Company's cooperation. Each of the lease agreements with Sharyland is a net lease that obligates the lessee to pay all property related expenses, including maintenance, repairs, taxes and insurance, and to comply with the terms of the SDTS secured credit facilities and note purchase agreements. The Company recognizes base rent under these leases on a straight-line basis over the applicable lease term.

The current lease agreements provide for periodic supplemental adjustments of base rent based upon capital expenditures made by SDTS. The Company recognizes supplemental adjustments of base rent as a modification under these leases on a prospective straight-line basis over the applicable lease term. The Company recognizes percentage rent under these leases once the revenue earned by Sharyland on the leased assets exceeds the annual specified breakpoints.

Asset Retirement Obligations

The Company has identified, but not recognized, asset retirement obligation liabilities related to the regulated assets as a result of certain easements on property on which the Company has assets. Generally, such easements are perpetual and require only the retirement and removal of the assets upon cessation of the property's use. Management has not estimated and recorded a retirement liability for such easements because the Company plans to use the facilities indefinitely.

Interest Expense, net

The Company's interest expense, net primarily consists of interest expense from the senior secured notes, senior secured term loan and credit facilities, see Note 7, *Borrowings Under Credit Facilities* and Note 8, *Long-Term Debt*. AFUDC on borrowed funds of \$3.0 million, \$3.1 million and \$1.8 million was recognized as a reduction of the Company's interest expense during the years ended December 31, 2017, 2016 and 2015, respectively.

Other Income, net

AFUDC on other funds of \$0.7 million, \$3.7 million and \$3.0 million was recognized in other income, net during the years ended December 31, 2017, 2016 and 2015, respectively.

Comprehensive Income

Comprehensive income includes net income and other comprehensive income, which has consisted of unrealized gains and losses on derivative financial instruments. The Company records deferred hedge gains and losses on its derivative financial instruments that qualify as cash flow hedging instruments as other comprehensive income.

For the years ended December 31, 2017, 2016 and 2015, net income and comprehensive income were the same amounts. The Company did not have any derivative financial instruments during 2017, 2016 or 2015.

Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures*, sets forth a framework for measuring fair value and required disclosures about fair value measurements of assets and liabilities in accordance with U.S. GAAP.

Level 1 — Quoted prices in active markets for identical assets and liabilities.

Level 2 — Valuations based on one or more quoted prices in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs that are observable other than quoted prices for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Recent Accounting Guidance

Recently Adopted Accounting Guidance

In January 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 provides new guidance for entities that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting, including acquisitions, disposals, goodwill and consolidation. The new guidance is intended to help entities evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The new guidance provides a more robust framework to use in determining when a set of assets and activities is considered a business. The guidance also provides more consistency in applying the rules for defining a business, reduces the costs of application and makes the definition of a business more operable. The new guidance is effective for annual periods beginning after December 15, 2017, with earlier application permitted. The Company adopted the new guidance on October 1, 2017. The criteria in the new guidance was used to determine that the transaction with Oncor was an exchange of assets and not a business exchange; therefore, the transaction was treated as an asset exchange for accounting purposes.

Recent Accounting Guidance Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 amended the existing accounting standard for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for periods beginning after December 15, 2018, with early adoption permitted. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company believes the new guidance will have a minimal impact on its financial position, results of operations and cash flows due to the limited changes around lessor transactions.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the expected consideration for these goods and services. As part of this guidance, lease transactions have been excluded from the requirements of this standard. As such, this guidance will not apply to the Company unless certain lease criteria are present; therefore, the new guidance should have a minimal, if any, impact on the Company's financial position, results of operations and cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments*. The objective of ASU 2016-15 is to eliminate the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for periods beginning after December 15, 2017, with early adoption permitted. The new standard should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. The Company will adopt the new guidance in the first quarter of 2018 with an immaterial impact expected on the presentation of its cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force)*. ASU 2016-18 adds to or clarifies current guidance on the classification and presentation of restricted cash in the statement of cash flows. The new guidance requires entities to include in their cash and cash equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The guidance does not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for periods beginning after December 15, 2017, with early adoption permitted. If an entity adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company will adopt the new guidance in the first quarter of 2018, and it will affect the Company's Consolidated Statement of Cash Flows for the presentation of restricted cash.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 amends the hedging accounting model to better align an entity's risk management activities and financial reporting for hedging relationships and enhance the transparency and understandability of hedge results. The amendments also simplify the application of hedge accounting in certain situations. The new guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The most significant impact of the new guidance will be the elimination of ineffectiveness for all cash flow hedges in a hedging relationship. The Company has had hedging activity in the past, but does not currently; however, the impact of the new guidance will be evaluated if new hedges are undertaken.

Reportable Segments

U.S. GAAP establishes standards for reporting financial and descriptive information about a company's reportable segments. Management has determined that the Company has one reportable segment, with activities related to ownership and leasing of rate-regulated assets.

2. Asset Exchange Transaction

In July 2017, SDTS and Sharyland signed a definitive agreement (Definitive Agreement) with Oncor to exchange SDTS's retail distribution assets and certain transmission assets for a group of Oncor's transmission assets located in Northwest and Central Texas (Asset Exchange Transaction). The Asset Exchange Transaction closed in November 2017 and, among other things, resulted in SDTS exchanging \$403 million of net assets for \$383 million of transmission assets owned by Oncor, \$18 million of net cash and a \$2 million receivable from Oncor as of December 31, 2017. The receivable from Oncor is included in prepaids and other current assets in the Consolidated Balance Sheets at December 31, 2017. The transaction resulted in a gain of \$0.3 million for SDTS. These transactions were structured to qualify, in part, as a simultaneous tax deferred like-kind exchange of assets to the extent that the assets are of "like kind" (within the meaning of Section 1031 of the Internal Revenue Code of 1986, as amended).

The table below reflects the details of the Asset Exchange Transaction:

<i>(in thousands)</i>	December 31, 2017
Net assets transferred to Oncor	
Gross transmission plant	\$ 2,675
Gross distribution plant	499,381
Gross general plant	13,013
Construction work in progress	22,076
Total electric plant	537,145
Accumulated depreciation	(130,712)
Electric plant, net	406,433
Inventory	37
Regulatory liability	(3,870)
Net assets transferred to Oncor	<u>\$ 402,600</u>
Net transmission assets acquired from Oncor	
Gross transmission plant	\$ 432,560
Construction work in progress	48
Total transmission plant	432,608
Accumulated depreciation	(32,778)
Transmission plant, net	399,830
Regulatory liability	(16,540)
Net assets acquired from Oncor	<u>\$ 383,290</u>
Cash portion of purchase price from Oncor	
Cash	\$ 17,935
Receivable from Oncor	1,632
Cash portion of purchase price from Oncor	<u>\$ 19,567</u>
Gain on asset exchange transaction	<u>\$ 257</u>

Upon closing of the Asset Exchange Transaction, Sharyland leased the newly acquired assets from SDTS and began operating them under an amended CCN. SDTS continues to own and lease to Sharyland certain substations related to its wholesale distribution assets. Sharyland exited the retail distribution business when the transaction closed. Additionally, SDTS and Sharyland amended certain of their lease agreements to remove the assets that were transferred to Oncor. See Note 15, *Leases* for additional information regarding the amended leases.

3. Related Party Transactions

The Company, through SDTS, leases all its regulated assets to Sharyland through several lease agreements. Under the leases, the Company has agreed to fund capital expenditures for footprint projects.

The Company earned lease revenues from Sharyland under these agreements of \$190.3 million, \$172.1 million and \$151.2 million during the years ended December 31, 2017, 2016 and 2015, respectively. In connection with the Company's leases with Sharyland, the Company recorded a deferred rent liability of \$14.7 million and \$15.6 million as of December 31, 2017 and 2016, respectively, which is included in accounts payable and accrued liabilities on the Consolidated Balance Sheets.

In addition to rent payments that Sharyland makes to the Company, the Company and Sharyland also make payments to each other under the leases that primarily consist of payments to reimburse Sharyland for the costs of gross plant and equipment added to the Company's regulated assets. For the years ended December 31, 2017 and 2016, the net amount of the payments the Company made to Sharyland was \$187.1 million and \$231.6 million, respectively.

In connection with the Definitive Agreement, on July 21, 2017, SDTS and Sharyland entered into a letter agreement (Side Letter) in which they agreed to certain terms and conditions to address the actual or potential conflicts of interest arising between SDTS and Sharyland in connection with the transaction with Oncor. Specifically, the Side Letter includes, among other things certain representations and warranties from Sharyland that correspond to representations and warranties of SDTS under the Definitive Agreement relating to certain matters for which SDTS relies, in whole or in part, upon Sharyland under the leases and as operator of the assets and an allocation of expenses incurred in connection with the transactions. For information related to the Asset Exchange Transaction with Oncor, see Note 2, *Asset Exchange Transaction*.

As part of the Asset Exchange Transaction, the Company incurred \$0.2 million in legal fees related to the Company obtaining the lender's consents to complete the Asset Exchange Transaction. These costs are eligible to be recovered through rates collected from customers during a 24-month period starting January 2018 through December 2019. The Company sold the recoverable costs to Sharyland in exchange for 24 equal monthly payments beginning January 2018 through December 2019. The equal monthly payments from Sharyland will be received through the CREZ lease. As of December 31, 2017, there were no payments due from Sharyland related to the legal fees and no payments had been received. These fees are included in due from affiliates on the Consolidated Balance Sheets.

As of December 31, 2017 and 2016, accounts payable and accrued liabilities on the Consolidated Balance Sheets included \$2.1 million and \$13.7 million, respectively, related to amounts owed to Sharyland for construction costs incurred and property taxes paid on behalf of the Company. As of December 31, 2017 and 2016, amounts due from affiliates on the Consolidated Balance Sheets included \$35.2 million and \$32.6 million, respectively, related to amounts owed by Sharyland primarily associated with the Company's leases.

The management fee paid to Hunt Manager for the years ended December 31, 2017 and 2016 was \$17.6 million and \$10.3 million, respectively. As of December 31, 2016, there was \$3.5 million accrued associated with management fees on the Consolidated Balance Sheets. As of December 31, 2017, there were no prepaid or accrued amounts associated with management fees on the Consolidated Balance Sheets. Additionally, during the years ended December 31, 2017 and 2016, the Company paid Hunt Manager \$0.3 million and \$0.5 million, respectively, for reimbursement of annual software license and maintenance fees and other expenses in accordance with the management agreement.

The management agreement with Hunt Manager, which became effective February 4, 2015, provided for an annual base fee, or management fee, of \$10.0 million through April 1, 2015. Effective as of April 1, 2015, the annual base fee was adjusted to \$13.1 million annually through March 31, 2016. The base fee for each twelve month period beginning each April 1 thereafter equaled, or will equal 1.50% of the Company's total equity as of December 31 of the immediately preceding year, subject to a \$30.0 million cap. The term of the management agreement expires December 31, 2019, and will automatically renew for successive five year terms unless a majority of the Company's independent directors decides to terminate the agreement.

The annual base fees through March 31, 2019 are as follows:

<i>(In millions)</i>	Base Fee (1)
April 1, 2015 - March 31, 2016	\$ 13.1
April 1, 2016 - March 31, 2017	14.0
April 1, 2017 - March 31, 2018	14.2
April 1, 2018 - March 31, 2019	13.5

- (1) The April 1, 2015 through March 31, 2016 management fee was an agreed upon amount within the management agreement. The April 1, 2016 through March 31, 2017 management fee was the first management fee calculated in accordance with the prescribed base fee calculation.

In connection with the organization of InfraREIT, L.L.C. in 2010, the Operating Partnership agreed to issue deemed capital credits and Class A OP Units to Hunt-InfraREIT. The Operating Partnership agreed to issue up to \$82.5 million to Hunt-InfraREIT, pro-rata, as the capital expenditures were funded for the CREZ project up to \$737.0 million. In addition, the Operating Partnership also agreed to issue Hunt-InfraREIT deemed credits in an amount equal to 5% of the capital expenditures on certain development projects. As of December 31, 2014, the Operating Partnership issued Hunt-InfraREIT an aggregate 6.8 million Class A OP Units in respect of these obligations. On January 1, 2015, the Operating Partnership issued an additional 70,846 Class A OP Units to Hunt-InfraREIT, and, upon completion of InfraREIT's IPO, the Operating Partnership issued Hunt-InfraREIT an accelerated deemed capital credit equal to 983,418 Class A OP Units, which settled the related obligations to Hunt-InfraREIT. Following this issuance, the Operating Partnership no longer has the obligation to issue deemed capital credits or related equity to Hunt-InfraREIT. The operating Partnership recorded these capital account credits as asset acquisition costs included as part of the capital project in the CWIP balance.

In connection with the IPO and Reorganization, the Company incurred an aggregate of \$5.0 million of legal fees, a portion of which was paid to reimburse HCI and its subsidiaries (collectively, Hunt), to reimburse certain pre-IPO investors and to reimburse certain of InfraREIT's independent directors, in each case for legal expenses they incurred in connection with such transactions. Of the total legal fees incurred, \$0.1 million of the legal fees were recorded during the first quarter of 2015 and the \$4.9 million was incurred during the year ended December 31, 2014. For further information on additional related party transactions the Company entered into as a result of the Reorganization, see the caption *Initial Public Offering and Reorganization* included in Note 1, *Description of Business and Summary of Significant Accounting Policies*.

On November 20, 2014, InfraREIT, Inc. borrowed \$1.0 million from HCI pursuant to a promissory note. The note accrued interest at 2.5% per annum and was due on November 1, 2015. This note and accrued interest were repaid in February 2015 with proceeds from the IPO for a total of \$1.0 million.

Effective January 15, 2015, the Company sold all the assets related to the Cross Valley transmission line (Cross Valley Project) to a newly formed development company owned by Hunt and certain of the Company's pre-IPO investors for cash of \$34.2 million, which equaled the CWIP of the project on the date of sale, plus reimbursement of out of pocket expenses associated with the project financing. Also on January 15, 2015, the Company sold all the assets related to the Golden Spread Electric Cooperative interconnection (Golden Spread Project) to Hunt for cash of \$7.0 million, which equaled the CWIP of the project on the date of sale. These projects are projects to which the Company has a right of first offer under the Company's development agreement with Hunt Transmission Services, L.L.C. (Hunt Developer).

4. Electric Plant and Depreciation

The major classes of electric plant are as follows:

<i>(In thousands)</i>	December 31,	
	2017	2016
Electric plant:		
Transmission plant	\$ 1,685,466	\$ 1,203,164
Distribution plant	143,865	575,648
General plant	3,023	15,959
Total plant in service	1,832,354	1,794,771
Construction work in progress	113,643	107,189
Total electric plant	1,945,997	1,901,960
Accumulated depreciation	(173,768)	(261,140)
Electric plant, net	\$ 1,772,229	\$ 1,640,820

General plant consists primarily of a warehouse, buildings and associated assets. CWIP relates to various projects underway related to our regulated assets. The capitalized amounts of CWIP consist primarily of route development expenditures, labor and materials expenditures, right of way acquisitions, engineering services and legal fees. Electric plant, net includes plant acquisition adjustments of \$29.4 million and \$27.7 million at December 31, 2017 and 2016, respectively. As part of the Asset Exchange Transaction, a negative plant acquisition adjustment of \$2.7 million related to the Company's distribution assets was transferred to Oncor.

5. Goodwill

Goodwill represents the excess of costs of an acquired business over the fair value of the assets acquired, less liabilities assumed. The Company conducts an impairment test of goodwill at least annually. The Company's 2017 impairment test did not result in an impairment charge. As of December 31, 2017 and 2016, \$138.4 million was recorded as goodwill on the Consolidated Balance Sheets.

6. Other Assets

Other assets are as follows:

<i>(In thousands)</i>	December 31, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred financing costs on undrawn revolver	\$ 967	\$ (591)	\$ 376	\$ 967	\$ (397)	\$ 570
Other regulatory assets:						
Deferred financing costs	28,570	(20,944)	7,626	27,761	(16,997)	10,764
Deferred costs recoverable in future years	23,793	—	23,793	23,793	—	23,793
Other regulatory assets	52,363	(20,944)	31,419	51,554	(16,997)	34,557
Investments	2,519	—	2,519	2,519	—	2,519
Other assets	<u>\$ 55,849</u>	<u>\$ (21,535)</u>	<u>\$ 34,314</u>	<u>\$ 55,040</u>	<u>\$ (17,394)</u>	<u>\$ 37,646</u>

Deferred financing costs on undrawn revolver consist of costs incurred in connection with the establishment of the InfraREIT LP revolving credit facility, see Note 7, *Borrowings Under Credit Facilities*.

Other regulatory assets consist of deferred financing costs within the Company's regulated subsidiary, SDTS. These deferred financing costs primarily consist of debt issuance costs incurred in connection with the construction of SDTS's regulated assets or the refinancing of related debt. See Note 7, *Borrowings Under Credit Facilities* and Note 8, *Long-Term Debt*. These assets are classified as regulatory assets and amortized over the length of the related loan. These costs are recovered through rates established in the Company's rate cases.

Deferred costs recoverable in future years of \$23.8 million at December 31, 2017 and 2016 represent operating costs incurred from inception of Sharyland through 2007. The Company has determined that these costs are probable of recovery through future rates based on orders of the PUCT in Sharyland's prior rate cases and regulatory precedent.

In connection with the acquisition of Cap Rock Holding Corporation (Cap Rock), the Company received a participation in the National Rural Utilities Cooperative Finance Corporation (NRUCFC). The Company accounts for this investment under the cost method of accounting. The Company believes that the investment is not impaired at December 31, 2017 and 2016.

7. Borrowings Under Credit Facilities

InfraREIT LP Revolving Credit Facility

In 2014, InfraREIT LP entered into a \$75.0 million revolving credit facility, led by Bank of America, N.A., as administrative agent, with up to \$15.0 million available for issuance of letters of credit and a maturity date of December 10, 2019. The revolving credit facility is secured by certain assets of InfraREIT LP, including accounts and other personal property, and is guaranteed by the Company and Transmission and Distribution Company, L.L.C. (TDC), with the TDC guarantee secured by the assets of, and InfraREIT LP's equity interests in, TDC on materially the same basis as TDC's senior secured notes described below in Note 8, *Long-Term Debt*.

Borrowings and other extensions of credit under the revolving credit facility bear interest, at InfraREIT LP's election, at a rate equal to (1) the one, two, three or six month London Interbank Offered Rate (LIBOR) plus 2.5%, or (2) a base rate (equal to the highest of (a) the Federal Funds Rate plus ½ of 1%, (b) the administrative agent's prime rate and (c) LIBOR plus 1%) plus 1.5%. Letters of credit are subject to a letter of credit fee equal to the daily amount available to be drawn times 2.5%. InfraREIT LP is also required to pay a commitment fee and other customary fees under the revolving credit facility. InfraREIT LP may prepay amounts outstanding under the revolving credit facility in whole or in part without premium or penalty.

As of December 31, 2017 and 2016, there were no borrowings or letters of credit outstanding and there was \$75.0 million of borrowing capacity available under the revolving credit facility. As of December 31, 2017 and 2016, InfraREIT LP was in compliance with all debt covenants under the credit agreement.

SDTS Revolving Credit Facility

In 2014, SDTS entered into the third amended and restated credit agreement led by Royal Bank of Canada, as administrative agent, with a maturity date of December 10, 2019. The credit agreement contains a revolving credit facility with a borrowing capacity up to \$250.0 million with up to \$25.0 million of the revolving credit facility available for issuance of letters of credit and up to \$5.0 million of the revolving credit facility available for swingline loans. The revolving credit facility is secured by certain of SDTS's regulated assets, the leases, certain accounts and TDC's equity interests in SDTS on the same basis as SDTS's various senior secured note obligations described in Note 8, *Long-Term Debt*.

The interest rate for the revolving credit facility is based, at SDTS's option, at a rate equal to either (1) a base rate, determined as the greatest of (a) the administrative agent's prime rate, (b) the federal funds effective rate plus $\frac{1}{2}$ of 1% and (c) LIBOR plus 1.00% per annum, plus a margin of either 0.75% or 1.00% per annum, depending on the total debt to capitalization ratio of SDTS on a consolidated basis or (2) LIBOR plus a margin of either 1.75% or 2.00% per annum, depending on the total debt to capitalization ratio of SDTS on a consolidated basis. SDTS is also required to pay a commitment fee and other customary fees under its revolving credit facility. SDTS is entitled to prepay amounts outstanding under the revolving credit facility with no prepayment penalty.

As of December 31, 2017, SDTS had \$41.0 million of borrowings outstanding at a weighted average interest rate of 3.12%, no letters of credit outstanding and \$209.0 million of remaining borrowing capacity available under this revolving credit facility. As of December 31, 2016, SDTS had \$137.5 million of borrowings outstanding at a weighted average interest rate of 2.50% with no letters of credit outstanding and \$112.5 million of borrowing capacity available under this revolving credit facility. As of December 31, 2017 and 2016, SDTS was in compliance with all debt covenants under the credit agreement.

The credit agreements require InfraREIT LP and SDTS to comply with customary covenants for facilities of this type, including: debt to capitalization ratios, debt service coverage ratios, limitations on additional debt, liens, investments, mergers, acquisitions, dispositions or entry into any line of business other than the business of the transmission and distribution of electric power and the provision of ancillary services and certain restrictions on the payment of dividends. The debt to capitalization ratio on the SDTS credit facility is calculated on a combined basis with Sharyland. The credit agreements also contain restrictions on the amount of Sharyland's indebtedness and other restrictions on, and covenants applicable to, Sharyland.

The revolving credit facilities of InfraREIT LP and SDTS are subject to customary events of default. If an event of default occurs under either facility and is continuing, the lenders may accelerate amounts due under such revolving credit facility.

8. Long-Term Debt

Long-term debt consisted of the following:

<i>(In thousands)</i>	Maturity Date	December 31, 2017		December 31, 2016	
		Amount Outstanding	Interest Rate	Amount Outstanding	Interest Rate
TDC					
Senior secured notes - \$25.0 million	December 30, 2020	\$ 16,250	8.50%	\$ 17,500	8.50%
SDTS					
Senior secured notes - \$60.0 million	June 20, 2018	60,000	5.04%	60,000	5.04%
Senior secured term loan - \$200.0 million	June 5, 2020	200,000	2.71%	—	n/a
Senior secured notes - \$400.0 million	December 3, 2025	400,000	3.86%	400,000	3.86%
Senior secured notes - \$100.0 million	January 14, 2026	100,000	3.86%	100,000	3.86%
Senior secured notes - \$53.5 million	December 30, 2029	40,546	7.25%	42,600	7.25%
Senior secured notes - \$110.0 million	September 30, 2030	92,821	6.47%	97,366	6.47%
Total SDTS debt		893,367		699,966	
Total long-term debt		909,617		717,466	
Less unamortized deferred financing costs		(97)		(129)	
Total long-term debt, less deferred financing costs		909,520		717,337	
Less current portion of long-term debt		(68,305)		(7,849)	
Debt classified as long-term debt, less deferred financing costs		<u>\$ 841,215</u>		<u>\$ 709,488</u>	

In 2010, TDC issued \$25.0 million aggregate principal amount of 8.50% per annum senior secured notes to The Prudential Insurance Company of America and affiliates (TDC Notes). Principal and interest on the TDC Notes are payable quarterly, and the TDC Notes are secured by the assets of, and InfraREIT LP's equity interest in, TDC on materially the same basis as with lenders under InfraREIT LP's revolving credit facility described above in Note 7, *Borrowings Under Credit Facilities*. In connection with the issuance of the TDC Notes, TDC incurred deferred financing costs which are shown as a reduction of the senior secured notes balance. The amount of unamortized deferred financing costs associated with the TDC Notes was \$0.1 million as of December 31, 2017 and 2016.

SDTS has \$60.0 million aggregate principal amount of 5.04% per annum senior secured notes issued to The Prudential Insurance Company of America and affiliates in 2011 (2011 Notes). Interest is payable quarterly while no principal payments are due until maturity.

In June 2017, SDTS entered into a \$200.0 million senior secured term loan credit facility (2017 Term Loan) with Canadian Imperial Bank of Commerce, New York Branch (CIBC) and Mizuho Bank, Ltd., as lenders, and CIBC as administrative agent. The interest rate for the 2017 Term Loan is based, at SDTS's option, at a rate equal to either (1) a base rate, determined as the greatest of (a) the administrative agent's prime rate, (b) the federal funds effective rate plus 0.5% and (c) LIBOR plus 1.00% per annum, plus a margin of 0.25% per annum or (2) LIBOR plus a margin of 1.25% per annum. The LIBOR interest period may be one, two, three or six months, but interest is payable no less frequently than quarterly. Proceeds from the issuance of the 2017 Term Loan were used to repay the outstanding balance on the SDTS revolving credit facility and for general corporate purposes.

In 2015, SDTS issued \$400.0 million in 10 year senior secured notes, series A (Series A Notes), and in 2016 issued an additional \$100.0 million in 10 year senior secured notes, series B (Series B Notes). These senior secured notes bear interest at a rate of 3.86 % per annum, payable semi-annually. The Series A Notes are due at maturity with outstanding accrued interest payable each June and December. The Series B Notes are due at maturity with outstanding accrued interest payable each January and July.

In 2009, SDTS issued \$53.5 million aggregate principal amount of 7.25% per annum senior secured notes to The Prudential Insurance Company of America and affiliates (2009 Notes). Principal and interest on the 2009 Notes are payable quarterly.

In 2010, SDTS issued \$110.0 million aggregate principal amount of 6.47% per annum senior secured notes to The Prudential Insurance Company of America (2010 Notes). Principal and interest on the 2010 Notes are payable quarterly.

SDTS and TDC are entitled to prepay amounts outstanding under their senior secured notes, subject to a prepayment penalty equal to the excess of the discounted value of the remaining scheduled payments with respect to such notes over the amount of the prep aid notes. SDTS is entitled to prepay amounts outstanding under the 2017 Term Loan with no prepayment penalty. The 2017 Term Loan is also subject to required prepayments upon the occurrence of certain events.

The agreements governing the senior secured notes and 2017 Term Loan contain customary covenants, such as debt to capitalization ratios, debt service coverage ratios, limitation on liens, dispositions, mergers, entry into other lines of business, investments and the incurrence of additional indebtedness. The debt to capitalization ratios are calculated on a combined basis with Sharyland. SDTS's Series A Notes and Series B Notes are not required to maintain a debt service coverage ratio. As of December 31, 2017 and 2016, SDTS and TDC were in compliance with all debt covenants under the applicable agreements.

SDTS's Series A Notes, Series B Notes, 2009 Notes, 2010 Notes, 2011 Notes and 2017 Term Loan are secured by certain of SDTS's regulated assets, the leases, certain accounts and TDC's equity interests in SDTS on the same basis as SDTS's revolving credit facility described above in Note 7, *Borrowings Under Credit Facilities*.

The senior secured notes of TDC and SDTS and 2017 Term Loan are subject to customary events of default. If an event of default occurs with respect to the notes and is continuing, the lenders may accelerate the applicable amounts due.

Future maturities of long-term debt are as follows for the years ending December 31:

<i>(In thousands)</i>	Total
2018	\$ 68,305
2019	8,792
2020	221,813
2021	8,621
2022	9,216
Thereafter	592,870
Total	\$ 909,617

9. Fair Value of Financial Instruments

The carrying amounts of the Company's cash and cash equivalents, restricted cash, due from affiliates and accounts payable approximate fair value due to the short-term nature of these assets and liabilities.

The Company had fixed rate borrowings totaling \$709.6 million and \$717.5 million under senior secured notes with a weighted average interest rate of 4.6% per annum as of December 31, 2017 and 2016, respectively. The fair value of these borrowings is estimated using discounted cash flow analysis based on current market rates.

As of December 31, 2017, the Company had \$200.0 million of borrowings under the 2017 Term Loan that accrues interest under a floating interest rate structure, which is typically repriced every month or three months. Accordingly, the carrying value of such indebtedness approximated its fair value for the amounts outstanding.

Financial instruments, measured at fair value, by level within the fair value hierarchy were as follows:

<i>(In thousands)</i>	Carrying Value	Fair Value		
		Level 1	Level 2	Level 3
December 31, 2017				
Long-term debt	\$ 909,617	\$ —	\$ 950,522	\$ —
December 31, 2016				
Long-term debt	\$ 717,466	\$ —	\$ 758,415	\$ —

10. Regulatory Matters

Regulatory Liabilities

Regulatory liabilities are as follows:

(In thousands)	December 31,	
	2017	2016
Cost of removal	\$ 44,679	\$ 21,004
Excess ADFIT	55,779	—
Regulatory liabilities	\$ 100,458	\$ 21,004

The Company's regulatory liability related to cost of removal is established through depreciation rates and represents amounts that the Company expects to incur in the future. The regulatory liability is recorded as a long-term liability net of actual removal costs incurred. As part of the Asset Exchange Transaction, SDTS transferred \$3.9 million of the regulatory liability to Oncor and assumed \$16.5 million of regulatory liability from Oncor. See Note 2, *Asset Exchange Transaction* for additional information regarding the Asset Exchange Transaction.

As an owner of regulated utility assets, the Company established an ADFIT balance for regulatory purposes primarily associated with the difference between U.S. GAAP and federal income tax depreciation on its assets. This ADFIT was calculated based on a 35% corporate federal income tax rate, but was not recorded on its consolidated balance sheets or income statements due to the expectation that the Company will not pay corporate federal income taxes as a result of its REIT structure. With the passage of the TCJA, the corporate federal income tax rate was reduced to 21% effective for tax years beginning on or after January 1, 2018. Regulatory accounting rules require utilities to revalue their ADFIT balances based on a change in corporate federal income tax rates, to remove the difference from ADFIT and to create a regulatory liability for the reduction in ADFIT. Therefore, the Company reduced the ADFIT by \$55.8 million and created a regulatory liability for regulatory purposes. Additionally, in accordance with ASC Topic 980, *Regulated Operations*, Section 405, *Liabilities*, the Company recorded the \$55.8 million regulatory liability on its consolidated balance sheet with a corresponding reduction to its revenue as deferred tax liabilities have not been previously recorded on its consolidated balance sheets. The regulatory liability will be amortized as an increase to revenue over a future period to be determined in a future rate proceeding. The amount and expected amortization of the regulatory liability could be adjusted in the future due to new laws, regulations or regulatory actions.

Rate Case Filing

In January 2014, the PUCT approved a rate case (2013 Rate Case) filed by Sharyland applicable to the Company's regulated assets providing for a capital structure consisting of 55% debt and 45% equity; a cost of debt of 6.73%, a return on equity of 9.70% and a return on invested capital of 8.06% in calculating rates. The new rates became effective May 1, 2014. Under the order approving the 2013 Rate Case, Sharyland was required to file its next rate case in 2016 (2016 Rate Case). In November 2017, the 2016 Rate Case was dismissed, which resulted in the 2013 Rate Case regulatory parameters remaining in place. As part of the PUCT order approving the Asset Exchange Transaction, the PUCT also granted SDTS a CCN to continue to own and lease its assets to Sharyland. SDTS and Sharyland are required to file a new rate case in the calendar year 2020 with a test year ending December 31, 2019.

11. Commitments and Contingencies

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. Although the Company cannot predict the outcome of any such legal proceedings, the Company does not believe the resolution of these proceedings, individually or in the aggregate, will have a material impact on the Company's business, financial condition or results of operations, liquidity and cash flows.

12. Equity

On January 12, 2015, InfraREIT, Inc. amended its charter to increase the number of authorized shares of common stock from 3,000 to 450,000,000. In addition, the par value of the Company's common stock was reduced from \$1 per share to \$0.01 per share. Both the authorized number of shares of common stock and the par value were unaffected by the Merger or Reorganization.

The Company and the Operating Partnership declared cash dividends on common stock and distributions on OP Units of \$1.00, \$1.00 and \$1.075 per share during the years ended December 31, 2017, 2016 and 2015, respectively. The Company paid a total of \$60.7 million, \$59.1 million and \$61.6 million in dividends and distributions during the years ended December 31, 2017, 2016 and 2015, respectively.

For federal income tax purposes, the dividends declared in 2017, 2016 and 2015 were classified as ordinary income.

The Company is required to distribute at least 90% of its taxable income (excluding net capital gains) to maintain its status as a REIT. Management believes that the Company has distributed at least 100% of its taxable income.

13. Noncontrolling Interest

The Company presents as a noncontrolling interest the portion of any equity in entities that it controls and consolidates but does not own. Generally, Common OP Units of the Operating Partnership participate in net income allocations and distributions and entitle their holder to the right, subject to the terms set forth in the partnership agreement, to require the Operating Partnership to redeem all or a portion of the Common OP Units held by such limited partner. At the Company's option, it may satisfy this redemption with cash or by exchanging shares of InfraREIT, Inc. common stock on a one-for-one basis. Prior to the cancellation of all outstanding Class A OP Units, these units also participated in net income allocations and distributions and had the same redemption rights. As of December 31, 2017 and 2016, there were a total of 16.9 million OP Units held by the limited partners of the Operating Partnership.

In 2014, the limited partnership agreement of InfraREIT LP was amended in order to incorporate a long-term incentive plan. During the years ended December 31, 2017, 2016 and 2015, an aggregate of 31,633, 29,722 and 28,000 LTIP Units, respectively, were issued by the Operating Partnership to members of the Company's board of directors. For additional information, refer to Note 16, *Share-Based Compensation*.

The Company follows the guidance issued by the FASB regarding the classification and measurement of redeemable securities. Accordingly, the Company has determined that the Common OP Units meet the requirements to be classified as permanent equity. The Company redeemed 24,632 Common OP Units with the issuance of 24,632 shares of common stock during the year ended December 31, 2017. During the year ended December 31, 2016, the Company redeemed 186,496 Common OP Units with the issuance of 186,496 shares of common stock. During the year ended December 31, 2015, the Company did not redeem any OP Units other than, in connection with the Reorganization: (1) 1,551,878 Class A OP Units held by Hunt-InfraREIT, which were exchanged with InfraREIT, Inc. for 1,551,878 shares of common stock of InfraREIT, Inc. and (2) 6,242,999 Class A OP Units in exchange for the assignment of a promissory note in the principal amount of \$66.5 million.

14. Earnings Per Share

Basic earnings per share is calculated by dividing net earnings after noncontrolling interest by the weighted average shares outstanding. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed redemption of OP Units for shares of common stock of InfraREIT, Inc. or common shares of InfraREIT, L.L.C., as applicable, if such redemption were dilutive. The redemption of OP Units would have been anti-dilutive during the years ended December 31, 2017, 2016 and 2015.

Earnings per share are calculated as follows:

<i>(In thousands, except per share data)</i>	Years Ended December 31,		
	2017	2016	2015
Basic net income per share:			
Net income attributable to InfraREIT, Inc.	\$ 12,302	\$ 49,954	\$ 13,267
Weighted average common shares outstanding	43,783	43,668	42,983
Basic net income per share	\$ 0.28	\$ 1.14	\$ 0.31
Diluted net income per share:			
Net income attributable to InfraREIT, Inc.	\$ 12,302	\$ 49,954	\$ 13,267
Weighted average common shares outstanding	43,783	43,668	42,983
Redemption of Operating Partnership units	—	—	—
Weighted average dilutive shares outstanding	43,783	43,668	42,983
Diluted net income per share	\$ 0.28	\$ 1.14	\$ 0.31
Due to the anti-dilutive effect, the computation of diluted earnings per share does not reflect the following adjustments:			
Net income attributable to noncontrolling interest	\$ 4,751	\$ 19,347	\$ 6,664
Redemption of Operating Partnership units	16,892	16,968	16,232

15. Leases

The following table shows the composition of the Company's lease revenue:

<i>(In thousands)</i>	Years Ended December 31,		
	2017	2016	2015
Base rent (straight-line)	\$ 165,264	\$ 145,030	\$ 125,669
Percentage rent	25,077	27,069	25,534
Total lease revenue	<u>\$ 190,341</u>	<u>\$ 172,099</u>	<u>\$ 151,203</u>

SDTS has entered into various leases with Sharyland for all the Company's placed in service regulated assets. The master lease agreements, as amended, expire at various dates from December 31, 2019 through December 31, 2022. The Company's leases primarily consist of base rent, but certain lease supplements contain percentage rent as well. The lease supplements governing the Stanton Transmission Loop, Permian Basin assets and assets acquired from Oncor, which are part of the CREZ assets, only provide for base rent. Rent for the assets in McAllen and the CREZ assets not acquired in the Asset Exchange Transaction is comprised primarily of base rent but also includes percentage rent. Prior to its termination on December 31, 2017, the lease that previously covered the Permian Basin assets as well as the assets in Brady and Celeste, Texas that were transferred to Oncor in the Asset Exchange Transaction (S/B/C Lease) also included a percentage rent component. Percentage rent under the Company's leases is based on a percentage of Sharyland's annual gross revenues, as defined in the applicable lease, in excess of annual specified breakpoints, which are at least equal to the base rent under each lease.

The rate used for percentage rent for the reported time periods varies by lease and ranges from a high of 37% to a low of 23%. The percentage rent rates for 2018 through the expiration of the leases ranges from a 24% to 30%. Because an annual specified breakpoint must be met under the leases before the Company can recognize any percentage rent, the Company anticipates that revenue will grow over the year with little to no percentage rent recognized in the first and second quarters of each year and with the largest amounts recognized during the third and fourth quarters of each year.

Future minimum rent revenue expected in accordance with these lease agreements is as follows for the years ending December 31:

<i>(In thousands)</i>	Total
2018	\$ 186,460
2019	193,655
2020	182,099
2021	8,576
2022	4,459
Thereafter	—
Total	<u>\$ 575,249</u>

16. Share-Based Compensation

InfraREIT, Inc. 2015 Equity Incentive Plan

The Company's pre-IPO board of directors adopted the InfraREIT, Inc. 2015 Equity Incentive Plan (2015 Equity Incentive Plan) which permits the Company to provide equity based compensation to certain personnel who provide services to the Company, Hunt Manager or an affiliate of either, in the form of stock options, stock appreciation rights, dividend equivalent rights, restricted stock, stock units, performance based awards, unrestricted stock, LTIP Units and other equity based awards up to an aggregate of 375,000 shares. The 2015 Equity Incentive Plan provides, among other things, that no participant in the plan will be permitted to acquire, or will have any right to acquire, shares thereunder if such acquisition would be prohibited by the ownership limits contained in the Company's charter or bylaws or would impair the Company's status as a REIT. As of December 31, 2017, 265,353 shares were reserved for issuance under the 2015 Equity Incentive Plan.

The Company currently utilizes the 2015 Equity Incentive Plan primarily to compensate the non-employee directors for their service on the Company's board of directors. The following table shows the aggregate LTIP Units issued to members of the Company's board of directors for the years ended December 31, 2017, 2016 and 2015:

Grant Date	LTIP Units	Grant Date Fair Value per LTIP Unit	Aggregate Fair Value (in thousands)	Vesting Date
February 2015	28,000	\$ 26.41	\$ 739	February 2016
January 2016	29,722	18.58	552	January 2017
January 2017	31,633	18.02	570	January 2018

As part of the Company's board of directors' quarterly compensation, each non-executive director can, subject to certain exceptions, elect to receive part of their compensation in InfraREIT common stock instead of cash with full vesting upon issuance. During 2017, all directors received their compensation in cash. During 2016, certain directors elected to receive their compensation in InfraREIT common stock. The following table shows the shares of common stock issued to members of the board of directors during the year ended December 31, 2016:

Grant Date	Shares of Common Stock	Grant Date Value per Share	Aggregate Fair Value (in thousands)
January 2016	4,735	\$ 18.58	\$ 88
April 2016	5,497	16.81	92
July 2016	5,248	17.58	92
October 2016	4,812	17.84	86

The compensation expense, which represents the fair value of the stock measured at market price at the date of grant, is recognized on a straight-line basis over the vesting period. For the years ended December 31, 2017, 2016 and 2015, \$0.6 million, \$1.0 million and \$0.7 million was recognized as compensation expense related to these grants and is included in general and administrative expense on the Consolidated Statements of Operations. There was no unamortized compensation expense related to these grants at December 31, 2017.

InfraREIT, Inc. Non-Qualified 2015 Employee Stock Purchase Plan

In connection with the IPO, the Company adopted the InfraREIT, Inc. Non-Qualified Employee Stock Purchase Plan (ESPP), which would allow employees of Hunt Manager or its affiliates whose principal duties include the management and operation of the Company's business to purchase shares of the Company's common stock at a discount. Pursuant to the management agreement, Hunt Manager is obligated to fund all the costs associated with the ESPP, including the funds necessary to purchase shares of the Company's common stock in the open market pursuant to the plan. A total of 250,000 shares of common stock are reserved for sale and authorized for issuance under the ESPP. As of December 31, 2017, no shares have been purchased or offered for purchase under the ESPP.

17. Supplemental Cash Flow Information

Supplemental cash flow information and non-cash investing and financing activities are as follows:

<i>(In thousands)</i>	Years Ended December 31,		
	2017	2016	2015
Supplemental cash flow information			
Cash paid during the period for interest	\$ 39,020	\$ 33,972	\$ 25,850
Cash received during the period for taxes	—	—	(31)
Non-cash investing and financing activities			
Change in accrued additions to electric plant	11,298	4,113	6,942
Allowance for funds used during construction - debt	3,040	3,142	1,767
Net non-cash equity issuances related to the Merger and Reorganization	—	—	97,193
Net non-cash noncontrolling equity issuances related to the Merger and Reorganization	—	—	119,607
Redemption of operating partnership units for common stock	512	3,277	—
Non-cash noncontrolling interest equity issuances	—	—	755
Dividends and distributions payable	15,169	15,161	13,634

18. Quarterly Financial Information (Unaudited)

Summarized unaudited consolidated quarterly information for the years ended December 31 follows:

(In thousands, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
2017					
Lease revenue	\$ 39,624	\$ 40,422	\$ 51,618	\$ 58,677	\$ 190,341
Tax Cuts and Jobs Act regulatory adjustment	—	—	—	(55,779)	(55,779)
General and administrative expense	(5,981)	(6,866)	(6,718)	(5,823)	(25,388)
Depreciation	(12,687)	(12,982)	(13,328)	(12,210)	(51,207)
Gain on asset exchange transaction	—	—	—	257	257
Interest expense, net	(9,698)	(10,141)	(10,357)	(10,475)	(40,671)
Other income	3	17	331	367	718
Income tax expense	(244)	(321)	(308)	(345)	(1,218)
Net income (loss)	11,017	10,129	21,238	(25,331)	17,053
Less: Net income (loss) attributable to noncontrolling interest	3,068	2,821	5,908	(7,046)	4,751
Net income (loss) attributable to InfraREIT, Inc.	\$ 7,949	\$ 7,308	\$ 15,330	\$ (18,285)	\$ 12,302
Basic EPS	\$ 0.18	\$ 0.17	\$ 0.35	\$ (0.42)	\$ 0.28
Diluted EPS	\$ 0.18	\$ 0.17	\$ 0.35	\$ (0.42)	\$ 0.28
2016					
Lease revenue	\$ 33,665	\$ 33,785	\$ 49,419	\$ 55,230	\$ 172,099
General and administrative expense	(5,545)	(4,980)	(5,336)	(5,991)	(21,852)
Depreciation	(11,074)	(11,410)	(11,828)	(12,392)	(46,704)
Interest expense, net	(8,842)	(9,055)	(9,379)	(9,644)	(36,920)
Other income	759	1,137	1,024	861	3,781
Income tax expense	(186)	(293)	(299)	(325)	(1,103)
Net income	8,777	9,184	23,601	27,739	69,301
Less: Net income attributable to noncontrolling interest	2,462	2,576	6,560	7,749	19,347
Net income attributable to InfraREIT, Inc.	\$ 6,315	\$ 6,608	\$ 17,041	\$ 19,990	\$ 49,954
Basic EPS	\$ 0.14	\$ 0.15	\$ 0.39	\$ 0.46	\$ 1.14
Diluted EPS	\$ 0.14	\$ 0.15	\$ 0.39	\$ 0.46	\$ 1.14

- (1) Basic and diluted net income per common share are computed independently for each quarter and full year based on the respective average number of common shares outstanding; therefore, the sum of the quarterly net income per common share data may not equal the net income per common share for the year.

19. Subsequent Events

On January 3, 2018, the Company issued an aggregate of 28,952 LTIP Units to members of the Company's board of directors with a grant date fair value of \$18.61 per LTIP Unit and a fair value of \$0.5 million. The LTIP Units are scheduled to vest in January 2019, subject to continued service.

On February 27, 2018, the Company's board of directors declared a quarterly dividend of \$0.25 per share of common stock, or \$1.00 per share on an annualized basis, payable on April 19, 2018 to holders of record as of March 29, 2018. The Company's board of directors also authorized the Operating Partnership to make a distribution of \$0.25 per OP Unit to the partners in the Operating Partnership, which includes affiliates of Hunt.

Sharyland's rates have historically incorporated an income tax allowance at a 35% corporate federal income tax rate, and the Company's lease supplements with Sharyland reflect this assumption. However, due to the enactment of the TCJA and at the request of the PUCT, Sharyland has agreed to reduce its wholesale transmission service rate (WTS rate) to reflect an income tax allowance at the new 21% corporate federal income tax rate. As a result, the Company expects its percentage rent revenues, which are calculated based on a percentage of Sharyland's gross revenue, to be lower as Sharyland begins to implement the lower WTS rate.

InfraREIT, Inc.

SCHEDULE III – ELECTRIC PLANT AND ACCUMULATED DEPRECIATION

DECEMBER 31, 2017

(In thousands)

Description (1)	Encumbrances	Initial Cost to Company (2)	Cost Subsequent to Acquisition		Gross Amount Carried at Period Close (3)	Accumulated Depreciation	Date of Construction (4)	Date Acquired	Depreciation Life in Latest Income Statements is Computed (5)
			Electric Plant	Improvements					
McAllen assets	\$ 57,187	\$ 132,068	\$ —	\$ —	\$ 132,068	\$ (23,601)	(4)	(4)	(5)
Permian assets	230,295	447,272	—	—	447,272	(10,468)	(4)	(4)	(5)
CREZ assets	573,956	1,172,474	—	—	1,172,474	(83,843)	(4)	(4)	(5)
Stanton Transmission Loop assets	16,306	83,906	—	—	83,906	(52,978)	(4)	(4)	(5)
ERCOT Transmission assets	56,624	110,277	—	—	110,277	(2,878)	(4)	(4)	(5)

- (1) Asset descriptions correspond to asset groups under individual leases.
- (2) Because the Company's assets consist entirely of electric plant assets, which are regulated by the PUCT, electric plant is stated at original cost, which includes cost of contracted services, direct labor, materials, acquisition adjustments, capitalized interest and overhead items.
- (3) See reconciliation on next page.
- (4) Because additions and improvements to the regulated assets are ongoing, construction and acquisition dates are not applicable.
- (5) Provision for depreciation of electric plant is computed using straight-lines rates as follows:

Transmission plant	1.69% - 3.15%
Distribution plant	1.74% - 5.96%
General plant	0.80% - 5.12%

InfraREIT, Inc.

**SCHEDULE III – ELECTRIC PLANT AND ACCUMULATED DEPRECIATION
FIXED ASSET RECONCILIATION**

(In thousands)

	December 31,	
	2017	2016
Electric plant		
Beginning balance	\$ 1,901,960	\$ 1,675,295
Additions	173,820	239,154
Acquired from Oncor	432,608	—
Retirements	(25,246)	(12,489)
Transferred to Oncor	(537,145)	—
Ending balance	<u>1,945,997</u>	<u>1,901,960</u>
Accumulated depreciation		
Beginning balance	261,140	240,764
Depreciation expense	51,207	46,704
Acquired from Oncor	32,778	—
Retirements	(25,246)	(12,489)
Cost of removal	(15,399)	(13,839)
Transferred to Oncor	(130,712)	—
Ending balance	<u>173,768</u>	<u>261,140</u>
Electric plant, net	<u>\$ 1,772,229</u>	<u>\$ 1,640,820</u>

Fifteenth Amended and Restated Rent Supplement
(McAllen Lease)
February 28, 2018

This Fifteenth Amended and Restated Rent Supplement (this “Fifteenth Amended Supplement”) between Sharyland Distribution & Transmission Services, L.L.C. (“Lessor”) and Sharyland Utilities, L.P. (“Lessee”) is executed and delivered on February 28, 2018 to memorialize supplements to the McAllen Lease (as defined below), effective as of January 1, 2018. Capitalized terms used herein that are not otherwise defined will have the meanings assigned to them in the McAllen Lease.

WHEREAS, Lessor and Lessee are Parties to a Third Amended and Restated Master System Lease Agreement (McAllen System) dated December 1, 2014 (as amended from time to time in accordance with its terms, the “McAllen Lease”);

WHEREAS, on November 9, 2017 (the “Exchange Transaction Closing Date”), Lessor consummated the Exchange Transaction pursuant to which, among other things, it disposed of certain transmission and distribution assets that were previously subject to the McAllen Lease (the “Disposed McAllen Assets”);

WHEREAS, on December 31, 2017, the Parties executed a Fourteenth Amended and Restated Rent Supplement (McAllen Lease) (the “Fourteenth Amended Supplement”);

WHEREAS, the Incremental CapEx for 2017, together with the Rate Base of the Disposed McAllen Assets as of the Exchange Transaction Closing Date, were different than expected by the Fourteenth Amended Supplement, and the Parties wish to effect a Rent Validation (as set forth in Section 3.2(c) of the McAllen Lease) and to amend and restate the Fourteenth Amended Supplement to memorialize the effect of such difference; and

WHEREAS, as a result of this Rent Validation, a one-time payment set forth below is owed by Lessor and will be paid within 30 days after execution hereof.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties hereto agree to the following:

1. The Fourteenth Amended Supplement is hereby amended and restated in its entirety as set forth below.
2. The McAllen Lease, except as supplemented by this Fifteenth Amended Supplement, shall remain in full force and effect.

Incremental CapEx:

2010	\$ 2,195,000
2011	\$ 504,000
2012	\$ 1,262,963
2013	\$ 16,391,255
2014	\$ 46,042,142
2015	\$ 2,431,198
2016	\$ 914,401
2017	\$ 810,541#
	\$ 117,917##
(Total 2017)	\$ <u>928,457###</u>

2018	\$ 1,368,925*
	\$ 10**
(Total 2018)	\$ <u>1,368,935</u> ***

Represents the “validated” aggregate amount of 2017 distribution Incremental CapEx; i.e. a Rent Validation has occurred pursuant to Section 3.2(c) of the McAllen Lease, and, as part of this Rent Validation, the Parties have restated the aggregate amount of 2017 distribution Incremental CapEx placed in-service, consisting of (i) the amount of 2017 distribution Incremental CapEx placed in service as of the Exchange Transaction Closing Date (“First 2017 Distribution CapEx”) and (ii) the amount of 2017 distribution Incremental CapEx placed in service throughout the remainder of 2017 (“2017 Stub-Year Distribution CapEx”), together with the weighted average in-service dates of 2017 distribution Incremental CapEx. The aggregate amount of 2017 distribution Incremental CapEx has been restated to \$810,541. The aggregate amount of estimated 2017 distribution Incremental CapEx included in the Fourteenth Amended Supplement was \$1,519,331. The Parties placed in service an aggregate of \$1,032,755 of First 2017 Distribution CapEx, with a weighted average in-service date of August 1, 2017, and an aggregate of \$(222,215) of 2017 Stub-Year Distribution CapEx, with a weighted average in-service date of December 1, 2017. The amount of First 2017 Distribution CapEx included in the Fourteenth Amended Supplement was \$1,590,165, with an expected weighted average in-service date of June 1, 2017, and the amount of 2017 Stub-Year CapEx included in the Fourteenth Amended Supplement was \$(70,833), with an expected weighted average in-service date of December 1, 2017.

Represents the “validated” aggregate amount of 2017 transmission Incremental CapEx, i.e. a Rent Validation has occurred pursuant to Section 3.2(c) of the McAllen Lease, and, as part of this Rent Validation, the Parties have restated the aggregate amount of 2017 transmission Incremental CapEx placed in-service, consisting of (i) the amount of 2017 transmission Incremental CapEx placed in service as of the balance sheet date reflected in Lessee’s first 2017 Regulatory Order (“First 2017 Transmission CapEx”); (ii) the amount of 2017 transmission Incremental CapEx placed in service as of the balance sheet date reflected in Lessee’s first 2017 Regulatory Order (“Second 2017 Transmission CapEx”); (iii) the amount of 2017 transmission Incremental CapEx placed in service as of the Exchange Transaction Closing Date but not yet included in a Regulatory Order (“Pre-Closing 2017 Stub-Year Transmission CapEx”); and (iv) the amount of 2017 transmission Incremental CapEx placed in service throughout the remainder of 2017 (“Post-Closing 2017 Stub-Year Transmission CapEx” and, together with the Pre-Closing 2017 Stub-Year Transmission CapEx, “2017 Stub-Year Transmission CapEx”), together with the weighted average in-service dates of 2017 transmission Incremental CapEx and the effective dates for the first and second 2017 Regulatory Orders. A “Regulatory Order” is defined as either (i) the PUCT’s approval of Lessee’s application for updated wholesale transmission rates or (ii) final resolution or settlement of a rate case applicable to Lessee’s transmission rates (but, for the avoidance of doubt, does not include the order approving the Exchange Transaction, the dismissal of the Parties’ pending rate case filed in 2016 or associated orders in connection therewith). The aggregate amount of 2017 transmission Incremental CapEx has been restated to \$117,917. The aggregate amount of estimated 2017 transmission Incremental CapEx included in the Fourteenth Amended Supplement was \$20,859. The Parties placed in service \$0 of First 2017 Transmission CapEx, which was included in the first 2017 Regulatory Order that became effective on April 14, 2017; an aggregate of \$(56,713) of Second 2017 Transmission CapEx, which was included in the second 2017 Regulatory Order that became effective on October 26, 2017; an aggregate of \$174,630 of Pre-Closing 2017 Stub-Year Transmission CapEx; and \$0 of Post-Closing 2017 Stub-Year Transmission CapEx, which has not yet been included in a Regulatory Order. The amount of First 2017 Transmission CapEx included in the Fourteenth Amended Supplement was \$0, the aggregate amount of Second 2017 Transmission CapEx included in the Fourteenth Amended Supplement was \$20,859 and the amount of 2017 Stub-Year Transmission CapEx included in the Fourteenth Amended Supplement was \$0. The First 2017 Transmission CapEx, Second 2017 Transmission CapEx and Pre-Closing 2017 Stub-Year Transmission CapEx, collectively, had a weighted average in-service date of November 1, 2017. As set forth in the Fourteenth Amended Supplement, the Parties expected the First 2017 Transmission CapEx and

Second 2017 Transmission CapEx, collectively, to have a weighted average in-service date of April 1, 2017. As set forth in the Fourteenth Amended Supplement, the Parties expected the first 2017 Regulatory Order to be effective on May 1, 2017, the second 2017 Regulatory Order to be effective on March 1, 2018 and the first 2018 Regulatory Order to be effective on June 1, 2018 .

Represents the total validated amount of transmission and distribution Incremental CapEx that the Parties placed in service during 2017.

* Represents the amount of distribution Incremental CapEx that the Parties expect to be placed in service in 2018 (“2018 Distribution CapEx”), with an expected weighted average in-service date of December 1, 2018. Rent supplements with respect to this distribution Incremental CapEx were agreed to and memorialized as part of the Fourteenth Amended Supplement.

** Represents the aggregate amount of transmission Incremental CapEx the Parties expect to be placed in service in 2018. Rent supplements with respect to this transmission Incremental CapEx were agreed to and memorialized as part of the Fourteenth Amended Supplement. Of the 2018 transmission Incremental CapEx, \$0 is expected to be in service as of the balance sheet date reflected in Lessee’s first 2018 Regulatory Order (“First 2018 CapEx”), \$0 is expected to be in service as of the balance sheet date reflected in Lessee’s second 2018 Regulatory Order (“Second 2018 CapEx”) and an aggregate of \$10 is expected to be placed in service throughout the remainder of 2018 (“2018 Stub-Year CapEx”) and included in the first 2019 Regulatory Order. The Parties expect the First 2018 CapEx, Second 2018 CapEx and 2018 Stub-Year CapEx, collectively, to have a weighted average in-service date of June 1, 2018. The Parties expect the first 2018 Regulatory Order to be effective on June 1, 2018, the second 2018 Regulatory Order to be effective on September 1, 2018, and the first 2019 Regulatory Order to be effective on May 1, 2019. The Parties have agreed that any Rent Validation with respect to First 2018 CapEx, Second 2018 CapEx or 2018 Stub-Year CapEx will use the actual effective dates of the applicable Regulatory Order (to the extent known), but will otherwise be determined in accordance with Section 3.2(c) of the McAllen Lease.

*** Represents the total amount of transmission and distribution Incremental CapEx that the Parties expect to be placed in service during 2018.

Lessee CapEx:

2010	\$ 666,488
2011	\$ 121,897
2012	\$ 263,733
2013	\$ 68,303
2014	\$ 89,405
2015	\$ 168,289
2016	\$ 0
2017	\$ 0
2018	\$ 0

Base Rent:

2010	\$ 5,260,447
2011	\$ 5,453,529
2012	\$ 5,521,881
2013	\$ 6,566,290
2014	\$ 8,445,964
2015	\$11,818,692
2016	\$11,860,813
2017	\$11,118,502#
2018	\$ 9,345,546*
2019	\$ 9,314,502**

Represents the “validated” amount of 2017 Base Rent, i.e. a Rent Validation has occurred pursuant to Section 3.2(c) of the McAllen Lease, and, as part of this Rent Validation, the amount of 2017 Base Rent has been restated. The amount of 2017 Base Rent included in the Fourteenth Amended Supplement was \$11,158,909, comprised of 2017 Base Rent payments of (i) \$951,288 on the 15th day of each month beginning on March 15, 2017 through December 15, 2017 (with respect to January 2017 through October 2017) and (ii) \$845,650 on January 15, 2018 and \$800,377 on February 15, 2018 (with respect to November 2017 and December 2017, respectively), with the decrease in monthly Base Rent reflecting the disposition on the Exchange Transaction Closing Date of the Disposed McAllen Assets. Lessor owes Lessee \$40,408 (the difference between the amount set forth as Base Rent above and the aggregate amount of monthly Base Rent set forth in this footnote), in validated Base Rent, and will make the validation payment set forth under “Validation Payment” below within 30 days of the date hereof

* Lessee will make a monthly 2018 Base Rent payment of \$777,867 on the 15th day of each month beginning on March 15, 2018 through July 15, 2018 (with respect to January 2018 through May 2018). Lessee will then make a 2018 Base Rent payment of \$779,459 on the 15th day of each month beginning on August 15, 2018 through October 15, 2018 (with respect to June 2018 through August 2018), with the increase in monthly Base Rent reflecting 2017 Stub-Year CapEx and First 2018 CapEx and commencing June 1, 2018, which is the expected effective date of Lessee’s first 2018 Regulatory Order. Lessee will then make a 2018 Base Rent payment of \$779,459 on the 15th day of each month beginning on November 15, 2018 through February 15, 2019 (with respect to September 2018 through December 2018), with the increase in monthly Base Rent reflecting Second 2018 CapEx and commencing September 1, 2018, which is the expected effective date of Lessee’s second 2018 Regulatory Order.

** Lessee will make a monthly 2019 Base Rent payment of \$776,208 on the 15th day of each month beginning on March 15, 2019 through June 15, 2019 (with respect to January 2019 through April 2019). Lessee will then make a monthly 2019 Base Rent payment of \$776,209 on the 15th day of each month beginning on July 15, 2019 through February 15, 2020 (with respect to May 2019 through December 2019), with the increase in monthly Base Rent reflecting 2018 Stub-Year CapEx and commencing May 1, 2019, which is the expected effective date of Lessee’s first 2019 Regulatory Order.

Percentage Rent Percentages:

2010	36.993%
2011	36.972%
2012	36.923%
2013	37.0%
2014	36.9%
2015	37.2%
2016	32.1%
2017	31.2%#
2018	30.3%
2019	29.9%

Represents the “validated” percentage applicable to 2017 Percentage Rent, i.e. a Rent Validation has occurred pursuant to Section 3.2(c) of the McAllen Lease and, as part of this Rent Validation, the 2017 percentage has been restated. The 2017 percentage included in the Fourteenth Amended Supplement was 31.2% (i.e., even though the percentage has not changed it has been “validated” pursuant to this Rent Validation).

**Annual Percentage Rent
Breakpoints:**

2010	\$ 5,260,447
2011	\$ 5,453,529
2012	\$ 5,521,881
2013	\$ 6,566,290
2014	\$ 8,445,964
2015	\$11,818,692
2016	\$12,616,219
2017	\$11,897,593#
2018	\$10,156,546*
2019	\$10,158,502**

Represents the “validated” 2017 Annual Percentage Rent Breakpoint, i.e. a Rent Validation has occurred pursuant to Section 3.2(c) of the McAllen Lease, and, as part of this Rent Validation, the 2017 Annual Percentage Rent Breakpoint has been restated. The 2017 Annual Percentage Rent Breakpoint included in the Fourteenth Amended Supplement was \$11,938,001.

* The 2018 Annual Percentage Rent Breakpoint reflects the assumptions set forth above regarding the timing of the first 2018 Regulatory Order and the second 2018 Regulatory Order, as well as the amount of 2018 Distribution CapEx, First 2018 CapEx and Second 2018 CapEx.

** The 2019 Annual Percentage Rent Breakpoint reflects the same assumptions as the 2018 Annual Percentage Rent Breakpoint, in addition to the assumptions set forth above regarding the timing of the first 2019 Regulatory Order, as well as the amount of 2018 Stub-Year CapEx.

**Revenues Attributable to
Lessee CapEx:**

2010	\$ 60,546
2011	\$249,481
2012	\$289,945
2013	\$345,693
2014	\$355,744
2015	\$360,527
2016	\$206,130
2017	\$ 97,925
2018	\$ 73,431
2019	\$ 45,266

Validation Payment: As a result of the validation described above, pursuant to Section 3.2(c) of the McAllen Lease, Lessor will pay Lessee \$51,603, within 30 days following execution hereof, of which \$40,408 is attributable to validated Base Rent and \$11,195 is attributable to the validation of Percentage Rent.

TCOS

Allocation:

before June 20, 2013: 100%
between June 20, 2013 and October 17, 2013: 27.8%
between October 17, 2013 and February 25, 2014: 11.8%
between February 25, 2014 and May 1, 2014: 8.2%
between May 1, 2014 and October 3, 2014: 8.6%
between October 3, 2014 and March 31, 2015: 12.0%
between April 1, 2015 and October 31, 2015: 11.9%

between November 1, 2015 and June 13, 2016: 10.6%
between June 14, 2016 and September 22, 2016: 9.8%
between September 23, 2016 and April 13, 2017: 8.5%
between April 14, 2017 and October 25, 2017: 8.0%
between October 26, 2017 and November 9, 2017: 7.5%
between November 10, 2017 and May 31, 2018: 5.9%
between June 1, 2018 and August 31, 2018: 5.9%
starting September 1, 2018: 5.7%

Term of Rent Supplement : Expires 12/31/19

6 McALLEN LEASE

The Parties have executed this Fifteenth Amended Supplement to the McAllen Lease as of the date set forth above.

SHARYLAND UTILITIES, L.P.

By: /s/ Greg Wilks

Name: Greg Wilks

Title: Chief Financial Officer

**SHARYLAND DISTRIBUTION &
TRANSMISSION SERVICES, L.L.C.**

By: /s/ Brant Meleski

Name: Brant Meleski

Title: Chief Financial Officer

MCALLEN LEASE

Ninth Amended and Restated Rent Supplement
(ERCOT Transmission Lease)
February 28, 2018

This Ninth Amended and Restated Rent Supplement (this “Ninth Amended Supplement”) between Sharyland Distribution & Transmission Services, L.L.C. (“Lessor”) and Sharyland Utilities, L.P. (“Lessee”) is executed and delivered on February 28, 2018, to memorialize supplements to the ERCOT Transmission Lease (as defined below), effective as of January 1, 2018. Capitalized terms used herein that are not otherwise defined will have the meanings assigned to them in the ERCOT Transmission Lease.

WHEREAS, Lessor and Lessee are Parties to a Lease Agreement (ERCOT Transmission Assets) dated December 1, 2014 (as amended from time to time in accordance with its terms, the “ERCOT Transmission Lease”);

WHEREAS, on December 31, 2017, the Parties executed an Eighth Amended and Restated Rent Supplement (ERCOT Transmission Lease) effective as of January 1, 2018 (the “Eighth Amended Supplement”);

WHEREAS, the Incremental CapEx for 2017 was different than expected by the Eighth Amended Supplement, and the Parties wish to effect a Rent Validation (as set forth in Section 3.2(c) of the ERCOT Transmission Lease) and to amend and restate the Eighth Amended Supplement to memorialize the effect of such difference; and

WHEREAS, as a result of this Rent Validation, a one-time payment set forth below is owed by Lessee and will be paid within 30 days after execution hereof.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties hereto agree to the following:

1. The Eighth Amended Supplement is hereby amended and restated in its entirety as set forth below.
2. The ERCOT Transmission Lease, except as supplemented by this Ninth Amended Supplement, shall remain in full force and effect.

Incremental CapEx:

2014	\$ 18,470,677
2015	\$ 22,517,350
2016	\$ 9,050,252
2017	\$ 4,217,866#
2018	\$ 759,766*

Represents the “validated” aggregate amount of 2017 Incremental CapEx, i.e. a Rent Validation has occurred pursuant to Section 3.2(c) of the ERCOT Transmission Lease, and, as part of this Rent Validation, the Parties have restated the aggregate amount of 2017 Incremental CapEx placed in-service, consisting of (i) the amount of 2017 Incremental CapEx placed in service as of the balance sheet date reflected in Lessee’s first 2017 Regulatory Order (“First 2017 CapEx”); (ii) the amount of 2017 Incremental CapEx placed in service as of the balance sheet date reflected in Lessee’s second 2017 Regulatory Order (“Second 2017 CapEx”); and (iii) the amount of 2017 Incremental CapEx placed in service throughout the remainder of 2017 (“2017 Stub-Year CapEx”), together with the weighted average in-service dates of 2017 Incremental CapEx and the effective dates for the first and second 2017 Regulatory Orders. A “Regulatory Order” is

defined as either (i) the PUCT’s approval of Lessee’s application for updated wholesale transmission rates or (ii) final resolution or settlement of a rate case applicable to Lessee’s transmission rates (but, for the avoidance of doubt, does not include the order approving the asset exchange transaction consummated on November 9, 2017 , the dismissal of the Parties’ rate case filed in 2016 or associated orders in connection therewith) . The aggregate amount of 201 7 Incremental CapEx has been restated to \$ 4,217,866 , with a weighted average in-service date of March 1 , 201 7 . The aggregate amount of estimated 201 7 Incremental CapEx included in the Eighth Amended Supplement was \$ 4,553,684 , with a weighted average in-service date of June 1 , 201 7 . The Parties placed in se rvice \$ 0 of First 201 7 CapEx, which was included in the first 201 7 Regulatory Order that became effective on April 14 , 201 7 ; an aggregate of \$ 4,191,071 of Second 2017 CapEx, which was included in the second 201 7 Regulatory Order that became effective on October 26 , 201 7 ; and an aggregate of \$ 26,795 of 201 7 Stub-Year CapEx, which has not yet been included in a Regulatory Order. The amount of First 201 7 CapEx included in the Eighth Amended Supplement was \$0, the aggregate amount of Second 201 7 CapEx included in the Eighth Amended Supplement was \$ 4 ,553,684 and the amount of 201 7 Stub-Year CapEx included in the Eighth Amended Supplement was \$ 0 . As set forth in the Eighth Amended Supplement, t he Parties expect ed the first 2017 Regulatory Order to be effective on May 1, 2017, the second 2017 Regulatory Order to be effective on March 1, 2018 and the first 2018 Regulatory Order to be effective on June 1, 2018 .

* Represents the aggregate amount of Incremental CapEx the Parties expect to be placed in service in 2018. Rent supplements with respect to this Incremental CapEx were agreed to and memorialized as part of the Eighth Amended Supplement. Of the 2018 Incremental CapEx, \$0 is expected to be in service as of the balance sheet date reflected in Lessee’s first 2018 Regulatory Order (“ First 2018 CapEx ”), \$0 is expected to be in service as of the balance sheet date reflected in Lessee’s second 2018 Regulatory Order (“ Second 2018 CapEx ”), and an aggregate of \$759,766 is expected to be placed in service throughout the remainder of 2018 (“ 2018 Stub-Year CapEx ”) and included in the first 2019 Regulatory Order. The Parties expect the First 2018 CapEx, Second 2018 CapEx and 2018 Stub-Year CapEx, collectively, to have a weighted average in-service date of November 1, 2018. The Parties expect the first 2018 Regulatory Order to be effective on June 1, 2018, the second 2018 Regulatory Order to be effective on September 1, 2018 and the first 2019 Regulatory Order to be effective on May 1, 2019. The Parties have agreed that any Rent Validation with respect to First 2018 CapEx, Second 2018 CapEx or 2018 Stub-Year CapEx will use the actual effective dates of the applicable Regulatory Order (to the extent known), but will otherwise be determined in accordance with Section 3.2(c) of the ERCOT Transmission Lease.

Lessee CapEx:

2014	\$ 0
2015	\$ 0
2016	\$ 0
2017	\$ 0
2018	\$ 0

Base Rent:

2014	\$ 484,276
2015	\$2,477,452
2016	\$4,601,290
2017	\$4,855,027#
2018	\$5,056,079*
2019	\$4,937,862**
2020	\$4,794,596
2021	\$4,624,802
2022	\$4,460,124

Represents the “validated” amount of 2017 Base Rent, i.e. a Rent Validation has occurred pursuant to Section 3.2(c) of the ERCOT Transmission Lease, and, as part of this Rent Validation, the amount of 2017 Base Rent has been restated. The amount of 2017 Base Rent included in the Eighth Amended Supplement was \$4,780,089, including 2017 Base Rent payments of \$ 398,341 on the 15th day of each month beginning on March 15, 2017 through June 15, 2017 (with respect to January 2017 through April 2017) and \$ 398,341 on the 15th day of each month beginning on July 15, 2017 through February 15, 2018 (with respect to May 2017 through December 2017), with the increase in monthly Base Rent reflecting 2016 Stub-Year CapEx and commencing May 1, 2017, which was the expected effective date of Lessee’s first 2017 Regulatory Order. Lessee owes Lessor \$ 74,938 (the difference between the amount set forth as Base Rent above and the aggregate amount of monthly Base Rent set forth in this footnote), in validated Base Rent, and will make the validation payment set forth under “Validation Payment” below within 30 days of the date hereof.

* Lessee will make a monthly 2018 Base Rent payment of \$421,208 on the 15th day of each month beginning on March 15, 2018 and July 15, 2018 (with respect to January 2018 through May 2018). Lessee will then make a 2018 Base Rent payment of \$421,434 on the 15th day of each month beginning on August 15, 2018 through October 15, 2018 (with respect to June 2018 through August 2018), with the increase in monthly Base Rent reflecting 2017 Stub-Year CapEx and First 2018 CapEx and commencing June 1, 2018, which is the expected effective date of Lessee’s first 2018 Regulatory Order. Lessee will then make a 2018 Base Rent payment of \$421,434 on the 15th day of each month beginning on November 15, 2018 through February 15, 2019 (with respect to September 2018 through December 2018), with the increase in monthly Base Rent reflecting Second 2018 CapEx and commencing September 1, 2018, which is the expected effective date of Lessee’s second 2018 Regulatory Order.

** Lessee will make a monthly 2019 Base Rent payment of \$406,435 on the 15th day of each month beginning on March 15, 2019 through June 15, 2019 (with respect to January 2019 through April 2019). Lessee will then make a monthly 2019 Base Rent payment of \$414,015 on the 15th day of each month beginning on July 15, 2019 through February 15, 2020 (with respect to May 2019 through December 2019), with the increase in monthly Base Rent reflecting 2018 Stub-Year CapEx and commencing May 1, 2019, which is the expected effective date of Lessee’s first 2019 Regulatory Order.

Percentage Rent Percentages:

2014	35.8%
2015	35.1%
2016	31.1%
2017	28.2%#
2018	27.2%
2019	26.2%
2020	25.3%
2021	24.4%
2022	23.5%

Represents the “validated” percentage applicable to 2017 Percentage Rent, i.e. a Rent Validation has occurred pursuant to Section 3.2(c) of the ERCOT Transmission Lease and, as part of this Rent Validation, the 2017 percentage has been restated. The 2017 percentage included in the Eighth Amended Supplement was 28.2% (i.e., even though the percentage has not changed it has been “validated” pursuant to this Rent Validation).

Annual Percentage Rent Breakpoints:

2014	\$ 484,276
2015	\$2,477,452
2016	\$4,664,546

2017	\$4,879,227#
2018	\$5,056,079*
2019	\$4,937,862**
2020	\$4,794,596**
2021	\$4,624,802**
2022	\$4,460,124**

Represents the “validated” 2017 Annual Percentage Rent Breakpoint, i.e. a Rent Validation has occurred pursuant to Section 3.2(c) of the ERCOT Transmission Lease, and, as part of this Rent Validation, the 2017 Annual Percentage Rent Breakpoint has been restated. The 2017 Annual Percentage Rent Breakpoint included in the Eighth Amended Supplement was \$4,804,290.

* The 2018 Annual Percentage Rent Breakpoint reflects the assumptions set forth above regarding the timing of the first 2018 Regulatory Order and the second 2018 Regulatory Order, as well as the amount of First 2018 CapEx and Second 2018 CapEx.

** The 2019-2022 Annual Percentage Rent Breakpoints reflect the same assumptions as the 2018 Annual Percentage Rent Breakpoint, in addition to the assumptions set forth above regarding the timing of the first 2019 Regulatory Order and the amount of 2018 Stub-Year CapEx.

Revenues Attributable to Lessee CapEx:

2014	\$ 0
2015	\$ 0
2016	\$ 0
2017	\$ 0
2018	\$ 0
2019	\$ 0
2020	\$ 0
2021	\$ 0
2022	\$ 0

Validation Payment: As a result of the validation described above, pursuant to Section 3.2(c) of the ERCOT Transmission Lease, Lessee will pay Lessor \$65,995, within 30 days following execution hereof, of which \$74,938 is attributable to validated Base Rent and \$(8,942) is attributable to the validation of Percentage Rent.

TCOS Allocation:

- before October 3, 2014: 0%
- between October 3, 2014 and March 31, 2015: 2.1%
- between April 1, 2015 and October 31, 2015: 2.1%
- between November 1, 2015 and June 12, 2016: 3.6%
- between June 13, 2016 and September 22, 2016: 4.1%
- between September 23, 2016 and April 13, 2017: 3.6%
- between April 14, 2017 and October 25, 2017: 3.6%
- between October 26, 2017 and November 9, 2017: 3.7%
- between November 10, 2017 and May 31, 2018: 2.9%
- between June 1, 2018 and August 31, 2018: 2.9%
- starting September 1, 2018: 2.8%

Term of Rent Supplement: Expires 12/31/22

The Parties have executed this Ninth Amended Supplement to the ERCOT Transmission Lease as of the date set forth above.

SHARYLAND UTILITIES, L.P.

By: /s/ Greg Wilks
Name: Greg Wilks
Title: Chief Financial Officer

**SHARYLAND DISTRIBUTION &
TRANSMISSION SERVICES, L.L.C.**

By: /s/ Brant Meleski
Name: Brant Meleski
Title: Chief Financial Officer

Thirteenth Amended and Restated Rent Supplement
(CREZ Lease)
February 28, 2018

This Thirteenth Amended and Restated Rent Supplement (this “Thirteenth Amended Supplement”) between Sharyland Distribution & Transmission Services, L.L.C. (“Lessor”) and Sharyland Utilities, L.P. (“Lessee”) is executed and delivered on February 28, 2018 to memorialize supplements to the CREZ Lease (as defined below), effective as of January 1, 2018. Capitalized terms used herein that are not otherwise defined will have the meanings assigned to them in the CREZ Lease.

WHEREAS, Lessor and Lessee are Parties to a Fourth Amended and Restated CREZ Lease Agreement dated November 9, 2017 (as amended from time to time in accordance with its terms, the “CREZ Lease”);

WHEREAS, on December 31, 2017, the Parties executed a Twelfth Amended and Restated Rent Supplement (CREZ Lease) effective as of January 1, 2018 (the “Twelfth Amended Supplement”);

WHEREAS, the Incremental CapEx for 2017, together with the Rate Base of the Acquired Transmission Assets as of November 9, 2017 (the “Exchange Transaction Closing Date”), were different than expected by the Twelfth Amended Supplement, and the Parties wish to effect a Rent Validation (as set forth in Section 3.3 of the CREZ Lease) and to amend and restate the Twelfth Amended Supplement to memorialize the effect of such difference; and

WHEREAS, as a result of this Rent Validation, a one-time payment set forth below is owed by Lessee and will be paid within 30 days after execution hereof.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties hereto agree to the following:

1. The Twelfth Amended Supplement is hereby amended and restated in its entirety as set forth below.
2. The CREZ Lease, except as supplemented by this Thirteenth Amended Supplement, shall remain in full force and effect.

Incremental CapEx:

2013	\$466,424,280
2014	\$198,982,000
2015	\$ 3,493,096
2016	\$ 3,906,367
2017	\$ 44,499,993#
	\$ 0##
(Total 2017)	<u>\$ 44,499,993 ###</u>
2018	\$ 86,778,539*
	\$ 0**
(Total 2018)	<u>\$ 86,778,539 ***</u>

Represents the “validated” aggregate amount of 2017 Incremental CapEx related to the Panhandle Assets (“Panhandle CapEx”), i.e. a Rent Validation has occurred pursuant to Section 3.3 of the CREZ Lease, and, as part of this Rent Validation, the Parties have restated the aggregate amount of 2017 Panhandle CapEx placed in-service, consisting of (i) the amount of 2017 Panhandle CapEx placed in service as of the balance

sheet date reflected in Lessee’s first 2017 Regulatory Order (“ First 2017 CapEx ”); (ii) the amount of 2017 Panhandle CapEx placed in service as of the balance sheet date reflected in Lessee’s second 2017 Regulatory Order (“ Second 2017 CapEx ”); and (iii) the amount of 2017 Panhandle CapEx placed in service throughout the remainder of 2017 (“ 2017 Stub-Year CapEx ”), together with the weighted average in-service dates of 2017 Panhandle CapEx and the effective dates for the first and second 2017 Regulatory Orders. The aggregate amount of 2017 Panhandle CapEx has been restated to \$ 44,499,993 , with a weighted average in-service date of July 1 , 2017 . The aggregate amount of estimated 2017 Panhandle CapEx included in the Twelfth Amended Supplement was \$ 49,475,943 , with a weighted average in-service date of July 1, 2017 . The Parties placed in service \$0 of First 2017 CapEx, which was included in the first 2017 Regulatory Order that became effective on April 14 , 2017 ; an aggregate of \$ 28,524,719 of Second 2017 CapEx, which was included in the second 2017 Regulatory Order that became effective on October 26 , 2017 ; and an aggregate of \$ 15,975,275 of 2017 Stub-Year CapEx, which has not yet been included in a Regulatory Order. The amount of First 2017 CapEx included in the Twelfth Amended Supplement was \$0, the aggregate amount of Second 2017 CapEx included in the Twelfth Amended Supplement was \$ 49,475,943 and the amount of 2017 Stub-Year CapEx included in the Twelfth Amended Supplement was \$ 0 . As set forth in the Twelfth Amended Supplement, the Parties expected the first 2017 Regulatory Order to be effective on May 1, 2017, the second 2017 Regulatory Order to be effective on March 1, 2018 and the first 2018 Regulatory Order to be effective on June 1, 2018 .

Represents the “validated” aggregate amount of 2017 Incremental CapEx related to the Acquired Transmission Assets (“ Acquired Assets CapEx ”), i.e. a Rent Validation has occurred pursuant to Section 3.3 of the CREZ Lease, and, as part of this Rent Validation, the Parties have restated the aggregate amount of 2017 Acquired Assets CapEx placed in service from the Exchange Transaction Closing Date throughout the remainder of 2017. The aggregate amount of 2017 Acquired Assets CapEx has been restated to \$0. The aggregate amount of estimated 2017 Acquired Assets CapEx included in the Twelfth Amended Supplement was \$0.

Represents the total validated amount of Incremental CapEx that the Parties placed in service during 2017.

* Represents the aggregate amount of Panhandle CapEx that the Parties expect to be placed in service in 2018. Rent supplements with respect to this Panhandle CapEx were agreed to and memorialized as part of the Twelfth Amended Supplement. Of the 2018 Panhandle CapEx, an aggregate of \$27,181,110 is expected to be in service as of the balance sheet date reflected in Lessee’s first 2018 Regulatory Order (“ First 2018 CapEx ”), an aggregate of \$43,170,873 is expected to be in service as of the balance sheet date reflected in Lessee’s second 2018 Regulatory Order (“ Second 2018 CapEx ”), and an aggregate of \$16,426,556 is expected to be placed in service throughout the remainder of 2018 (“ 2018 Stub-Year CapEx ”) and to be included in the first 2019 Regulatory Order. The Parties expect the First 2018 CapEx, Second 2018 CapEx and 2018 Stub-Year CapEx, collectively, to have a weighted average in-service date of April 1, 2018. The Parties expect the first 2018 Regulatory Order to be effective on June 1, 2018, the second 2018 Regulatory Order to be effective on September 1, 2018 and the first 2019 Regulatory Order to be effective on May 1, 2019.

** Represents the amount of Acquired Assets CapEx that the Parties expect to be placed in service in 2018. Rent supplements with respect to this Acquired Assets CapEx were agreed to and memorialized as part of the Twelfth Amended Supplement. Of the 2018 Acquired Assets CapEx, \$0 is expected to be in service as of the balance sheet date reflected in Lessee’s first 2018 Regulatory Order, \$0 is expected to be in service as of the balance sheet date reflected in Lessee’s second 2018 Regulatory Order, and \$0 is expected to be placed in service throughout the remainder of 2018 and included in the first 2019 Regulatory Order.

*** Represents the total amount of Incremental CapEx that the Parties expect to be placed in service during 2018.

Lessee CapEx: **2013** **\$ 0**

2014	\$ 0
2015	\$ 0
2016	\$ 0
2017	\$ 0
2018	\$ 0

Total Base Rent by Lease Year:

2013	\$ 21,758,233
2014	\$ 67,335,947
2015	\$ 68,524,342
2016	\$ 66,118,564
2017	\$ 70,772,369#
2018	\$114,025,481*
2019	\$117,317,515**
2020	\$114,494,474

Represents the “validated” amount of 2017 Base Rent, i.e. a Rent Validation has occurred pursuant to Section 3.3 of the CREZ Lease, and, as part of this Rent Validation, the amount of 2017 Base Rent has been restated. The amount of 2017 Base Rent included in the Twelfth Amended Supplement was \$70,299,483, comprised of 2017 Base Rent payments of (i) \$5,321,692 on the 15th day of each month beginning on March 15, 2017 through June 15, 2017 (with respect to January 2017 through April 2017); (ii) \$5,321,692 on the 15th day of each month beginning on July 15, 2017 through December 15, 2017 (with respect to May 2017 through October 2017), with the increase in monthly Base Rent reflecting 2016 Stub-Year CapEx and commencing May 1, 2017, which was the expected effective date of Lessee’s first 2017 Regulatory Order; and (iii) \$7,973,119 on January 15, 2018 and \$9,109,445 on February 15, 2018 (with respect to November 2017 and December 2017, respectively), with the increase in monthly Base Rent reflecting the addition of the Acquired Transmission Assets and commencing November 10, 2017, which was the day after the Exchange Transaction Closing Date. The estimated Rate Base of the Acquired Transmission Assets as of the Exchange Transaction Closing Date that was included in the Twelfth Amended Supplement was \$355,389,996. The actual Rate Base of the Acquired Transmission Assets as of the Exchange Transaction Closing Date was \$353,574,366, and the first 2017 Regulatory Order was effective April 14, 2017. Lessee owes Lessor \$472,886 (the difference between the amount set forth as Base Rent above and the aggregate amount of monthly Base Rent set forth in this footnote), in validated Base Rent, and will make the validation payment set forth under “Validation Payment” below within 30 days of the date hereof.

* Lessee will make a monthly 2018 Base Rent payment of \$9,129,533 on the 15th day of each month beginning on March 15, 2018 through July 15, 2018 (with respect to January 2018 through May 2018). Lessee will then make a 2018 Base Rent payment of \$9,526,450 on the 15th day of each month beginning on August 15, 2018 through October 15, 2018 (with respect to June 2018 through August 2018), with the increase in monthly Base Rent reflecting 2017 Stub-Year CapEx and First 2018 CapEx and commencing June 1, 2018, which is the expected effective date of Lessee’s first 2018 Regulatory Order. Lessee will then make a 2018 Base Rent payment of \$9,949,617 on the 15th day of each month beginning on November 15, 2018 through February 15, 2019 (with respect to September 2018 through December 2018), with the increase in monthly Base Rent reflecting Second 2018 CapEx and commencing September 1, 2018, which is the expected effective date of Lessee’s second 2018 Regulatory Order.

** Lessee will make a monthly 2019 Base Rent payment of \$9,669,059 on the 15th day of each month beginning on March 15, 2019 through June 15, 2019 (with respect to January 2019 through April 2019). Lessee will then make a monthly 2019 Base Rent payment of \$9,830,160 on the 15th day of each month beginning on July 15, 2019 through February 15, 2020 (with respect to May 2019 through December 2019), with the increase in monthly Base Rent reflecting 2018 Stub-Year CapEx and commencing May 1, 2019, which is the expected effective date of Lessee’s first 2019 Regulatory Order.

Monthly Transition Costs Payment: \$8,662*

* Lessee will make a monthly Transition Costs Payment of \$8,662 on the 15th day of each month beginning on January 15, 2018 through December 15, 2019 (with respect to November 2017 through October 2019).

Percentage Rent Rates:

2013	29.2%
2014	31.6%
2015	31.3%
2016	30.3%
2017	29.5%#
2018	28.5%
2019	27.7%
2020	26.8%

Represents the “validated” percentage applicable to 2017 Percentage Rent, i.e. a Rent Validation has occurred pursuant to Section 3.3 of the CREZ Lease and, as part of this Rent Validation, the 2017 percentage has been restated. The 2017 percentage included in the Twelfth Amended Supplement was 29.5% (i.e., even though the percentage has not changed it has been “validated” pursuant to this Rent Validation).

Annual Percentage Rent

Breakpoints:

2013	\$21,758,233
2014	\$67,335,947
2015	\$68,524,342
2016	\$66,109,550
2017	\$64,404,829#
2018	\$68,832,414*
2019	\$73,106,965**
2020	\$71,266,440**

Represents the “validated” 2017 Annual Percentage Rent Breakpoint, i.e. a Rent Validation has occurred pursuant to Section 3.3 of the CREZ Lease, and, as part of this Rent Validation, the 2017 Annual Percentage Rent Breakpoint has been restated. The 2017 Annual Percentage Rent Breakpoint included in the Twelfth Amended Supplement was \$63,906,713.

* The 2018 Annual Percentage Rent Breakpoint reflects the assumptions set forth above regarding the timing of the first 2018 Regulatory Order and the second 2018 Regulatory Order, as well as the amount of First 2018 CapEx and Second 2018 CapEx.

** The 2019 and 2020 Annual Percentage Rent Breakpoints reflect the same assumptions as the 2018 Annual Percentage Rent Breakpoint, in addition to the assumptions set forth above regarding the timing of the first 2019 Regulatory Order, as well as the amount of 2018 Stub-Year CapEx.

**Revenues Attributable to
Lessee CapEx:**

2013	\$0
2014	\$0
2015	\$0
2016	\$0
2017	\$0
2018	\$0

Validation Payment: As a result of the validation described above, pursuant to Section 3.3 of the CREZ Lease, Lessee will pay Lessor \$413,490, within 30 days following execution hereof, of which \$472,886 is attributable to validated Base Rent and \$(59,396) is attributable to the validation of Percentage Rent.

TCOS

Allocation:

between June 20, 2013 and October 17, 2013: 65.3%
between October 17, 2013 and February 25, 2014: 84.8%
between February 25, 2014 and May 1, 2014: 83.3%
between May 1, 2014 and October 3, 2014: 80.9%
between October 3, 2014 and March 31, 2015: 75.8%
between April 1, 2015 and October 31, 2015: 72.7%
between November 1, 2015 and June 13, 2016: 65.6%
between June 14, 2016 and September 22, 2016: 56.8%
between September 23, 2016 and April 13, 2017: 49.0%
between April 14, 2017 and October 25, 2017: 46.5%
between October 26, 2017 and November 9, 2017: 46.3%
between November 10, 2017 and May 31, 2018: 36.3%
between June 1, 2018 and August 31, 2018: 35.8%
starting September 1, 2018: 37.2%

Allocated Other Revenue : None

Term of Rent Supplement : Expires 12/31/20

The Parties have executed this Thirteenth Amended Supplement to the CREZ Lease as of the date set forth above.

SHARYLAND UTILITIES, L.P.

By: /s/ Greg Wilks

Name: Greg Wilks

Title: Chief Financial Officer

**SHARYLAND DISTRIBUTION &
TRANSMISSION SERVICES, L.L.C.**

By: /s/ Brant Meleski

Name: Brant Meleski

Title: Chief Financial Officer

CREZ LEASE

First Amended and Restated Rent Supplement
(Permian Lease)
February 28, 2018

This First Amended and Restated Rent Supplement (this “First Amended Supplement”) between Sharyland Distribution & Transmission Services, L.L.C. (“Lessor”) and Sharyland Utilities, L.P. (“Lessee”) is executed and delivered on February 28, 2018 to memorialize supplements to the Permian Lease (as defined below), effective as of December 31, 2017. Capitalized terms used herein that are not otherwise defined will have the meanings assigned to them in the Permian Lease.

WHEREAS, Lessor and Lessee are Parties to a Permian Lease Agreement dated December 31, 2017 (as amended from time to time in accordance with its terms, the “Permian Lease”);

WHEREAS, on December 31, 2017 (the “Lease Effective Date”), the Parties executed a Rent Supplement (Permian Lease) (the “Effective Date Rent Supplement”), which, among other things, established Rent with respect to the Permian Assets that were in service as of the Lease Effective Date; and

WHEREAS, the Rate Base of the Permian Assets as of the Lease Effective Date was different than estimated in the Effective Date Rent Supplement, and the Parties wish to effect a Rent Validation (as set forth in Section 3.3 of the Permian Lease) and to amend and restate the Effective Date Rent Supplement to memorialize the effect of such difference.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties hereto agree to the following:

1. The Effective Date Rent Supplement is hereby amended and restated in its entirety as set forth below.
2. The Permian Lease, except as supplemented by this First Amended Supplement, shall remain in full force and effect.

Incremental CapEx:

2018	\$ 10,025,211*
	\$ 58,071,834**
(Total 2018)	<u>\$ 68,097,045 ***</u>

* Represents the amount of distribution Incremental CapEx that the Parties expect to be placed in service during 2018, with an expected weighted average in-service date of May 1, 2018. Rent supplements with respect to this distribution Incremental CapEx were agreed to and memorialized as part of the Effective Date Rent Supplement.

** Represents the aggregate amount of transmission Incremental CapEx the Parties expect to be placed in service in 2018. Rent supplements with respect to this transmission Incremental CapEx were agreed to and memorialized as part of the Effective Date Rent Supplement. Of the 2018 transmission Incremental CapEx, an aggregate of \$446,511 is expected to be in service as of the balance sheet date reflected in Lessee’s first 2018 Regulatory Order (“First 2018 CapEx”), an aggregate of \$7,255,992 is expected to be in service as of the balance sheet date reflected in Lessee’s second 2018 Regulatory Order (“Second 2018 CapEx”), and an aggregate of \$50,369,331 is expected to be placed in service throughout the remainder of 2018 (“2018 Stub-Year CapEx”) and included in the first 2019 Regulatory Order. The Parties expect the First 2018 CapEx, Second 2018 CapEx and 2018 Stub-Year CapEx, collectively, to have a weighted average in-service date

of September 1, 2018 . The Parties expect the first 201 8 Regulatory Order to be effective on June 1 , 201 8 , the second 201 8 Regulatory Order to be effective on September 1 , 201 8 , and the first 201 9 Regulatory Order to be effective on May 1 , 201 9 .

*** Represents the total amount of transmission and distribution Incremental CapEx that the Parties expect to be placed in service during 2018.

Lessee CapEx: N/A

Base Rent # :

2018	\$53,812,844*
2019	\$57,959,163**
2020	\$58,772,927

The Rate Base of the Permian Assets as of the Lease Effective Date was \$408,794,249, of which \$853,431 has not yet been included in a Regulatory Order (“ Prior Stub-Year CapEx ”). The estimated Rate Base of the Permian Assets as of the Lease Effective Date that was included in the Effective Date Rent Supplement was \$414,497,906, of which an estimated \$8,284,210 constituted Prior Stub-Year CapEx. As a result, a Rent Validation has occurred pursuant to Section 3.3 of the Permian Lease, and, as part of this Rent Validation, the amount of 2018-2020 Base Rent has been restated.

* Lessee will make a monthly 2018 Base Rent payment of \$4,451,115 on the 15th day of each month beginning on March 15, 2018 through July 15, 2018 (with respect to January 2018 through May 2018). Lessee will then make a 2018 Base Rent payment of \$4,464,736 on the 15th day of each month beginning on August 15, 2018 through October 15, 2018 (with respect to June 2018 through August 2018), with the increase in monthly Base Rent reflecting Prior Stub-Year CapEx and First 2018 CapEx and commencing June 1, 2018, which is the expected effective date of Lessee’s first 2018 Regulatory Order. Subsequently, Lessee will make a 2018 Base Rent payment of \$4,540,766 on the 15th day of each month beginning on November 15, 2018 through February 15, 2019 (with respect to September 2018 through December 2018), with the increase in monthly Base Rent reflecting Second 2018 CapEx and commencing September 1, 2018, which is the expected effective date of Lessee’s second 2018 Regulatory Order.

** Lessee will make a monthly 2019 Base Rent payment of \$4,478,074 on the 15th day of each month beginning on March 15, 2019 through June 15, 2019 (with respect to January 2019 through April 2019). Subsequently, Lessee will make a 2019 Base Rent payment of \$5,005,858 on the 15th day of each month beginning on July 15, 2019 through February 15, 2020 (with respect to May 2019 through December 2019), with the increase in monthly Base Rent reflecting 2018 Stub-Year CapEx and commencing May 1, 2019, which is the expected effective date of Lessee’s first 2019 Regulatory Order.

Percentage Rent Percentages:

2018	0%
2019	0%
2020	0%

Annual Percentage Rent Breakpoints: N/A

Revenues Attributable to Lessee CapEx: N/A

TCOS Allocation: N/A

Allocated Other Revenue: N/A

Term of Rent Supplement : Expires 12/31/20

3 PERMIAN LEASE

The Parties have executed this First Amended Supplement to the Permian Lease as of the date set forth above.

SHARYLAND UTILITIES, L.P.

By: /s/ Greg Wilks

Name: Greg Wilks

Title: Chief Financial Officer

**SHARYLAND DISTRIBUTION &
TRANSMISSION SERVICES, L.L.C.**

By: /s/ Brant Meleski

Name: Brant Meleski

Title: Chief Financial Officer

PERMIAN LEASE

FIRST AMENDMENT
to
Second Amended and Restated Registration Rights Agreement
and Lock-Up Agreement

February 28, 2018

This First Amendment (this “Amendment”) to the Registration Rights Agreement (as defined below) is entered into by InfraREIT, Inc. (the “Company”), Hunt Transmission Services, L.L.C. (“HTS”) and Electricity Participant Partnership, L.L.C. (“EPP”) and, together with HTS, “Hunt”) effective as of February 28, 2018. Capitalized terms used herein that are not otherwise defined herein will have the meanings assigned to such terms in the Registration Rights Agreement.

WHEREAS, each of the Company, HTS and EPP (collectively, the “Parties”) are parties to that certain Second Amended and Restated Registration Rights and Lock-Up Agreement, dated March 1, 2016, among the Company and each of the persons listed on the attached Schedule A thereto (the “Registration Rights Agreement”);

WHEREAS, pursuant to Sections 3.1(a) and 3.1(c) of the Registration Rights Agreement, the Company has agreed to use its commercially reasonable efforts to include the Hunt Investors’ Registrable Securities in a Resale Shelf Registration Statement upon the release of such Registrable Securities from the Staged Lock-Up Agreement; and

WHEREAS, pursuant to Section 4.4 of the Registration Rights Agreement, the Parties desire to amend Section 3.1(c) of the Registration Rights Agreement as set forth herein.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties hereby agree as follows:

1. Amendment of Registration Rights Agreement .

- a. The final sentence of Section 3.1(c) of the Registration Rights Agreement is hereby deleted, and the paragraph consisting of the remaining sentences of Section 3.1(c) is hereby renumbered as Section 3.1(c)(i).
- b. The following shall be added as a new Section 3.1(c)(ii):

Notwithstanding the foregoing, the Hunt Investors agree that the Company shall not be obligated to include in the Resale Shelf Registration Statement any of the Registrable Securities that are subject to the Staged Lock-Up Agreement until after the applicable Registrable Securities have been released from the Staged Lock-Up Agreement. The Hunt Investors shall have the right to require the Company to file, at any time following the release of Registrable Securities from the Staged Lock-Up Agreement, a supplement to the prospectus included in the Resale Shelf Registration Statement or an amendment to the Resale Shelf Registration Statement, by delivering a written request therefor to the Company specifying the number of Registrable Securities to be included in such Resale Shelf Registration Statement (a “Demand Registration Notice”); provided that the Hunt Investors may deliver no more than two Demand Registration Notices pursuant to this Section 3.1(c)(ii). Subject to the other provisions of this Agreement,

the Company shall use its commercially reasonable efforts to file a supplement to the prospectus included in the Resale Shelf Registration Statement or amendment to such Resale Shelf Registration Statement and to cause any post-effective amendment to such Resale Shelf Registration Statement filed for such purpose to be declared effective by the Commission as promptly as reasonably practicable after the filing thereof.

2. Continuing Effect. Except as expressly amended by this Amendment, the provisions of the Registration Rights Agreement are and shall remain in full force and effect. From and after the date hereof, each reference to “hereof,” “hereunder,” “herein” and “hereby” and each reference to “this Agreement” and each other reference of like import in the Registration Rights Agreement shall be deemed to refer to the Registration Rights Agreement, as amended pursuant to Section 1 hereof.

3. Miscellaneous. The following provisions of the Registration Rights Agreement are hereby incorporated into and specifically made applicable to this Amendment (provided, that, in construing such incorporated provisions, any reference to “this Agreement” shall be deemed to refer to this Amendment):

Section 4.6	Severability
Section 4.7	Counterparts
Section 4.8	Governing Law
Section 4.9	Waiver of Jury Trial
Section 4.10	Forum and Consent to Jurisdiction

[Signatures on Following Page]

The Parties have executed this First Amendment as of the date first set forth above.

INFRAREIT, INC.

By: /s/ Brant Meleski
Name: Brant Meleski
Title: Chief Financial Officer

HUNT TRANSMISSION SERVICES, L.L.C.

By: /s/ David Hernandez
Name: David Hernandez
Title: Senior Vice President

ELECTRICITY PARTICIPANT PARTNERSHIP, L.L.C.

By: /s/ David Hernandez
Name: David Hernandez
Title: Senior Vice President

FIRST AMENDMENT TO REGISTRATION RIGHTS AGREEMENT

SUBSIDIARIES OF REGISTRANT

<u>Entity</u>	<u>Jurisdiction</u>
InfraREIT Partners, LP	Delaware
Sharyland Distribution & Transmission Services, L.L.C.	Texas
Transmission and Distribution Company, L.L.C.	Texas

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-209584) of InfraREIT, Inc.,
- (2) Registration Statement (Form S-3 No. 333-209898) of InfraREIT, Inc., and
- (3) Registration Statement (Form S-8 No. 333-208383) pertaining to the 2015 Equity Incentive Plan of InfraREIT, Inc.;

of our reports dated March 5, 2018, with respect to the consolidated financial statements and schedule of InfraREIT, Inc. and the effectiveness of internal control over financial reporting of InfraREIT, Inc. included in this Annual Report (Form 10-K) of InfraREIT, Inc. for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Dallas, Texas
March 5, 2018

**CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David A. Campbell, certify that:

1. I have reviewed this Annual Report on Form 10-K of InfraREIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2018

/s/ David A. Campbell

David A. Campbell
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brant Meleski, certify that:

1. I have reviewed this Annual Report on Form 10-K of InfraREIT, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2018

/s/ Brant Meleski

Brant Meleski
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, David A. Campbell, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of InfraREIT, Inc. for the fiscal year ended December 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of InfraREIT, Inc.

Date: March 5, 2018

/s/ David A. Campbell

David A. Campbell
President and Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and is not to be incorporated by reference into any filing of InfraREIT, Inc. under Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language of such filing.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brant Meleski, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of InfraREIT, Inc. for the fiscal year ended December 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of InfraREIT, Inc.

Date: March 5, 2018

/s/ Brant Meleski

Brant Meleski

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

The foregoing certification is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and is not to be incorporated by reference into any filing of InfraREIT, Inc. under Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language of such filing.