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PUC DOCKET NO. 25960
SOAH DOCKET NO. 473-02-3537

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APPLICATION OF BRAZOS
ELECTRIC POWER COOPERATIVE,
INC. TO CHANGE RATES FOR
WHOLESALE TRANSMISSION
SERVICE

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BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS

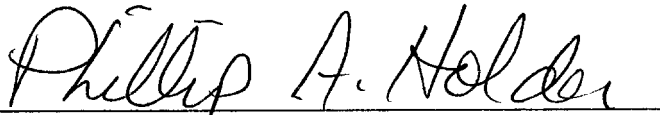
**RESPONSE OF BRAZOS ELECTRIC POWER COOPERATIVE,
INC. TO TXU ENERGY RETAIL COMPANY LP'S
FIRST REQUEST FOR INFORMATION**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

Brazos Electric Power Cooperative, Inc. ("**Brazos Electric**") submits this Response to TXU Energy Retail Company LP's First Request for Information to Brazos Electric. The Request for Information was received on August 5, 2002, and is being filed August 12, 2002. These responses may be treated by all parties as if they were filed under oath.

Respectfully submitted,

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COOPERATIVE, INC.**

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of this Response was mailed by United States mail, postage prepaid, or delivered via Facsimile, Federal Express, or hand delivery, on the 12th day of August, 2002, to all parties of record in Docket 25960.

Phillip A. Holder for PKS
Philip R. Segrest

**RESPONSE OF BRAZOS ELECTRIC
TO TXU ENERGY RETAIL COMPANY LP'S
FIRST REQUEST FOR INFORMATION**

QUESTION NO. 1

In the current TCOS case, what is Brazos' total debt and the debt allocated to the transmission function?

RESPONSE NO. 1

Brazos' total debt and the debt allocated to the transmission function are set forth on WP/C-2/2, which is filed under the Protective Order in the Errata Filing, and may be obtained by following the procedure set forth in the Protective Order.

Sponsored By: Khaki Bordovsky
Attachment: None

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Brazos Electric's Response to Question No. 1 of 4
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QUESTION NO. 2

In the current TCOS case, the debt service allocated to the transmission is about \$22.5 million. What is Brazos' total debt service and what allocation method was used to allocate debt service to the transmission function?

RESPONSE NO. 2

Brazos' total debt service is set forth on Schedule C-2, which is filed under protective order, and may be obtained by following the procedure set out in the Protective Order.

As stated in the testimony of Juan Gonzalez, III, on page 4 of 6 (bate stamp page 81 of the TCOS filing), line 8, "The generation debt service amounts for CFC, FFB, and RUS were directly allocated from the Financial Requirement and Expense statement." This is the document used to draw funds from the CFC, FFB, or RUS lender. Once the generation debt service was deducted from the total debt service, the transmission and distribution debt service was then allocated. On page 4 of 6 (bate-stamp page 81), line 13, of his pre-filed testimony, Mr. Gonzales states, "The combined transmission and distribution debt service amount for CFC, FFB, and RUS loans was directly allocated from the Financial Requirement and Expense statement, 68.94% to transmission and 31.06% to distribution based on a Transmission and Distribution Net Plant ratio as of December 31, 2001, which only relates to net plant for Transmission and Distribution capital projects."

Sponsored By: Khaki Bordovsky

Attachments: None

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QUESTION NO. 3

In Stover's testimony, on page 5, he states that the effective interest rate for long-term debt for 2003 is 5.8%. In Docket No. 15641, Brazos' original TCOS case, what was the average long-term debt interest rate for Brazos?

RESPONSE NO. 3

The average long-term debt interest rate for Brazos in Docket No. 15641 was 6.09%.

Sponsored By: Khaki Bordovsky
Attachment: None

QUESTION NO. 4

In Docket No. 15641, Brazos' transmission debt service of \$15.26 million was 7.61% of its \$200.6 million transmission rate base. In this TCOS case, Brazos' transmission debt service of \$22.5 million is 9.11% of its \$247 million transmission rate base. Please explain the reasons for the increase, including but not limited to interest rates and debt service margins.

RESPONSE NO. 4

The \$15.26 million return for the transmission function in Docket No. 15641 was not "transmission debt service" as RFI No. 4 suggests. Rather, in 1995 Brazos used the Rate of Return method to calculate the \$15.26 million, which was 7.61% of Brazos' transmission rate base, not the transmission debt service coverage percentage. The 7.61% was based on the PUC instructions for Schedule C-3 Generation and Transmission Cooperatives, "*At the option of the utility, the rate of return most recently allowed by the Commission in the utility's last rate case may be used if the rates were approved within two years of the TCOS filing.*" The rate of return from Brazos Electric's then most recent rate case at that time, Docket 12757, was 7.61%, which was used for the rate of return in Docket No. 15641, as allowed by the instructions. Therefore, the 7.61% was basically a "plugged" rate of return from Brazos Electric's rate case in Docket No. 12757, and the \$15.26 million transmission return was basically a "fall-out" return (i.e. the product of multiplying Brazos' approved transmission rate base by the 7.61% rate of return).

In this TCOS filing (Docket No. 25960) Brazos Electric is using the debt service method to calculate its transmission return, as allowed by the PUC instructions to Schedule C, which state, "*An electric cooperative may, at its option, use the debt service coverage method for calculating its transmission cost of service. The debt service coverage levels stated in the cooperative's most recent debt covenants plus additional coverage of 0.50 shall be presumed reasonable. To the extent that short-term debt is included in the calculation of these debt service coverage level covenants, it may be included in the debt service coverage used to calculate the transmission cost of service.*"

The debt and debt service relating to the generation function was directly assigned to generation and consisted mostly of older loan funds bearing lower interest rates. The debt and debt service relating to transmission and distribution consists mainly of newer loans bearing interest at higher interest rates.

Sponsored By: Khaki Bordovsky
Attachment: None

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Brazos Electric's Response to Question No. 4 of 4

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