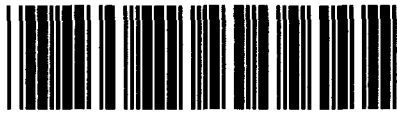




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Addendum StartPage: 0

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Stanley R. Southers, P.E.
Project Manager
Regulatory Affairs

January 27, 2006

Mr. David Featherston
Director, Infrastructure Reliability Division
Public Utility Commission of Texas
1701 N. Congress
Austin, TX 78711

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PUBLIC UTILITY COMMISSION

Subject: Project No. 32182: PUC Investigation of Methods to Improve Electric and Telecom Infrastructure that will Minimize Long Term Outages and Restoration Costs associated with Gulf Coast Hurricanes

Dear Mr. Featherston:

TXU Electric Delivery Company appreciates the opportunity to participate in this project. Please find attached the presentation made by TXU Electric Delivery Company at Workshop No. 3 conducted on January 25, 2006. Please call if you have any questions or require further information.

Sincerely,

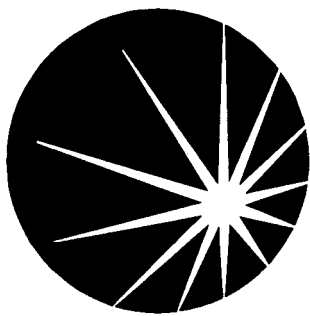


Stanley R. Southers, P.E.
Regulatory Project Manager

cc: Ken Keller

Enclosure

Project No. 32182 ***Infrastructure and Cost Recovery***



TXU
Electric Delivery

Paul McKaig

January 25, 2006

Mr. Oliver

Today's Topics

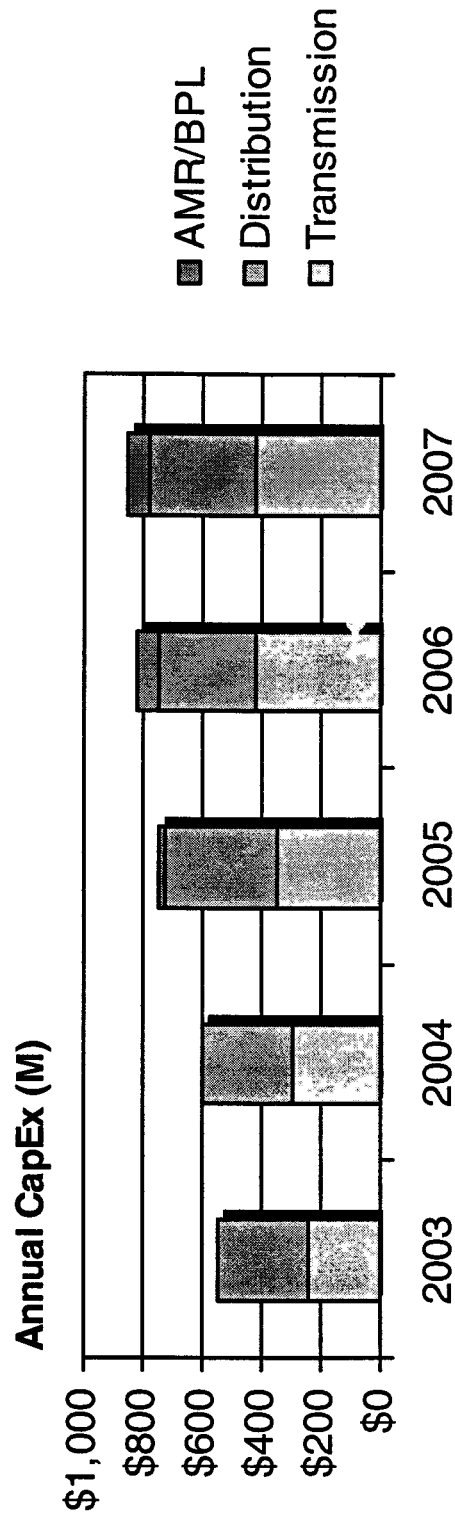
- Infrastructure issues
 - Recent TXU Electric Delivery storm events
 - Historic and projected capital expenditures
 - Incremental costs of alternative construction methods
- Cost recovery issues

Recent TXU Electric Delivery Storm Events

- Hurricane Rita caused TXU Electric Delivery to incur approximately \$16M of recovery costs
- TXU Electric Delivery's most severe storm damage occurred during the June 2004 weather event in the Dallas-Fort Worth Metroplex
 - 1.4 million customers experienced outages
 - Maximum of 480,000 customers out at one time
 - Approximately \$45M cost

Storm events in TXU Electric Delivery's service area are much less costly than those experienced in the Gulf Coast region

Historic and Projected Capital Expenditures



While significant in absolute terms, storm damages are small relative to TXU Electric Delivery's total capital budget

Incremental Costs of Alternative Construction Methods

Underground facilities can be over 10 times more expensive to install than overhead

- Average cost per mile for main line circuit (new build)
 - Overhead - \$120,000
 - Underground (direct buried conduit) - \$740,000
 - Underground (concrete encased duct) - \$1,500,000
- Average cost per mile for single-phase tap lines (new build, no transformers)
 - Overhead - \$50,000
 - Underground (direct buried conduit) – \$320,000

For underground, submersible grade equipment is 3 times the cost of standard equipment

- Standard pad mounted switchgear (installed) - \$25,000
- Submersible grade subsurface mounted switchgear (installed) – \$75,000

PURA and PUC Rules Provide a Cost Recovery Method

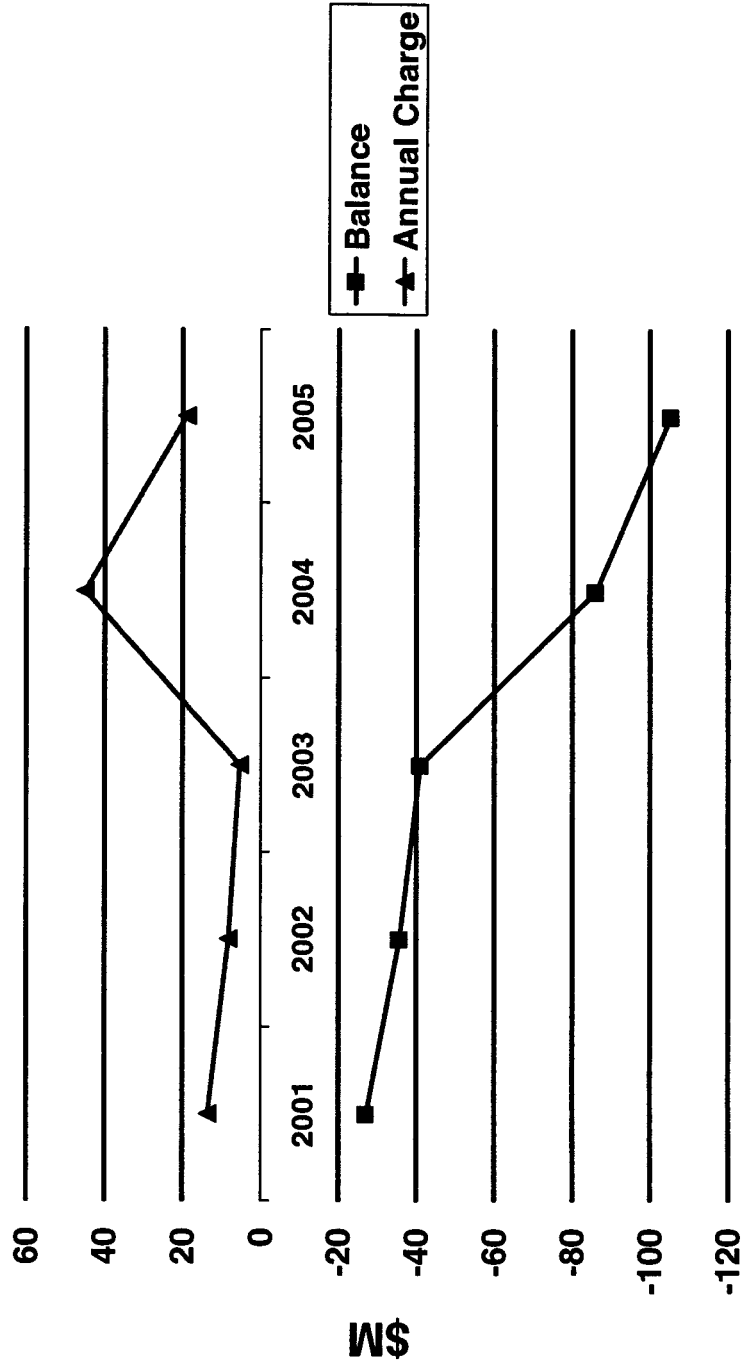
PURA Sec. 36.064 -- Self-Insurance

- (a) An electric utility may self-insure all or part of the utility's potential liability or catastrophic property loss, including windstorm, fire, and explosion losses, that could not have been reasonably anticipated and included under operating and maintenance expenses.

Substantive Rule 25.231 -- Cost of Service

- (b)(1)(G) The commission shall consider approval of a self insurance plan in a rate case in which expenses or rate base treatment are requested for a such a plan. For the purposes of this section, a self insurance plan is a plan providing for accruals to be credited to reserve accounts.

TXU Electric Delivery Property Insurance Reserve Experience



The level of property insurance reserve included in TXU Electric Delivery's rates has not been sufficient in light of experienced events

Cost Recovery Summary

- Different utilities experience different levels of exposure to storm damage
- Therefore, there may not be a “one size fits all” solution
- Funding property insurance reserves to a reasonable level helps smooth impact on customer rates
 - Positive balance is a credit to rate base
 - Negative balance adds to rate base
- Utilities that use an insurance reserve may need a surcharge above a certain level