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PUC DOCKET NO. 35665

PUBLIC UTILITY COMMISSION OF TEXAS

COMMISSION STAFF'S PETITION

FOR THE SELECTION OF ENTITIES RESPONSIBLE

FOR TRANSMISSION IMPROVEMENTS NECESSARY TO DELIVER

RENEWABLE ENERGY FROM COMPETITIVE RENEWABLE ENERGY ZONES

CROSS REBUTTAL TESTIMONY OF

STEPHAN T. HAYNES

FOR

ELECTRIC TRANSMISSION TEXAS, LLC

NOVEMBER 14, 2008

TESTIMONY INDEX

SUBJECT		PAGE

EXHIBITS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Stephan T. Haynes. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am Chief Risk Officer and Vice President Strategic Initiatives of American Electric Power Service Corporation (AEPSC). In that role I oversee the risk functions, the trust & benefit fund investments, and strategic initiatives. I am also Treasurer of Electric Transmission Texas, LLC ("ETT") and am responsible for preparing and executing the financing plans for ETT. This includes all debt, equity, lease and bank facility financings and the maintenance of an appropriate capital structure.

Q. ARE YOU THE SAME STEPHAN T. HAYNES WHO FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes, I am.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to certain allegations of Tejas Transmission LLC witness Esben Pedersen, Lone Star Transmission, LLC witness W. Richard Grosdidier, and Wind Energy Transmission Texas, LLC witness Chris Parker. My rebuttal testimony responds to these testimonies as they relate to ETT's financial plan for construction of the CREZ transmission facilities it seeks to build, as well as the financial plans of the other entities participating in this docket.

III. REBUTTAL TO TEJAS WITNESS ESBEN PEDERSEN

Q. ON PAGE 3 OF HIS TESTIMONY, MR. PEDERSEN ALLEGES THAT THE SIZE AND SCOPE OF CREZ FACILITIES CONTEMPLATED IN THIS CASE "GREATLY EXCEED" WHAT THE INDIVIDUAL JOINT PARTIES FINANCE IN THE ORDINARY COURSE OF BUSINESS. IS THIS CORRECT?

A. No, this is not correct. AEP and MidAmerican have both shown the ability to finance large multi-year capital expenditure programs. They collectively issued more than $15.5 billion in debt from 2005 through 2007, including more than $6 billion in 2007. These expenditures were to support large, multi-year programs related to environmental upgrades, reliability improvements and new generation.

Q. DO YOU AGREE WITH MR. PEDERSEN'S ALLEGATION THAT TEJAS AND ETT WILL RECEIVE THEIR EQUITY "FROM SIMILAR COMPANIES OR ENTITIES"?

A. No, I do not. I think it is difficult to compare AEP and MidAmerican (ETT's source of equity), which have long histories as utility holding companies and sound experience raising capital, with Babcock & Brown Infrastructure Fund North America (Tejas' source of equity), which has had a relatively short life and is currently in financial duress.

Q. PLEASE GIVE YOUR UNDERSTANDING OF THE SOURCE OF TEJAS' EQUITY.

A. Given the complexity of the Babcock & Brown Ltd. (BNB) structure, the source of equity for Tejas is not completely clear. My understanding of Tejas' proposal is that their source of equity is Babcock & Brown Infrastructure Fund North America (BBIFNA), an investment vehicle of Babcock & Brown Infrastructure Group (BBI). BBI is a fund that allows investors to buy into a portfolio of projects by purchasing a complex financial instrument known as a stapled security. This means that investors own an equal number of shares in a trust, which holds the assets, and a company, which manages the assets. The shares of each entity are tied to each other and cannot be sold or bought without selling or buying an equal number of both securities. Babcock & Brown has a number of infrastructure funds, but its main listed fund is BBI. This type of fund is not comparable to the large, stable utility holding companies that provide ETT with its equity.

Not only does ETT obtain its equity from different types of sources, its sources have a much better outlook for being able to provide equity. S&P announced on November 10, 2008 that BBI "has limited prospects of raising additional equity" (see EXHIBIT STH-1CRB). In addition to this, their share price is down more than 95% from its 52-week high in November 2007 (see EXHIBIT STH-2CRB). Five days prior to S&P's report, BBI announced that it had decided to suspend dividends and distributions to its security holders because of a need to protect operating cash flows (see EXHIBIT STH-3CRB).

Q. PLEASE COMPARE ETT'S SOURCES OF EQUITY TO THAT OF TEJAS.

A. ETT raises its equity from two large, stable utility holding companies, AEP and Mid-American, each with multiple operating companies in different jurisdictions. These companies have long histories of over 100 years and have historically raised large amounts of capital for the financing of utility infrastructure. AEP has a strong record of being able to raise equity when needed. Berkshire Hathaway, the publicly traded parent of MidAmerican, also has a history as a strong, stable company. MidAmerican has the ability to raise equity through its parent, especially through its equity commitment agreement with Berkshire Hathaway that I discuss on page 8 of my direct testimony and page 11 of this testimony.

Q. ON PAGE FIVE OF HIS TESTIMONY, MR. PEDERSEN TOUTS THE AMOUNT OF DEBT THAT BABCOCK & BROWN HAS REFINANCED. IS THAT, IN YOUR OPINION, AN INDICATION THAT BABCOCK & BROWN HAS STRONG ACCESS TO CAPITAL MARKETS?

A. I believe that BNB's debt refinancing was a unique situation and not a good indication of access to capital markets. BNB had a covenant in its credit facilities whereby its market capitalization must not fall below AU$2.5 billion. In the event that this covenant was breached, BNB would be placed under formal review for up to four months (as long as market capitalization is below AU$2.5 billion) by the bank group and need the bank group's permission to pay dividends and subordinated note interest. After the review period had ended, BNB would be required to follow the bank group's agreed upon course of action or else potentially be forced to repay the facility within 90 days.

BNB began 2008 with a market capitalization near AU$10 billion. However, its shares plunged (see EXHIBIT STH-4CRB) and BNB's market capitalization had fallen below AU$2.0 billion by June 13, triggering the covenant. The prospect of this forced BNB to agree to start selling assets to pay down debt and refinance their facilities at higher rates in order to get the banks to remove this market capitalization covenant. This turned out to be more important than initially expected as BNB stock continued to plummet and its market capitalization now stands at about AU$200 million (see EXHIBIT STH-5CRB). BNB and its investment funds are estimated to have combined debt exceeding AU$46 billion. The story behind the refinancing likely calls into question BNB's ability to access capital markets. Additionally, there is concern that BNB will breach its new credit agreement in 2009. They need to pay down AU$400 million of the facility by selling assets and are having difficulty accomplishing this (see EXHIBIT STH-8CRB). This will likely make it difficult for BNB to obtain capital.

Q. DO YOU AGREE WITH MR. PEDERSEN'S ALLEGATION THAT BABCOCK & BROWN HAS GREATER ACCESS TO A MORE DIVERSE AND DEEPER POOL OF CAPITAL THAN THE AVERAGE UTILITY?

A. Babcock & Brown likely has more limited access to capital markets than the average utility. This is due to financial concerns as evidenced by non-investment grade ratings at Babcock & Brown Infrastructure Group. In August 2008, Moody's downgraded Babcock & Brown Infrastructure Group's credit ratings to Ba1 with a negative outlook. They cited liquidity challenges as their main concern (see EXHIBIT STH-6CRB). In November 2008, S&P downgraded them to BB- and placed the rating on CreditWatch with negative implications. The main concern at S&P was that their financial flexibility was limited. They believed progress on the sale of assets was slow, their credit facility was fully drawn and there would be difficulty raising additional equity (see EXHIBIT STH-1CRB). In light of these credit concerns, Babcock & Brown's access to capital would likely be significantly more limited than the average utility.

IV. REBUTTAL TO LONE STAR WITNESS W. RICHARD GROSDIDIER

Q. MR. GROSDIDIER DISCUSSES THE FPL GROUP CAPITAL $4.0 BILLION CREDIT FACILITY. IS THAT CREDIT FACILITY DEDICATED TO LONE STAR?

A. The facility is dedicated to providing liquidity and capital to many of FPL's projects. This includes, but is by no means limited to, Lone Star. This would also be used to provide support to FPL Group's other capital expenditures, which are estimated to be in excess of $15 billion for 2009 through 2011 (see EXHIBIT STH-7CRB).

Q. WHAT IS THE SIGNIFICANCE OF HAVING A DEDICATED CREDIT FACILITY?

A. Having a dedicated credit facility is beneficial because it is committed financing available only for a specific purpose. The capital available under such a facility can be used solely by that company. This means that unrelated projects at other subsidiaries cannot diminish availability on the dedicated credit facility.

Q. PLEASE COMPARE THE CREDIT FACILITY THAT ETT RELIES ON TO THAT RELIED ON BY LONE STAR.

A. ETT's facility will be used only for ETT's projects and cannot be tied up in unrelated projects being pursued by its members. Lone Star is relying on a facility that will also be used to provide capital to FPL Group's many other projects, including wind generation projects.

Q. ON PAGE 3 OF HIS TESTIMONY, MR. GROSDIDIER ALLEGES THAT THE CURRENT CREDIT "CRUNCH" REINFORCES THE NEED TO SPREAD CAPITAL OBLIGATIONS AMONG THE APPLICANTS IN THIS PROCEEDING. DO YOU AGREE?

A. No, I do not necessarily agree. The current credit climate reinforces the need to focus on applicants that have greater access to capital. This is important due to the implications of a company not being able to raise the capital necessary to complete its portion of the CREZ projects. If this were to happen, the company's ability to complete the project would be called into question. The project would be delayed until that company was either able to access capital or the Commission were to reassign that company's portion to another company capable of completing it. ETT demonstrates its access to capital through its dedicated credit facility and the strong reputation and experience of its member companies in capital markets.

Q. WILL YOU PLEASE EXPLAIN THE SIGNIFICANCE OF MID-AMERICAN'S ANNOUNCEMENT OF THE ACQUISITION OF CONSTELLATION ENERGY.

A. MidAmerican's acquisition of Constellation should not significantly affect ETT. The acquisition is being funded entirely with capital from Berkshire Hathaway and potentially MidAmerican's other shareholders. Furthermore, it demonstrates

Berkshire Hathaway's willingness to deploy sizable energy investments by providing capital to MidAmerican.

Q. DO YOU AGREE WITH THE ALLEGATION ON PAGE 12 OF MR. GROSDIDIER'S TESTIMONY THAT THE DEBT COMPONENT OF THE ETT FINANCIAL PLAN INCLUDES "A LARGE ELEMENT OF PROJECT FINANCING"?

A. No, I do not. Project financing is the financing of long-term infrastructure that is secured by the project itself rather than the project's sponsors and paid from the project's cash flow, rather than from the general assets or creditworthiness of the project's sponsors. It is secured by the project's lenders placing liens on the project's assets. In ETT's current financial plan, there is no capital raised through project financing. Project financing is a potential source of capital, but our financing plan is to raise capital by drawing on our dedicated credit facility and issuing corporate debt.

Q. PLEASE COMPARE THE CORPORATE FINANCING THAT ETT INTENDS TO USE TO THAT OF PROJECT FINANCING.

A. Corporate financing allows ETT to access a market that is deeper and more liquid than the project financing market. Fewer banks actively participate in project financings because they are more complex. Corporate financing is more standard and easier to obtain as the public capital markets for corporate debt are much deeper and more liquid. Additionally, corporate financing at the operating company level is generally less expensive than project financing and more flexible. Project financing requires that all of the assets in the project be secured as collateral for the financing.

Corporate financings do not have this stipulation and result in much more financial flexibility for the borrower.

Q. ON PAGES 12 THROUGH 13 OF HIS TESTIMONY, MR. GROSDIDIER IS ASKED TO ADDRESS MID-AMERICAN'S OPTION TO SELL STOCK TO BERKSHIRE HATHAWAY. WILL YOU PLEASE EXPLAIN THE SIGNIFICANCE OF THIS FINANCING OPTION?

A. MidAmerican and Berkshire Hathaway entered into an equity commitment agreement pursuant to which Berkshire Hathaway has agreed to purchase up to $3.5 billion of MidAmerican's common equity upon any requests authorized from time to time by MidAmerican's Board of Directors. The proceeds of any such equity contribution shall only be used for the purpose of (a) paying when due MidAmerican's debt obligations and (b) funding the general corporate purposes and capital requirements of MidAmerican's regulated subsidiaries. This equity commitment agreement gives MidAmerican access to capital even in times of utility sector and general market stress. No other utility has this quality of explicit financial support.

Q. ON PAGE 13 OF HIS TESTIMONY, MR. GROSDIDIER ADDRESSES THE RATINGS OUTLOOK FOR FOUR AEP OPERATING COMPANIES. WHAT IMPACT DOES THIS OUTLOOK HAVE ON AEP'S ABILITY TO SUPPORT ETT?

A. The ratings outlook for these four companies, including AEP Texas Central Company and AEP Texas North Company, should not have a substantial impact on ETT. These companies are not members of ETT and will not be participating in ETT's financing of the CREZ facilities.

V. REBUTTAL TO WETT WITNESS CHRIS PARKER

Q. MR. PARKER DISCUSSES WETT'S PLAN TO FINANCE ITS PROPOSED PROJECT WITH 70% DEBT. IN YOUR OPINION, IS A 70% DEBT ASSUMPTION REASONABLE IN THIS CONTEXT?

A. No, it is not. In the current credit climate, access to debt is limited and expensive. Given these issues, I believe that a capital structure that includes 70% debt is overly ambitious, risky for rate payers and more likely unreasonable.

Q. IF THE COMMISSION WERE TO DETERMINE THAT 60% DEBT FINANCING WERE MORE REASONABLE THAN 70%, WHAT IMPACT WOULD THAT DETERMINATION HAVE ON WETT'S PROPOSAL?

A. This would increase the cost of capital and lead to higher rates for rate payers. This is because the capital structure would rely more heavily on equity (the most expensive form of capital) than when using a 70% debt structure.

VI. CONCLUSION

Q. DOES THIS CONCLUDE YOUR CROSS REBUTTAL TESTIMONY?

A. Yes, it does.

STANDARD
&POOR'S

RATINGSDIRECT®

November 10, 2008

Research Update:

Babcock & Brown International Pty Ltd. Rating Lowered To 'BB-'; On Watch Neg

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Research Update:

Babcock & Brown International Pty Ltd. Rating Lowered To 'BB-'; On Watch Neg

Rationale

On Nov. 10, 2008, Standard & Poor's Ratings Services lowered its long-term issuer credit rating on Australia-based Babcock & Brown International Pty Ltd. (BBIPL) to 'BB-' from 'BB', reflecting the impact of the financial market dislocation on the pace of asset sales required for BBIPL's debt reduction plans. At the same time, the 'BB-' long-term and 'B' short-term ratings were placed on CreditWatch with negative implications.

The CreditWatch reflects our opinion that BBIPL has limited financial flexibility to meet any adverse impacts flowing from market issues and the slower pace of the debt reduction than what we expected. The debt reduction, in our view, is required to maintain the confidence of its bankers. Although BBIPL is making progress in selling several assets, these are proving to be slower than what we had anticipated due to the difficulties faced by potential purchasers in the current financial markets.

In addition, we understand BBIPL is fully drawn on its bank facility and in our view has limited prospects of raising additional equity.

CreditWatch

Standard & Poor's intends to meet with the company to review BBIPL's progress on asset sales, ongoing exposure to Babcock & Brown Power, debt retirement, and the group restructure. We expect to resolve the CreditWatch before year end. Depending on the outcome of the review, the ratings could be affirmed or lowered by one or more notches.

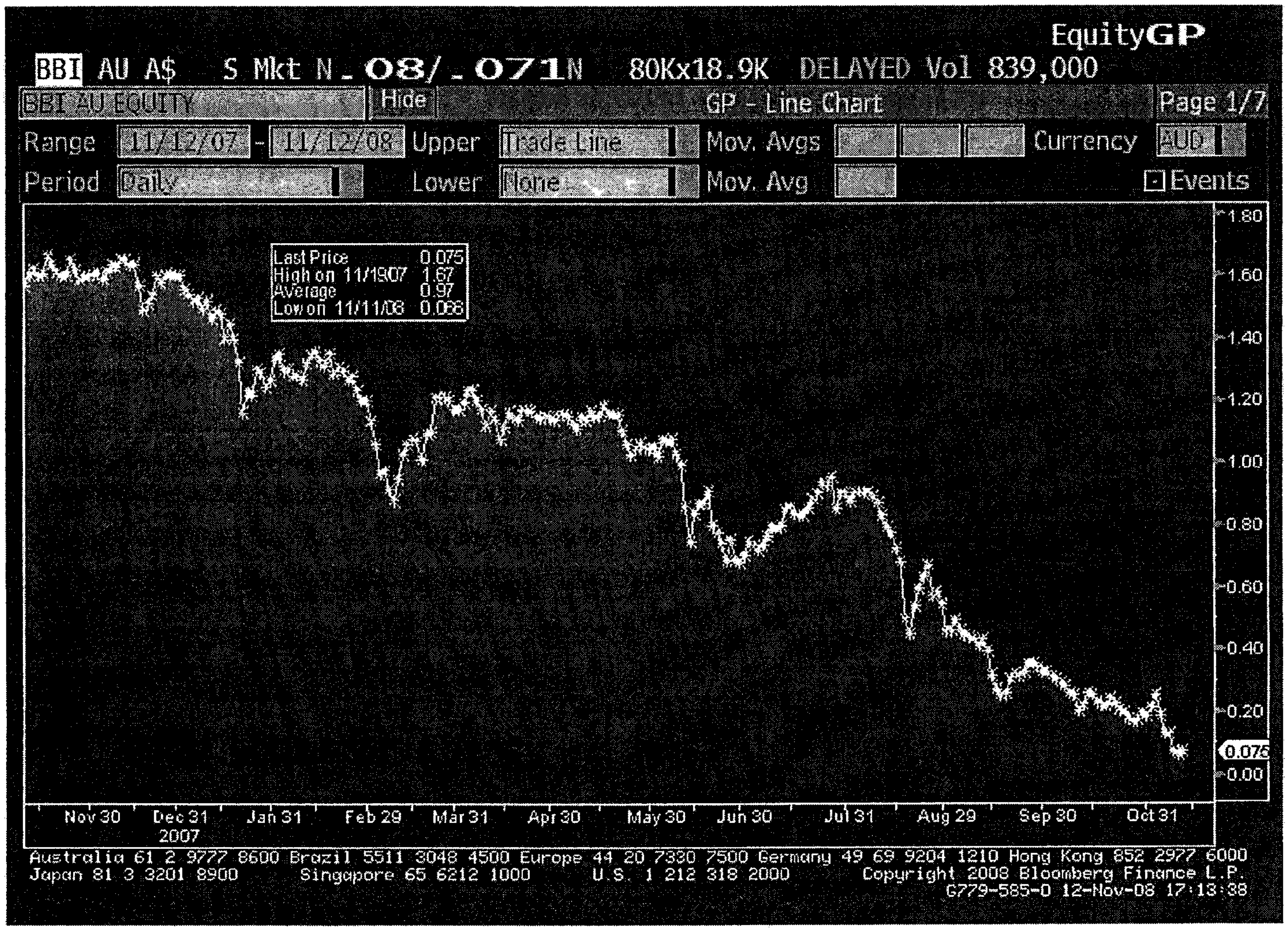
Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Babcock & Brown International Pty Ltd.		
Counterparty Credit Rating	BB-/Watch Neg/B	BB/Negative/B

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then

Ratings in the left navigation bar, followed by Credit Ratings Search.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ASX RELEASE

5 November 2008

Suspension of distributions and EPS dividends

Babcock & Brown Infrastructure (ASX: BBI) announces today that the Boards have elected to suspend payment of stapled security distributions and defer dividends on BBI EPS (ASX: BEPPA), until further notice.

BBI Chairman, Dr David Hamill said "The operating performance of the underlying businesses to date has been in line with expectations and this decision by the Boards today does not reflect on their operational performance or any requirements of BBI's lenders."

"The Boards consider that in light of the current uncertainty in credit markets resulting from the global financial crisis, the payment of distributions is not currently in securityholders' best interests. We consider that securityholders' interests are better served by preserving operating cash flows within the business to reduce debt rather than being paid as stapled security distributions and EPS dividends."

ENDS

Further Enquiries

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ABOUT BABCOCK & BROWN INFRASTRUCTURE

Babcock & Brown Infrastructure (ASX: BBI) is a specialist infrastructure entity which provides investors access to a diversified portfolio of quality infrastructure assets. BBI's investment strategy focuses on acquiring, managing and operating quality infrastructure assets in Australia and internationally.

For further information please visit our website: www.bbinfrastructure.com


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DESCRIPTION

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BNB AU BABCOCK & BROWN LTD Invest Mgmt/Advis Serv

98) Generate Report

Babcock & Brown Limited is a international specialised fund and asset management group that provides syndication and management of asset and cash flow based investments. The Company's services are provided through its real estate, infrastructure, operating leasing, and corporate & structured finance divisions.

STOCK DATA			AUD	DIVIDENDS	Semi-Annual		AUD
1)GPO	Price		.555	5)DVD	Indicated Gross Yld		
	52Wk High	11/14/2007	28.80		Dividend Growth		
	52Wk Low	11/11/2008	.52		Ex-Date	Type	Amt
	YTD change		-26.595		8/28/08	Omitted	
	YTD % Change		-97.96%				
	Round Lot		1	9)SSR	Short Selling		Restricted
2)FA	Shares out	11/12/2008	367.476M	EARNINGS			AUD
	Market Cap	AUD	203.95M	6)ERN	Ann Date	2/20/09 (Est)	
	Float		348.89M		Trailing 12mo EPS		1.738
3)TRA	1 Yr Total Return		-97.97%	7)EE	Est EPS	12/2008	1.184
	BETA vs. AS51		2.41		P/E	.32 LT Growth	.01
10)OMON	Options, LEAPs Available				Est P/E	.47 Est PEG	66.96

Eff 9/21/08, short selling of this security is prohibited as mandated by the ASIC.

Moody's Investors Service

Global Credit Research
Rating Action
26 AUG 2008

Rating Action: Babcock & Brown Infrastructure Group

Moody's lowers BBI's senior secured ratings to Ba2; outlook negative

Sydney, August 26, 2008 -- Moody's Investors Service has today downgraded the Babcock & Brown Infrastructure Group's ("BBI") senior secured ratings to Ba2 from Baa3.

This concludes the review commenced on June 17, 2008 following concerns in respect of BBI's liquidity position.

At the same time, Moody's has assigned a Ba1 corporate family rating to BBI. The corporate family rating, which is typically assigned to non-investment grade corporates, reflects Moody's opinion on the BBI group's ability to honour its financial obligations as if it had a single class of debt and a single consolidated legal entity structure.

The senior secured rating is notched down from the corporate family rating reflecting structural subordination. The outlook on both ratings is negative.

"The downgrade of BBI's senior secured ratings reflects Moody's view that the company's credit profile is no longer consistent with an investment-grade rating given its continued liquidity challenges ," says Clement Chong, a Moody's VP/Senior Analyst, adding, "Further weighting in on the rating agency's decision is the company's weak financial profile, which has primarily resulted from its aggressive debt-funded growth".

The rating downgrade to Ba2 also considers the structural subordination mentioned above, given the preponderance of debt at the operating subsidiaries.

BBI's liquidity profile remains challenging notwithstanding an anticipated reduction in equity distributions announced by the company. The company faces some refinancing risk in the first quarter of calendar 2009. Moody's understands the company intends to pay down this debt through planned asset sale.

"The Ba1 corporate family rating considers BBI's ownership of a diverse portfolio of investment-grade transportation and energy infrastructure assets which generate predictable cash flows," says Chong, adding, "However, BBI's leverage is relatively high, as indicated by these expected financial metrics - on a consolidated basis - over the next few years: FFO/Interest 1.6-1.7 times, and Debt/EBITDA about 8.7 times."

The outlook on the ratings is negative in view of BBI's liquidity challenges.

The outlook could return to stable if the company makes further progress in its liquidity management including its planned asset sales. In addition, the change in the rating outlook to stable would incorporate the company's future strategy and liquidity policy.

Conversely, the rating could be downgraded if there are significant delays in the planned asset sale which would further constrain liquidity. The rating could also be pressured if the company materially underperforms Moody's expected financial metrics.

The BBI companies affected by this rating action are:

BBI Finance Pty Ltd - Ba1 corporate family rating assigned with negative outlook

BBI Finance Pty Ltd -- Baa3 senior secured rating downgraded to Ba2 with negative outlook

BBI Networks New Zealand Ltd -- Baa3 senior secured rating downgraded to Ba2 with negative outlook

BBI (UK) Ltd -- Baa3 senior secured rating downgraded to Ba2 with negative outlook

BBI, based in Sydney, is an infrastructure fund which owns a series of infrastructure assets.

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