



Control Number: 40020



Item Number: 2

Addendum StartPage: 0

**PUC DOCKET NO. 40020**

**APPLICATION OF LONE STAR  
TRANSMISSION, LLC FOR  
AUTHORITY TO ESTABLISH  
INTERIM AND FINAL RATES  
AND TARIFFS**

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**BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS**

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**TABLE OF CONTENTS**

**VOLUME I**

<b><u>DESCRIPTION</u></b>	<b><u>PAGES</u></b>
<b>Application</b>	11-22
Exhibit A	23-32
Exhibit B	33-34
<b>Testimony</b>	
Michael G. Grable	Overview & Policy 35-68
David K. Turner	Transmission Cost of Service/Transmission Capital Investment and Operations and Maintenance Expense 69-143
Daniel Mayers	Transmission Line and Substation Engineering and Construction 144-179
Cheryl L. Dietrich	Shared Services 180-363
Thomas J. Flaherty	Shared Services/Allocation of Affiliate Costs 364-506
Julie S. Rice	Compensation & Benefits/Human Resources 507-545
Jeanne H. Camp	Self-Insurance Reserve 546-568
Robert N. Hughes	Self-Insurance Reserve 569-603
Brian R. Murphy	Federal and State Taxes 604-623
Jay Joyce	Cash Working Capital 624-669
Dane A. Watson	Depreciation 670-735
Aldo E. Portales	Financing/Cost of Long-Term Debt/Capital Structure 736-755
William E. Avera	Capital Structure, Cost of Capital and Return on Equity 756-875
Richard B. Cribbs	Accounting 876-921
H. Michael Warren	Rate Case Expenses 922-956

2

## **VOLUME II**

### **DESCRIPTION**

### **PAGES**

#### **SCHEDULES (INTERIM)**

##### **SECTION I SUMMARY**

957-958

###### **Schedule A**

I-A	Cost of Service Summary
I-A-1	Summary of Texas Retail

##### **SECTION II TEST YEAR DATA**

959-1112

###### **Schedule B Rate Base**

II-B	Summary of Rate Base
II-B-1	Plant
II-B-2	General Plant
II-B-3	Communication Equipment
II-B-4	CWIP
II-B-5	Depreciation – Plant
II-B-6	Plant Held for Future Use
II-B-7	Accumulated Provisions
II-B-8	Materials and Supplies
II-B-9	Cash Working Capital
II-B-10	Prepayments
II-B-11	Rate Base Accounts – Other
II-B-12	Regulatory Assets

###### **Schedule C Rate Of Return and Financial Information**

II-C-1	Rate of Return Calculation
II-C-1.1	Rate of Return Method
II-C-2.1	Weighted Average Cost of Capital
II-C-2.2	Weighted Average Cost of Preferred Stock
II-C-2.2a	Adjusted Cost of Preferred Stock
II-C-2.3	Weighted Average Cost of Preferred Trust Securities
II-C-2.3a	Adjusted Cost of Preferred Trust Securities
II-C-2.4	Weighted Average Cost of Long-Term Debt
II-C-2.4a	Adjusted Cost of Long-Term Debt
II-C-2.5	Weighted Average Cost of Short-Term Debt
II-C-2.6	Security Issuance Restrictions
II-C-2.7	Capital Requirements and Acquisition Plan
II-C-2.8	Historical Financial Statistics
II-C-2.9	Growth in Earnings, Dividends and Book Value
II-C-2.10	Rating Agency Reports

###### **Schedule D Operation & Maintenance Expenses**

II-D-1	O&M Expense
II-D-1.1	Monthly O&M Expense
II-D-2	A&G Expense
II-D-2.1	Total Monthly A&G Expense
II-D-2.2	Bad Debt Expense
II-D-2.3	Summary of Advertising, Contributions and Dues

II-D-2.4	Summary of Advertising Expenses
II-D-2.4a	Capitalized Advertising
II-D-2.5	Summary of Contributions & Donations
II-D-2.6	Summary of Membership Dues Expense
II-D-2.6a	Summary of Industry Dues
II-D-2.6b	Summary of Business/Economic Dues
II-D-2.6c	Summary of Professional Dues
II-D-2.7	Outside Services Employed-FERC 900 Series Expenses
II-D-2.8	Factoring or Sale of Accounts Receivable
II-D-2.9	Rents and Leases
II-D-3	Payroll Expenses
II-D-3.1	Payroll Information
II-D-3.2	Regular and Overtime Payroll by Function
II-D-3.3	Functionalized Regular Payroll by Category
II-D-3.4	Payroll Capitalized vs. Expensed by Function
II-D-3.5	Number of Employees
II-D-3.6	Payments Other Than Standard Pay by Function
II-D-3.7	General Employee Benefits Information
II-D-3.8	Pension Expense
II-D-3.9	Postretirement Benefits Other Than Pension
II-D-3.10	Administration Fees
II-D-4	Summary of Exclusions from Reporting Period

#### **Schedule E Other Items**

II-E-1	Depreciation & Amortization Expense
II-E-2	Taxes Other Than Federal Income Taxes
II-E-2.1	Ad Valorem Taxes & Plant Balances
II-E-3	Federal Income Taxes
II-E-3.1	Reconciliation of Book Net Income to Taxable Net Income
II-E-3.2	Reconciliation of Timing Differences
II-E-3.3	Plant Adjustments
II-E-3.4	Consolidated Federal Income Taxes
II-E-3.5	Consolidated Benefits
II-E-3.6	Consolidated/Inter-Corporate Tax Allocation
II-E-3.7	Accumulated Deferred Federal Income Taxes
II-E-3.8	ADFIT – Description of Timing Differences
II-E-3.9	Adjustments to ADFIT
II-E-3.10	ADFIT and ITC – Plant Adjustments & Allocations
II-E-3.11	Analysis of Investment Tax Credit
II-E-3.12	ITC Utilized
II-E-3.13	ITC Generated But Not Utilized
II-E-3.14	ITC Utilized – Stand Alone
II-E-3.15	ITC Elections
II-E-3.16	FERC Account 255 Balance
II-E-3.17	Analysis of Test Year FIT and Requested FIT
II-E-3.18	Analysis of Deferred FIT
II-E-3.19	Analysis of Additional Depreciation Requested
II-E-3.20	Amortization of Protected and Unprotected Excess Deferred Taxes
II-E-3.21	Analysis of Excess Deferred Taxes by Timing Difference
II-E-3.22	Effects of Post Test Year Adjustment
II-E-3.23	List of FIT Testimony

II-E-3.24	History of Tax Normalization
II-E-3.25	Tax Elections, IRS Audit Status and Private Letter Rulings
II-E-3.26	Method of Accounting for ADFIT Related to NOL Carryforward
II-E-4	Other Expenses
II-E-4.1	Deferred Expenses from Prior Dockets
II-E-4.2	Below the Line Expenses
II-E-4.3	Nonrecurring or Extraordinary Expenses
II-E-4.4	Regulatory Commission Expenses
II-E-4.5	Rate Case Expense
II-E-5	Other Revenue Items

#### **Schedule F Functionalization Factors**

II-F	Functionalization Factors – Data
------	----------------------------------

#### **Schedule G Nuclear Plant Decommissioning**

II-G-1	Status of Nuclear Decommissioning Funds
--------	---

#### **Schedule H Historic Year Billing Determinants**

II-H-1	Summary of Test Year Adjustments
II-H-1.1	Test Year Sales Data
II-H-1.2	Monthly Sales Data
II-H-1.3	Test Year Coincident Peak Data
II-H-1.4	Monthly Coincident Peak Data
II-H-1.5	System Load Factors
II-H-1.6	Adjustments to Billing Demands
II-H-1.7	Adjustments to Operating Statistics
II-H-1.8	Peak Demand Information
II-H-1.9	Sales by Revenue Class
II-H-2	Model Analysis Results
II-H-2.1	Model Information
II-H-2.2	Model Data
II-H-2.3	Model Variables
II-H-3	Customer Adjustments
II-H-3.1	Customer Information
II-H-3.2	Customer Adjustments
II-H-3.3	Customer Adjustment Data
II-H-4	Revenue Impacts of Adjustments
II-H-4.1	Revenue Impact Data
II-H-4.2	Revenue Calculation Methodologies
II-H-5	Weather Data
II-H-5.1	Weather Station Data
II-H-5.2	Adjusted Weather Station Data
II-H-5.3	Additional Weather Information

#### **Schedule I Class Allocation**

II-I-1	Class Revenue Requirement Analysis
--------	------------------------------------

### **SECTION III ERCOT WHOLESALE TRANSMISSION COST OF SERVICE**

1113-1135

III-A-1	Summary of Wholesale TCOS
III-B-1	Original Cost of Plant

III-B-2	General Plant
III-B-3	Communication Equipment
III-B-4	Construction Work in Progress
III-B-5	Accumulated Depreciation
III-B-6	Plant for Future Use
III-B-7	Accumulated Provision Balances
III-B-8	Materials and Supplies
III-B-9	Cash Working Capital
III-B-10	Prepayments
III-B-11	Other Rate Base Items
III-B-12	Regulatory Assets
III-C	Rate of Return
III-D-1	O&M Expenses
III-D-2	A&G Expenses
III-D-3	Payroll Expenses
III-D-4	Summary of Exclusions for the interim rate period ending 3/31/13
III-E-1	Depreciation Expense
III-E-2	Taxes Other Than Income Taxes
III-E-3	Federal Income Taxes
III-E-4	Other Expenses
III-E-5	Other Revenue Items

## **SECTION IV RATE DESIGN**

1136

### **Schedule J Rate Design**

IV-J-1	Class Revenue Requirement by Function
--------	---------------------------------------

## **SECTION V AFFILIATE DATA**

1137-1203

### **Schedule K Affiliate Data**

V-K-1	Affiliate Expenses by FERC Account
V-K-2	Adjusted Affiliate Expenses
V-K-3	Organization Chart
V-K-4	Description of Services
V-K-5	Capital Projects
V-K-6	Adjustments to Test Year Expenses
V-K-7	Statutory Requirements
V-K-8	Services Provided to Affiliates
V-K-9	Allocation of Affiliate Costs
V-K-10	Controls
V-K-11	Affiliate Billing Methods
V-K-12	Amounts Billed to Each Affiliate

## **SECTION VI OTHER SCHEDULES**

1204

### **Schedule L Transmission & Distribution Utility Customer Services**

## **SECTION VII CONFIDENTIALITY**

1205-1226

Statement of Confidentiality
Proposed Protective Order

## **SCHEDULES (FINAL)**

### **SECTION I SUMMARY**

1227-1228

#### **Schedule A**

I-A	Cost of Service Summary
I-A-1	Summary of Texas Retail

### **SECTION II TEST YEAR DATA**

1229-1384

#### **Schedule B Rate Base**

II-B	Summary of Rate Base
II-B-1	Plant
II-B-2	General Plant
II-B-3	Communication Equipment
II-B-4	CWIP
II-B-5	Depreciation – Plant
II-B-6	Plant Held for Future Use
II-B-7	Accumulated Provisions
II-B-8	Materials and Supplies
II-B-9	Cash Working Capital
II-B-10	Prepayments
II-B-11	Rate Base Accounts - Other
II-B-12	Regulatory Assets

#### **Schedule C Rate Of Return and Financial Information**

II-C-1	Rate of Return Calculation
II-C-1.1	Rate of Return Method
II-C-2.1	Weighted Average Cost of Capital
II-C-2.2	Weighted Average Cost of Preferred Stock
II-C-2.2a	Adjusted Cost of Preferred Stock
II-C-2.3	Weighted Average Cost of Preferred Trust Securities
II-C-2.3a	Adjusted Cost of Preferred Trust Securities
II-C-2.4	Weighted Average Cost of Long-Term Debt
II-C-2.4a	Adjusted Cost of Long-Term Debt
II-C-2.5	Weighted Average Cost of Short-Term Debt
II-C-2.6	Security Issuance Restrictions
II-C-2.7	Capital Requirements and Acquisition Plan
II-C-2.8	Historical Financial Statistics
II-C-2.9	Growth in Earnings, Dividends and Book Value
II-C-2.10	Rating Agency Reports

#### **Schedule D Operation & Maintenance Expenses**

II-D-1	O&M Expense
II-D-1.1	Monthly O&M Expense
II-D-2	A&G Expense
II-D-2.1	Total Monthly A&G Expense
II-D-2.2	Bad Debt Expense
II-D-2.3	Summary of Advertising, Contributions and Dues
II-D-2.4	Summary of Advertising Expenses
II-D-2.4a	Capitalized Advertising
II-D-2.5	Summary of Contributions & Donations
II-D-2.6	Summary of Membership Dues Expense

II-D-2.6a	Summary of Industry Dues
II-D-2.6b	Summary of Business/Economic Dues
II-D-2.6c	Summary of Professional Dues
II-D-2.7	Outside Services Employed-FERC 900 Series Expenses
II-D-2.8	Factoring or Sale of Accounts Receivable
II-D-2.9	Rents and Leases
II-D-3	Payroll Expenses
II-D-3.1	Payroll Information
II-D-3.2	Regular and Overtime Payroll by Function
II-D-3.3	Functionalized Regular Payroll by Category
II-D-3.4	Payroll Capitalized vs. Expensed by Function
II-D-3.5	Number of Employees
II-D-3.6	Payments Other Than Standard Pay by Function
II-D-3.7	General Employee Benefits Information
II-D-3.8	Pension Expense
II-D-3.9	Postretirement Benefits Other Than Pension
II-D-3.10	Administration Fees
II-D-4	Summary of Exclusions from Reporting Period

#### **Schedule E Other Items**

II-E-1	Depreciation & Amortization Expense
II-E-2	Taxes Other Than Federal Income Taxes
II-E-2.1	Ad Valorem Taxes & Plant Balances
II-E-3	Federal Income Taxes
II-E-3.1	Reconciliation of Book Net Income to Taxable Net Income
II-E-3.2	Reconciliation of Timing Differences
II-E-3.3	Plant Adjustments
II-E-3.4	Consolidated Federal Income Taxes
II-E-3.5	Consolidated Benefits
II-E-3.6	Consolidated/Inter-Corporate Tax Allocation
II-E-3.7	Accumulated Deferred FIT
II-E-3.8	ADFIT – Description of Timing Differences
II-E-3.9	Adjustments to ADFIT
II-E-3.10	ADFIT and ITC – Plant Adjustments & Allocations
II-E-3.11	Analysis of Investment Tax Credit
II-E-3.12	ITC Utilized
II-E-3.13	ITC Generated But Not Utilized
II-E-3.14	ITC Utilized – Stand Alone
II-E-3.15	ITC Elections
II-E-3.16	FERC Account 255 Balance
II-E-3.17	Analysis of Test Year FIT and Requested FIT
II-E-3.18	Analysis of Deferred FIT
II-E-3.19	Analysis of Additional Depreciation Requested
II-E-3.20	Amortization of Protected and Unprotected Excess Deferred Taxes
II-E-3.21	Analysis of Excess Deferred Taxes by Timing Difference
II-E-3.22	Effects of Post Test Year Adjustment
II-E-3.23	List of FIT Testimony
II-E-3.24	History of Tax Normalization
II-E-3.25	Tax Elections, IRS Audit Status and Private Letter Rulings
II-E-3.26	Method of Accounting for ADFIT Related to NOL Carryforward
II-E-4	Other Expenses



II-E-4.1	Deferred Expenses from Prior Dockets
II-E-4.2	Below the Line Expenses
II-E-4.3	Nonrecurring or Extraordinary Expenses
II-E-4.4	Regulatory Commission Expenses
II-E-4.5	Rate Case Expense
II-E-5	Other Revenue Items

#### **Schedule F Functionalization Factors**

II-F	Functionalization Factors – Data
------	----------------------------------

#### **Schedule G Nuclear Plant Decommissioning**

II-G-1	Status of Nuclear Decommissioning Funds
--------	---

#### **Schedule H Historic Year Billing Determinants**

II-H-1	Summary of Test Year Adjustments
II-H-1.1	Test Year Sales Data
II-H-1.2	Monthly Sales Data
II-H-1.3	Test Year Coincident Peak Data
II-H-1.4	Monthly Coincident Peak Data
II-H-1.5	System Load Factors
II-H-1.6	Adjustments to Billing Demands
II-H-1.7	Adjustments to Operating Statistics
II-H-1.8	Peak Demand Information
II-H-1.9	Sales by Revenue Class
II-H-2	Model Analysis Results
II-H-2.1	Model Information
II-H-2.2	Model Data
II-H-2.3	Model Variables
II-H-3	Customer Adjustments
II-H-3.1	Customer Information
II-H-3.2	Customer Adjustments
II-H-3.3	Customer Adjustment Data
II-H-4	Revenue Impacts of Adjustments
II-H-4.1	Revenue Impact Data
II-H-4.2	Revenue Calculation Methodologies
II-H-5	Weather Data
II-H-5.1	Weather Station Data
II-H-5.2	Adjusted Weather Station Data
II-H-5.3	Additional Weather Information

#### **Schedule I Class Allocation**

II-I-1	Class Revenue Requirement Analysis
--------	------------------------------------

### **SECTION III ERCOT WHOLESALE TRANSMISSION COST OF SERVICE**

1385-1407

III-A-1	Summary of Wholesale TCOS
III-B-1	Original Cost of Plant
III-B-2	General Plant
III-B-3	Communication Equipment
III-B-4	Construction Work in Progress
III-B-5	Accumulated Depreciation

III-B-6	Plant for Future Use
III-B-7	Accumulated Provision Balances
III-B-8	Materials and Supplies
III-B-9	Cash Working Capital
III-B-10	Prepayments
III-B-11	Other Rate Base Items
III-B-12	Regulatory Assets
III-C	Rate of Return
III-D-1	O&M Expenses
III-D-2	A&G Expenses
III-D-3	Payroll Expenses
III-D-4	Summary of Exclusions for the final rate period ending 3/31/14
III-E-1	Depreciation Expense
III-E-2	Taxes Other Than Income Taxes
III-E-3	Federal Income Taxes
III-E-4	Other Expenses
III-E-5	Other Revenue Items

#### **SECTION IV RATE DESIGN**

1408

##### **Schedule J Rate Design**

IV-J-1

Class Revenue Requirement by Function

#### **SECTION V AFFILIATE DATA**

1409-1474

##### **Schedule K Affiliate Data**

V-K-1	Affiliate Expenses by FERC Account
V-K-2	Adjusted Affiliate Expenses
V-K-3	Organization Chart
V-K-4	Description of Services
V-K-5	Capital Projects
V-K-6	Adjustments to Test Year Expenses
V-K-7	Statutory Requirements
V-K-8	Services Provided to Affiliates
V-K-9	Allocation of Affiliate Costs
V-K-10	Controls
V-K-11	Affiliate Billing Methods
V-K-12	Amounts Billed to Each Affiliate

#### **SECTION VI OTHER SCHEDULES**

1475

##### **Schedule L Transmission & Distribution Utility Customer Services**

#### **SECTION VII CONFIDENTIALITY**

1476

**VOLUME III**

**DESCRIPTION**

**PAGES**

**TESTIMONY WORKPAPERS**

Michael G. Grable	1477-1480
David K. Turner	1481
Daniel Mayers	1482
Cheryl L. Dietrich	1483
Thomas J. Flaherty	1484
Julie S. Rice	1485-1543
Jeanne H. Camp	1544-1558
Robert N. Hughes	1559-1560
Brian R. Murphy	1561-1650
Jay Joyce	1651
Dane A. Watson	1652
Aldo E. Portales	1653-1668
William E. Avera	1669
H. Michael Warren	1670

**SCHEDULE WORKPAPERS**

1671-2556

**PUC DOCKET NO. 40020**

<b>APPLICATION OF LONE STAR</b>	<b>§</b>	<b>BEFORE THE</b>
<b>TRANSMISSION, LLC FOR</b>	<b>§</b>	
<b>AUTHORITY TO ESTABLISH</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>INTERIM AND FINAL RATES</b>	<b>§</b>	
<b>AND TARIFFS</b>	<b>§</b>	<b>OF TEXAS</b>

**APPLICATION OF LONE STAR TRANSMISSION, LLC FOR AUTHORITY TO  
ESTABLISH INTERIM AND FINAL RATES AND TARIFFS**

Lone Star Transmission, LLC (“Lone Star” or the “Company”) files this Application for Authority to Establish Interim and Final Rates and Tariffs (the “Application”), and respectfully requests the Public Utility Commission of Texas (the “Commission”) to approve the interim and final rates, tariffs and riders as requested in this Application.

**I. INTRODUCTION**

Lone Star is a new entrant in the Texas electric utility market. Lone Star’s ultimate parent, NextEra Energy, Inc. (“NextEra Energy”), is routinely recognized as a leading energy company. NextEra Energy operates nearly 43,000 megawatts (“MW”) of generating capacity and has approximately 15,000 employees in 28 states and Canada. NextEra Energy was attracted to the Competitive Renewable Energy Zones (“CREZ”) project by virtue of Texas’ investor-friendly environment and solid economic growth, especially given NextEra Energy’s experience in constructing and operating the types of electric reliability projects desired by the State.

As part of its continuing commitment to invest in electric reliability projects, Lone Star responded with interest in 2008 when the Commission, pursuant to Legislative action, ordered the construction of a number of transmission projects that are capable of transmitting 18,456 MW of wind power from West Texas and the Panhandle to the more heavily populated areas in the Electric Reliability Council of Texas, Inc. (“ERCOT”) electric market.

Lone Star gained entrance into the Texas market after the Commission selected Lone Star to serve as a transmission service provider ("TSP") for the CREZ project and Lone Star officially became a partner in the Texas effort to provide the electric transmission needed to facilitate the growing demand for clean, renewable energy. In Docket Nos. 38642 and 38230, the Commission granted Lone Star a certificate of convenience and necessity to construct, operate and maintain its section of the CREZ transmission project (approximately 320 miles of 345 kV transmission lines, along with three switching substations, two series compensation stations and other facilities necessary to its operations).

As a new entrant, Lone Star has no historical test year. The proposed rate schedules included with this Application will allow the Company to establish interim and final rates. Lone Star's request for interim rates will expedite its incorporation of the new CREZ facilities into the existing transmission grid and facilitate Lone Star's intent to bring its facilities on-line in two phases. In Phase I, Lone Star will construct, energize and operate two substations (Navarro and Sam Switch), the Primary and Backup control centers, the Primary and Backup Energy Management Systems ("EMS") and certain field offices. Lone Star plans to place all of the Phase I assets in service in or before April 2012 and proposes that interim rates become effective upon energizing the Navarro substation. In Phase II, Lone Star will energize the transmission line and remaining facilities (West Shackelford, Romney and Kopperl) by March 2013. Lone Star proposes to implement final rates when all of its assets are placed in service in or before March 2013. Lone Star also proposes to recover only its actual capital investment by making a true-up filing with the Commission within 120 days of the effective date of the Company's final rates. This proposal is discussed more fully below.

## **II. AUTHORIZED REPRESENTATIVES**

The telephone number and address of Lone Star's authorized business representative are as follows:

Michael G. Grable, President  
Lone Star Transmission, LLC  
301 Congress Avenue, Suite 1850  
Austin, Texas 78701  
(512) 236-3140 (Telephone)  
(512) 236-0484 (Facsimile)  
Mike.Grable@lonestar-transmission.com

The telephone numbers and addresses of Lone Star's authorized legal representatives are:

Natalie F. Smith, Senior Attorney  
Lone Star Transmission, LLC  
301 Congress Avenue, Suite 1850  
Austin, Texas 78701  
(512) 236-3141 (Telephone)  
(512) 236-0484 (Facsimile)  
Natalie.Smith@lonestar-transmission.com

Ann Coffin  
Julie Parsley  
Parsley Coffin Renner LLP  
98 San Jacinto Blvd., Suite 1450 (78701)  
P.O. Box 13366  
Austin, TX 78711  
(512) 879-0900 (Telephone)  
(512) 879-0912 (Facsimile)  
ann.coffin@pcrllp.com  
julie.parsley@pcrllp.com

Lone Star requests that all information and documents in this filing be served on each of the persons above at their respective addresses or fax numbers.

## **III. JURISDICTION**

The Commission has jurisdiction over this proceeding pursuant to the Public Utility Regulatory Act ("PURA") §§35.004 and 36.001.

#### **IV. AFFECTED PERSONS AND TERRITORIES**

The Application affects transmission and distribution service providers ("TDSPs") and distribution service providers ("DSPs") in ERCOT taking service under the Company's Tariff for Wholesale Transmission Service.

#### **V. EFFECTIVE DATE**

The proposed effective date of Lone Star's interim rate request is March 27, 2012, which is the date the Navarro substation is expected to be placed in service. Consistent with PURA §36.102(a), the effective date of Lone Star's rate request is at least 35 days after Lone Star files its Application with the Commission. Lone Star proposes to implement final rates when all of its assets are placed in service in or before March 2013.

#### **VI. OVERVIEW OF THE APPLICATION**

This Application contains the testimony of 15 witnesses. The Direct Testimony of Michael Grable presents an overview of the witnesses and testimony that are part of this Application and of the Company's request for interim and final rates. The Company seeks interim rates sufficient to recover a revenue requirement of \$18,367,001 for wholesale transmission service and requests implementation of final rates sufficient to recover a revenue requirement of \$140,104,460 for wholesale transmission service. The Company also proposes and plans to file a true-up of its total actual capital costs within 120 days of placing its entire CREZ transmission project in service.

Lone Star is seeking both interim and final rates in one proceeding as a matter of efficiency and necessity. First, filing two rate cases would result in the inefficient use of resources and result in higher rate case expenses that customers ultimately must bear. Second, this process is necessary because no other solution will provide Lone Star with adequate and timely cost recovery that will allow it to remain a healthy business entity.

#### A. Interim Rate Request

As a new entrant with no historic test year, Lone Star has prepared this filing using available actual data and forecasted rate periods. For the interim rate period, Lone Star is relying on actual and projected capital investment related to the Sam Switch and Navarro substations, control centers, EMS facilities and certain field offices and projected operations and maintenance (“O&M”) expense for the period of April 1, 2012 to March 31, 2013.

Lone Star’s request for interim rates and its reliance on projected data is not unique among Texas utilities. For example, in Docket No. 21591, *Application of Sharyland Utilities, L.P. for Authority to Establish Initial Rates* and Docket No. 33734, *Application of Electric Transmission Texas, LLC for Regulatory Approvals and Initial Rates*, Sharyland Utilities, L.P. (“Sharyland”) and Electric Transmission Texas, LLC (“ETT”) were each new entrants to the Texas market and both used projected rate periods because, like Lone Star, neither utility had any historical operating data. In setting initial rates in each of these dockets, the Commission allowed the utilities to use projected test-year data.<sup>1</sup>

The Commission’s decision in these dockets is consistent with PURA, which allows both the use of projected data to set rates and the interim rate approach Lone Star requests in this case. In fact, as it relates to the Company’s request for interim rates, Commission Rule 22.125 expressly recognizes the Commission’s authority to grant interim relief, including interim rates, upon a showing of good cause. For example, Sharyland successfully sought implementation of interim rates.<sup>2</sup> Lone Star’s Application and testimony provide the information necessary to show such good cause and explains that without the approval of its proposed rates and tariffs, Lone Star will be unable to initiate tariffed service to its customers. Further, the absence of effective rates will frustrate the strong public policy goal established by the Legislature when it enacted

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<sup>1</sup> Docket No. 21591, Final Order (Jul. 25, 2000); Docket No. 33734, Order on Rehearing (Dec. 21, 2007).

<sup>2</sup> Docket No. 21591, Final Order (Jul. 25, 2000).



PURA §39.904, which was to bring new businesses into the State and provide clean, renewable energy to the citizens of Texas through the CREZ transmission lines.

Lone Star's status as one of the Commission-selected CREZ TSPs bolsters its request for interim rates, as well as its use of projected data. The Commission ordered the construction of all CREZ facilities following a legislative mandate identifying the necessity for transmission infrastructure capable of transmitting clean, renewable wind energy within the state of Texas. The only way Lone Star can have adequate rates on file when its CREZ facilities are placed into service and energized is by relying on a combination of actual and projected data.

**B. Final Rate Request and True-Up Filing**

For the final rates Lone Star is requesting, the Company is using actual and projected capital investment related to all of the CREZ transmission assets and projected O&M for the period of April 1, 2013 to March 31, 2014. Lone Star further proposes to true-up its total actual capital costs within 120 days of placing the entire CREZ transmission project in service in order to ensure that Lone Star's final rates are based on its actual costs, as required by PURA §36.053(c).<sup>3</sup>

Notably, PURA includes no deadline for when actual invested capital must be utilized, and does not prohibit the use of projected invested capital to establish initial rates. Lone Star's proposed true-up filing will ensure that Lone Star's final rates reflect its actual costs while also allowing Lone Star to implement rates reflective of its reasonable and necessary costs at the time its facilities are placed in service, as required by PURA. As noted above, the Commission's own precedent in *Sharyland* supports the conclusion that final rates can also be established using projected capital investment. For example, both Sharyland's interim and final rates were based on a projected test year. Thus, the Commission has clearly concluded that the use of projected

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<sup>3</sup> TEX. UTIL. CODE §36.053(c).

data is not prohibited and, in fact, is a reasonable basis on which to establish rates when the facts of the case warrant such treatment as they do in Lone Star's situation.<sup>4</sup>

The true-up mechanism such as the one proposed by Lone Star is also consistent with PURA and with prior precedent. The Commission utilized a similar true-up mechanism when it adopted the rulemaking for advanced metering.<sup>5</sup> PURA §39.107(h) requires that a utility must recover only its "actual, fully allocated meter and meter network costs" related to the deployment of advanced meters.<sup>6</sup> In the exercise of its discretion, the Commission determined that the most appropriate way to ensure that only actual costs were included was to require a reconciliation proceeding that would true-up the utility's actual costs.<sup>7</sup> Nowhere in the advanced metering statute does the Legislature expressly state that the Commission could conduct a true-up of the estimated metering costs to the actual metering costs.<sup>8</sup> But that is exactly what the Commission did through its exercise of the broad regulatory powers granted to the Commission under PURA.

Lone Star is proposing that the Commission do precisely the same thing here. The true-up filing is designed to ensure that Lone Star's final rates accurately reflect its actual capital costs. The true-up filing will reconcile the projected total project investment captured in final

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<sup>4</sup> Conclusion of Law 11 states that good cause existed in Sharyland's case to waive the requirement in P.U.C. Substantive Rule 25.231 that a historical test year be utilized. To the extent that it may be necessary, Lone Star also respectfully requests a good cause exception to P.U.C. Substantive Rule 25.231 and asks that it be allowed to utilize a projected rate period to establish interim and final rates reflective of its investment and reasonable and necessary operating and maintenance expenses.

<sup>5</sup> See P.U.C. Subst. Rule 25.130(k)(6).

<sup>6</sup> TEX. UTIL. CODE §39.107(h).

<sup>7</sup> See P.U.C. Subst. Rule 25.130(k)(6).

<sup>8</sup> The statutory provision requiring the Commission to establish a surcharge for AMS costs, TEX. UTIL. CODE §39.107(h), provides, in full:

The commission shall establish a nonbypassable surcharge for an electric utility or transmission and distribution utility to use to recover reasonable and necessary costs incurred in deploying advanced metering and meter information networks to residential customers and nonresidential customers other than those required by the independent system operator to have an interval data recorder meter. The commission shall ensure that the nonbypassable surcharge reflects a deployment of advanced meters that is no more than one-third of the utility's total meters over each calendar year and shall ensure that the nonbypassable surcharge does not result in the utility recovering more than its actual, fully allocated meter and meter information network costs. The expenses must be allocated to the customer classes receiving the services, based on the electric utility's most recently approved tariffs.

rates to the actual total project investment and make any necessary rate adjustments.<sup>9</sup> As such, the proposed true-up is entirely within the Commission's discretion, and is in harmony with the provisions of PURA.

### **C. Proposed Tariffs, Riders and Schedules**

Exhibit A to the Application sets forth the Tariffs and Riders that Lone Star is asking the Commission to approve. Sections I through VI of Lone Star's rate filing package provide the Commission-required schedules supporting Lone Star's requested revenue requirements.

#### **1. Wholesale Transmission Service Rate Tariffs (Interim and Final)**

The Application contains Lone Star's proposed tariffs for Wholesale Transmission Service for both the interim and final rate periods. The tariffs define the availability and applicability of the Wholesale Transmission Service, the conditions precedent for receiving service, provisions for the construction of new facilities, the pricing of the service and other information related to the transmission service Lone Star will provide. The Company proposes these tariffs to reflect Lone Star's cost of providing transmission service during the interim and final rate periods.

#### **2. Rate Case Expense Rider ("RCE Rider")**

Through the RCE Rider, Lone Star seeks to recover all reasonable and necessary rate case expenses incurred by the Company in this and related proceedings and any intervening city awarded rate case expense recovery. The rider is designed so that customers pay over a 24-month period the rate case expenses approved by the Commission associated with this and all related dockets.

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<sup>9</sup> In the event that the true-up calculation shows that the actual capital investment is *less than* projected capital, the filing would be ministerial and not subject to a second reasonableness or prudence review, and Lone Star will refund the incremental monies collected with interest calculated at the weighted average cost of capital. In the event that the true-up calculation shows that actual capital investment *exceeds* the projected capital investment, and Lone Star seeks to recover this amount, the incremental increase in investment would be subject to a prudence review and a determination of whether final rates should be adjusted.

### **3. Ad Valorem Tax Rider ("AVT Rider")**

The proposed AVT Rider is designed to adjust for changes in the Company's annual ad valorem tax expense so that the amount collected from customers will be representative of the amount paid by Lone Star. The difference in ad valorem taxes Lone Star actually pays compared to the amount of such taxes included in rates would be refunded or surcharged, as applicable, through the AVT Rider. The Commission has approved a similar tariff for ETT in Docket No. 33734.

#### **D. Effect on Company's Revenues of the Proposal to Establish Rates**

The Application supports (1) interim wholesale transmission rates necessary to recover a revenue requirement of \$18,367,001 and (2) final wholesale transmission rates necessary to recover a revenue requirement of \$140,104,460. Because Lone Star is a new entrant and has no existing rates, the Company's request does not either increase or decrease rates, but rather establishes initial rates.

#### **E. Rate Case Expenses**

Lone Star seeks recovery through the RCE Rider of all reasonable rate case expenses incurred by the Company and by any intervening city awarded such recovery in this case. In a separate motion filed contemporaneously with its Application, Lone Star requests that the Commission sever all rate case expense issues into a separate proceeding to be considered after the conclusion of the underlying rate case.

## **VII. PROTECTIVE ORDER**

Lone Star has included in Section VII of its rate filing package a proposed protective order that is consistent with the standard form used by the Commission. Lone Star has designated certain documents included in this Application as either Protected Material or Highly Sensitive Protected Material under the terms of the proposed protective order and anticipates an

approved protective order being necessary for the Company or other parties to submit additional documents containing confidential material during discovery in this case. The Company therefore requests approval of the protective order included in Section VII of the rate filing package. Until a protective order is issued in this proceeding, the Company will provide access to the confidential information submitted with this Application to parties that agree in writing to be bound by the proposed protective order as if it had been issued by the Commission.

### **VIII. NOTICE**

Lone Star intends to provide notice of this proceeding as follows:

- mail the form of notice attached hereto as Exhibit B to all TDSPs and DSPs included on the Commission's transmission matrix in Docket No. 38900, *Commission Staff's Application to Set 2011 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas*;
- provide a copy of the Application to each party in Docket No. 36890, *Application of Lone Star Transmission, LLC for Approval of its Code of Conduct and Organizational Structure*; and
- provide a copy of the Application to the Office of Public Utility Counsel.

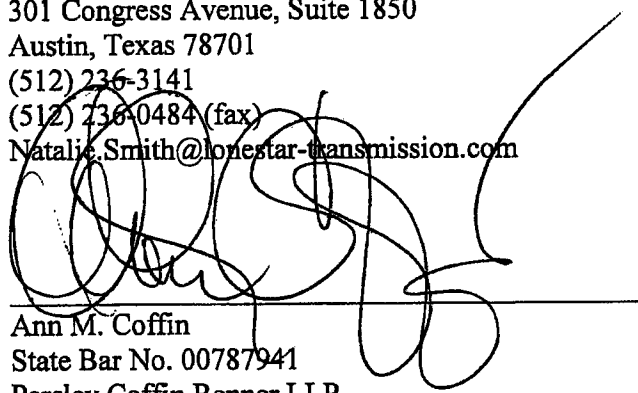
In a separate motion filed contemporaneously with the Application, Lone Star requests approval of its proposed form and method of notice prior to distributing notice as indicated above.

### **IX. REQUEST FOR RELIEF**

Lone Star respectfully requests that the Commission (1) approve the interim and final rates and riders requested in this Application, and (2) grant Lone Star such other relief to which it has shown itself entitled.

Respectfully submitted,

Natalie F. Smith, Senior Attorney  
Lone Star Transmission, LLC  
301 Congress Avenue, Suite 1850  
Austin, Texas 78701  
(512) 236-3141  
(512) 236-0484 (fax)  
Natalie.Smith@lonestar-transmission.com



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**COUNSEL FOR  
LONE STAR TRANSMISSION, LLC**

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing Application was served on all parties of record in Docket No. 36890, and the Office of Public Utility Counsel on this 9<sup>th</sup> day of January 2012 by United States first-class mail, hand-delivery, or facsimile.



Ann M. Coffin

## WHOLESALE TRANSMISSION SERVICE (WTS) RATE - INTERIM

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 1 of 4

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## WHOLESALE TRANSMISSION SERVICE (WTS) RATE

### Availability

This tariff for Wholesale Transmission Service is available for Wholesale Transmission Service using any transmission facilities owned by Lone Star Transmission, LLC (LST), in accordance with PUC Substantive Rules 25.191 through 25.203 (Transmission Rules). Wholesale Transmission Service is available through LST's transmission system.

### Applicability

Wholesale Transmission Service is provided on a non-discriminatory basis to any eligible Transmission Service Customer, as that term is defined in the Transmission Rules. This service is applicable to wholesale transactions involving the wholesale purchase and sale of electric power and energy.

### Type of Service

Three phase, 60-hertz alternating current, delivered onto or received from LST's transmission system at 60,000 volts or higher, and on transmission facilities which have been prepared and made available for this service.

### Transmission Service Requirements

As a condition to obtaining Wholesale Transmission Service, the eligible Transmission Service Customer that is physically connected to LST's transmission system shall execute an Interconnection Agreement with LST, containing terms and provisions consistent with the Transmission Rules, prior to commencement of such service.

### Conditions Precedent for Receiving Service

Subject to the terms and conditions hereof and of the Transmission Rules, LST will provide Wholesale Transmission Service to any eligible Transmission Service Customer, provided that:



## WHOLESALE TRANSMISSION SERVICE (WTS) RATE - INTERIM

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 2 of 4

- 
- (A) the Transmission Service Customer has executed an Agreement for Wholesale Transmission Service;
  - (B) the Transmission Service Customer and LST, or a third party, have completed installation of all equipment specified under the Interconnection Agreement, consistent with National Electric Reliability Council (NERC) and ERCOT guidelines set forth in the Transmission Rules;
  - (C) the Transmission Service Customer, if directly connected to LST's transmission system, has an executed Interconnection Agreement for Wholesale Transmission Service under this tariff or, if necessary, requested in writing that LST file a proposed unexecuted agreement with the Public Utility Commission of Texas;
  - (D) each wholesale load for which Wholesale Transmission Service is requested maintains a power factor of 95% or greater at each point of interconnection;
  - (E) the Transmission Service Customer has constructed, maintains and operates the facilities on its side of each point of interconnection that are necessary to reliably interconnect and deliver power from a resource to LST's transmission system and from LST's transmission system to the Transmission Service Customer's loads;
  - (F) to the extent that the Agreement for Transmission Service requires the addition of facilities or upgrades to the transmission system, such facilities or upgrades have been placed in service; and
  - (G) the Transmission Service Customer has complied with all Transmission Rules.

### Construction of New Facilities

Construction of transmission facilities needed to accommodate a request for Wholesale Transmission Service shall be in accordance with the procedures set forth in the Transmission Rules. Upon receipt of a request for Wholesale Transmission Service, ERCOT shall, if necessary, initiate a System Security Screening Study in accordance with the Transmission Rules. Based on the results of the System Security Screening Study, if additions or upgrades to the transmission system are needed to supply the Transmission Service Customer's forecasted transmission requirements, LST will, upon the approval of the requesting Transmission Service Customer, initiate a facilities study, in accordance with the Transmission Rules. An executed

## WHOLESALE TRANSMISSION SERVICE (WTS) RATE - INTERIM

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 3 of 4

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Facility Study Agreement with the Transmission Service Customer is required prior to LST performing a facilities study. In the event that existing facilities are inadequate to support the requested Wholesale Transmission Service, the Transmission Service Customer may be required to provide a contribution in aid of construction, as provided in the Transmission Rules.

### **Load Shedding and Curtailment**

Wholesale Transmission Service hereunder shall be subject to, and LST and the Transmission Service Customer will comply with, the load shedding and curtailment procedures established under the Transmission Rules.

### **Pricing**

Charges for Wholesale Transmission Service shall be in accordance with the Transmission Rules.

The Wholesale Transmission Service Rate for LST is as follows:

	<u>Annual</u>	<u>Monthly</u>
Wholesale Transmission Service Rate	\$299.29 per MW	\$24.94 per MW

### **Voltage Support**

LST will provide all devices necessary to maintain proper operating voltages on the transmission system in accordance with good utility practice for voltage support and in accordance with the requirements of the ERCOT ISO, or its successor.

### **Reliability Guidelines**

To maintain reliability of the ERCOT transmission grid, LST shall operate its transmission system in accordance with ERCOT Protocols and Operating Guides, NERC guidelines, and any guidelines of the ISO that may apply to LST's transmission system.

LST reserves the right, consistent with good utility practice and on a non-discriminatory basis, to interrupt Wholesale Transmission Service without liability on LST's part for the purpose of making necessary adjustments to, changes in, or repairs to its lines, substations and other

## WHOLESALE TRANSMISSION SERVICE (WTS) RATE - INTERIM

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 4 of 4

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facilities, or where the continuance of Wholesale Transmission Service would endanger persons or property.

In the event of any adverse condition or disturbance on LST's transmission system or on any other system directly or indirectly interconnected with LST's transmission system, LST, consistent with good utility practice, also may interrupt Wholesale Transmission Service on a non-discriminatory basis and without liability on the part of LST in order to limit the extent or damage of the adverse condition or disturbance, to prevent damage to generating or transmission facilities, or to expedite restoration of service.

LST will give the Transmission Service Customer as much advance notice as is practicable in the event of such interruption, and shall restore service with due diligence.

### Payment

Any charges due to LST under this rate schedule shall be billed in accordance with the Transmission Rules. The Transmission Service Customer shall make payment to LST in a manner consistent with the procedures and deadlines set forth in the Transmission Rules. Any late payments by Transmission Service Customer or Transmission Service Customer default shall be handled in accordance with the Transmission Rules.

### Amendment to Rules

In the event the Transmission Rules are amended or if a new rule is adopted governing the subject matter of this tariff, this tariff shall, nevertheless, remain effective until new tariff(s) filed pursuant to any such amendment(s) or such new rule are approved, unless the amendment(s) or new rule or an agreement of the parties provide otherwise.

### Notice

This rate schedule is subject to all Applicable Legal Authorities.

## WHOLESALE TRANSMISSION SERVICE (WTS) RATE

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 1 of 4

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## WHOLESALE TRANSMISSION SERVICE (WTS) RATE

### Availability

This tariff for Wholesale Transmission Service is available for Wholesale Transmission Service using any transmission facilities owned by Lone Star Transmission, LLC (LST), in accordance with PUC Substantive Rules 25.191 through 25.203 (Transmission Rules). Wholesale Transmission Service is available through LST's transmission system.

### Applicability

Wholesale Transmission Service is provided on a non-discriminatory basis to any eligible Transmission Service Customer, as that term is defined in the Transmission Rules. This service is applicable to wholesale transactions involving the wholesale purchase and sale of electric power and energy.

### Type of Service

Three phase, 60-hertz alternating current, delivered onto or received from LST's transmission system at 60,000 volts or higher, and on transmission facilities which have been prepared and made available for this service.

### Transmission Service Requirements

As a condition to obtaining Wholesale Transmission Service, the eligible Transmission Service Customer that is physically connected to LST's transmission system shall execute an Interconnection Agreement with LST, containing terms and provisions consistent with the Transmission Rules, prior to commencement of such service.

### Conditions Precedent for Receiving Service

Subject to the terms and conditions hereof and of the Transmission Rules, LST will provide Wholesale Transmission Service to any eligible Transmission Service Customer, provided that:

## WHOLESALE TRANSMISSION SERVICE (WTS) RATE

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 2 of 4

- 
- (A) the Transmission Service Customer has executed an Agreement for Wholesale Transmission Service;
  - (B) the Transmission Service Customer and LST, or a third party, have completed installation of all equipment specified under the Interconnection Agreement, consistent with National Electric Reliability Council (NERC) and ERCOT guidelines set forth in the Transmission Rules;
  - (C) the Transmission Service Customer, if directly connected to LST's transmission system, has an executed Interconnection Agreement for Wholesale Transmission Service under this tariff or, if necessary, requested in writing that LST file a proposed unexecuted agreement with the Public Utility Commission of Texas;
  - (D) each wholesale load for which Wholesale Transmission Service is requested maintains a power factor of 95% or greater at each point of interconnection;
  - (E) the Transmission Service Customer has constructed, maintains and operates the facilities on its side of each point of interconnection that are necessary to reliably interconnect and deliver power from a resource to LST's transmission system and from LST's transmission system to the Transmission Service Customer's loads;
  - (F) to the extent that the Agreement for Transmission Service requires the addition of facilities or upgrades to the transmission system, such facilities or upgrades have been placed in service; and
  - (G) the Transmission Service Customer has complied with all Transmission Rules.

### **Construction of New Facilities**

Construction of transmission facilities needed to accommodate a request for Wholesale Transmission Service shall be in accordance with the procedures set forth in the Transmission Rules. Upon receipt of a request for Wholesale Transmission Service, ERCOT shall, if necessary, initiate a System Security Screening Study in accordance with the Transmission Rules. Based on the results of the System Security Screening Study, if additions or upgrades to the transmission system are needed to supply the Transmission Service Customer's forecasted transmission requirements, LST will, upon the approval of the requesting Transmission Service Customer, initiate a facilities study, in accordance with the Transmission Rules. An executed

## WHOLESALE TRANSMISSION SERVICE (WTS) RATE

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 3 of 4

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Facility Study Agreement with the Transmission Service Customer is required prior to LST performing a facilities study. In the event that existing facilities are inadequate to support the requested Wholesale Transmission Service, the Transmission Service Customer may be required to provide a contribution in aid of construction, as provided in the Transmission Rules.

### Load Shedding and Curtailment

Wholesale Transmission Service hereunder shall be subject to, and LST and the Transmission Service Customer will comply with, the load shedding and curtailment procedures established under the Transmission Rules.

### Pricing

Charges for Wholesale Transmission Service shall be in accordance with the Transmission Rules.

The Wholesale Transmission Service Rate for LST is as follows:

	<u>Annual</u>	<u>Monthly</u>
Wholesale Transmission Service Rate:	\$2,282.99 per MW	\$190.25 per MW

### Voltage Support

LST will provide all devices necessary to maintain proper operating voltages on the transmission system in accordance with good utility practice for voltage support and in accordance with the requirements of the ERCOT ISO, or its successor.

### Reliability Guidelines

To maintain reliability of the ERCOT transmission grid, LST shall operate its transmission system in accordance with ERCOT Protocols and Operating Guides, NERC guidelines, and any guidelines of the ISO that may apply to LST's transmission system.

LST reserves the right, consistent with good utility practice and on a non-discriminatory basis, to interrupt Wholesale Transmission Service without liability on LST's part for the purpose of making necessary adjustments to, changes in, or repairs to its lines, substations and other

## WHOLESALE TRANSMISSION SERVICE (WTS) RATE

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 4 of 4

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facilities, or where the continuance of Wholesale Transmission Service would endanger persons or property.

In the event of any adverse condition or disturbance on LST's transmission system or on any other system directly or indirectly interconnected with LST's transmission system, LST, consistent with good utility practice, also may interrupt Wholesale Transmission Service on a non-discriminatory basis and without liability on the part of LST in order to limit the extent or damage of the adverse condition or disturbance, to prevent damage to generating or transmission facilities, or to expedite restoration of service.

LST will give the Transmission Service Customer as much advance notice as is practicable in the event of such interruption, and shall restore service with due diligence.

### Payment

Any charges due to LST under this rate schedule shall be billed in accordance with the Transmission Rules. The Transmission Service Customer shall make payment to LST in a manner consistent with the procedures and deadlines set forth in the Transmission Rules. Any late payments by Transmission Service Customer or Transmission Service Customer default shall be handled in accordance with the Transmission Rules.

### Amendment to Rules

In the event the Transmission Rules are amended or if a new rule is adopted governing the subject matter of this tariff, this tariff shall, nevertheless, remain effective until new tariff(s) filed pursuant to any such amendment(s) or such new rule are approved, unless the amendment(s) or new rule or an agreement of the parties provide otherwise.

### Notice

This rate schedule is subject to all Applicable Legal Authorities.

Tariff for Electric Service  
Lone Star Transmission, LLC

**RATE CASE EXPENSE (RCE) RIDER**

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 1 of 1

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**RATE CASE EXPENSE (RCE) RIDER**

**Availability**

The RCE Rider is designed to recover the rate case expenses deemed reasonable and recoverable by the Public Utility Commission in PUC Docket No. 40020 and related proceedings.

**RCE Rate**

Each Transmission Service Customer shall pay a monthly rate of \$\_\_\_\_\_ per kW of coincident peak demand for 24 months after the effective date of this rate schedule, or until such time as the rate case expenses deemed reasonable and recoverable by the Public Utility Commission in PUC Docket No. 40020 and related proceedings are fully recovered.

**Notice**

This rate schedule is subject to Lone Star Transmission, LLC's WTS Tariff and all Applicable Legal Authorities.



Tariff for Electric Service  
Lone Star Transmission, LLC

**AD VALOREM TAX (AVT) RIDER**

Application: Entire System  
Original  
Effective Date: \_\_\_\_\_

Section No.: \_\_\_\_\_  
Sheet No.: \_\_\_\_\_  
Page 1 of 1

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**AD VALOREM TAX (AVT) RIDER**

**Availability**

The AVT Rider is designed to recognize amendments to the property tax laws that may be passed by the Texas Legislature and to make the appropriate adjustment to Lone Star Transmission, LLC's (LST) billings for Wholesale Transmission Service (WTS) to reflect the changes in the law. The AVT Rider will be a debit or credit to the Transmission Service Customers' bills to appropriately adjust for the incremental difference in the level of property tax expenses already contained in LST's WTS Rate.

**Monthly Rate**

Wholesale Transmission Service provided under the WTS Rate shall be subject to the AVT Rider Fee. The monthly charge shall be determined by multiplying the WTS AVT Rider Fee by the current month's coincident peak demand (kW).

WTS AVT Rider Fee      \$ \_\_\_\_\_      per Coincident Peak kW

**Determination of AVT Fees**

The AVT fees will be adjusted for the incremental change in the revenue requirements as calculated using the data that was used to validate the ad valorem tax adjustment in LST's WTS Rate and the change in revenue requirements as a result of the change in State Law.

**Notice**

This rate schedule is subject to LST's WTS Tariff and Applicable Legal Authorities.

**NOTICE OF RATE REQUEST**

On January 9, 2012, Lone Star Transmission, LLC ("Lone Star" or the "Company") filed with the Public Utility Commission of Texas ("Commission") an Application for Authority to Establish Interim and Final Rates and Tariffs ("Application"). The Application has been assigned Docket No. 40020. Lone Star's proposal to establish interim and final rates reflects the Company's intent to place its facilities in service in two phases. The Company's interim rate request is limited to the recovery of investment and operations and maintenance ("O&M") expense associated with its Phase I facilities. The Company's final rate request reflects the total cost associated with constructing, operating and maintaining Lone Star's section of the Competitive Renewable Energy Zones ("CREZ") transmission project (approximately 320 miles of 345 kV transmission lines, along with three switching substations, two series compensation stations and other facilities necessary to its operations). The Company also proposes and plans to file a true up of its total actual capital costs within 120 days of placing its entire CREZ transmission project in service.

Because it is a new entrant to the Texas market, Lone Star does not currently have rates in place and has no historical operating data. Therefore, for the interim rate request, Lone Star is relying on actual and projected capital investment and projected O&M expense for the period of April 1, 2012 to March 31, 2013. For the final rates that relate to all of its transmission and associated facilities, Lone Star is relying on actual and projected capital investment related to all of the transmission assets and projected O&M for the period of April 1, 2013 to March 31, 2014. Based on this data, the Company seeks interim rates sufficient to recover a revenue requirement of \$18,367,001 for wholesale transmission service and requests implementation of final rates sufficient to recover a revenue requirement of \$140,104,460 for wholesale transmission service.

This Application will establish initial rates for Lone Star. As such, there will be no change in Lone Star's existing rates as a result of this Application. The proposed effective date of Lone Star's interim rate request is March 27, 2012, which is the date the Company's Navarro substation is expected to be placed in service. Lone Star proposes to implement final rates when all of its assets are placed in service in or before March 2013.

In addition to the proposed tariffs for Wholesale Transmission Service, Lone Star seeks approval and implementation of two riders:

1. Rate Case Expense Rider ("RCE Rider") - Through the RCE Rider, Lone Star seeks to recover all reasonable and necessary rate case expenses incurred by the Company and any intervening city awarded rate case expense recovery. The rider is designed so that Transmission Service Customers pay over a 24-month period the rate case expenses approved by the Commission associated with this and all related dockets.

2. Ad Valorem Tax Rider ("AVT Rider") - The proposed AVT Rider is designed to adjust for changes in the Company's annual ad valorem tax expense so that the amount collected from ratepayers will be representative of the amount paid by Lone Star. The difference in ad valorem taxes Lone Star actually pays compared to the amount of such taxes included in rates would be refunded or surcharged, as applicable, through the AVT Rider.

The Application affects all transmission and distribution service providers and distribution service providers in the Electric Reliability Council of Texas, Inc. ("ERCOT") electric market taking service under Lone Star's Tariff for Wholesale Transmission Service.

Persons with questions or who want more information about the Application may contact Lone Star at 301 Congress Avenue, Suite 1850, or by calling Randa Stephenson at (512) 236-3138. A complete copy of the filing will be available for inspection at the address listed above and at the Commission's offices in Austin, Texas.

Persons who wish to intervene in or comment upon these proceedings should notify the Commission as soon as possible, as an intervention deadline will be imposed. A request to intervene or for further information should be mailed to the Public Utility Commission of Texas, P.O. Box 13326, Austin, Texas 78711-3326 and should reference Docket No. 40020. Further information about this proceeding may also be obtained by calling the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing- and speech-impaired individuals with text telephones (TTY) may contact the Commission at (512) 936-7136. The deadline for intervention in the proceeding is 45 days after the date the Application was filed with the Commission.

**PUC DOCKET NO. 40020**

**APPLICATION OF LONE STAR  
TRANSMISSION, LLC FOR  
AUTHORITY TO ESTABLISH  
INTERIM AND FINAL RATES  
AND TARIFFS**

**§  
§  
§  
§  
§**

**BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS**

**DIRECT TESTIMONY**

**OF**

**MICHAEL G. GRABLE**

**ON BEHALF OF**

**LONE STAR TRANSMISSION, LLC**

**January 9, 2012**

**INDEX TO THE DIRECT TESTIMONY OF**

**MICHAEL G. GRABLE, WITNESS FOR**

**LONE STAR TRANSMISSION, LLC**

EXECUTIVE SUMMARY OF MICHAEL G. GRABLE .....	ES-1
I. POSITION AND QUALIFICATIONS .....	1
II. SUMMARY OF LONE STAR'S RATE REQUEST .....	4
III. OVERVIEW OF NEXTERA ENERGY .....	6
IV. DESCRIPTION OF LONE STAR'S OPERATIONS AND CREZ TRANSMISSION LINE .....	7
V. ECONOMIC BENEFITS OF THE LONE STAR PROJECT .....	14
VI. POLICY ISSUES PRESENTED IN THIS RATE CASE .....	17
VII. OVERVIEW OF THE COMPANY'S RATE CASE FILING .....	18
VIII. CONCLUSION .....	23

**LIST OF EXHIBITS**

EXHIBIT MGG-1  
EXHIBIT MGG-2

Organizational Structure  
Witness Testimony Matrix

**EXECUTIVE SUMMARY OF MICHAEL G. GRABLE**

My testimony summarizes Lone Star Transmission, LLC's ("Lone Star" or the "Company") request to establish rates for its Competitive Renewable Energy Zones ("CREZ") transmission project, which involves approximately 320 miles of 345 kV transmission, three substations, two series compensation stations and other associated facilities. As shown in this rate filing, Lone Star's operational structure relies on a mix of technical and regional knowledge, as well as the expertise of employees in affiliated companies that are highly knowledgeable and experienced in utility operations and processes. This structure will allow Lone Star to realize operational efficiencies and provide cost-effective service. Lone Star's rate filing also establishes the prudent investment that will be made in its transmission system and identifies the meaningful and material economic benefits to the Texas economy that this investment has brought in terms of jobs, tax revenues and other indirect impacts. I believe that that these benefits will be further enhanced by affording constructive regulatory treatment in establishing Lone Star's rates.

Consistent with its goal of providing cost effective service, Lone Star is requesting approval of its interim and final rates in a single rate case. Lone Star further proposes to make a true-up filing shortly after implementing its final rates. The true-up filing will reconcile the projected total project investment captured in final rates to the actual total project investment and make any necessary rate adjustments. This, in turn, will ensure that Lone Star recovers and customers pay only for the actual cost of the CREZ project investment.

**DIRECT TESTIMONY OF MICHAEL G. GRABLE**

**I. POSITION AND QUALIFICATIONS**

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

A. My name is Michael G. Grable. My business address is 301 Congress Avenue, Suite 1850, Austin, Texas 78701. I am President of Lone Star.

**Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

A. I am testifying on behalf of Lone Star.

**Q. WHAT IS YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND AND EXPERIENCE?**

A. I began working for Lone Star in April 2010. Previously, I served as Vice President, General Counsel, and Corporate Secretary for the Energy Reliability Council of Texas ("ERCOT") from January 2008 until April 2010, and as ERCOT's Assistant General Counsel for Regulatory Affairs from October 2006 until January 2008. Prior to joining ERCOT, I was employed by the Public Utility Commission of Texas ("Commission") as Advisor to then-Commissioner Barry T. Smitherman from May 2004 until September 2006, and as a Senior Attorney in the then-Policy Development Division of the Commission from October 2003 until May 2004. I also worked as an associate attorney on telecommunications and technology regulatory matters at two Washington, D.C. law firms, Crowell & Moring LLP and Harris Wiltshire & Grannis LLP, between 1998 and September 2003, and I served as briefing attorney to Texas Supreme

1 Court Justice Craig Enoch in the 1997-98 court term. I received a J.D. degree  
2 from the College of William and Mary School of Law in 1997 and a B.A. degree  
3 from Duke University in 1992.

4  
5 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**  
6 **COMMISSIONS?**

7 A. I testified before the Commission in Docket No. 38230, *Application of Lone Star*  
8 *Transmission, LLC for a Certificate of Convenience and Necessity for the Central*  
9 *A to Central C to Sam Switch/Navarro Proposed CREZ Transmission Line*, in  
10 which Lone Star was granted a Certificate of Convenience and Necessity  
11 ("CCN") by the Commission to build a portion of the CREZ Transmission Plan  
12 ("CTP"). I also filed testimony in Docket No. 39551, *Application of Lone Star*  
13 *Transmission, LLC for a Limited Waiver with Respect to its Code of Conduct*.

14  
15 **Q. WHAT IS THE PURPOSE OF THIS RATE APPLICATION?**

16 A. The purpose of this application is for Lone Star to obtain Commission approval  
17 for interim and final rates and rate tariffs, including a true-up mechanism to  
18 ensure that final rates and tariffs reflect actual capital costs. As I will discuss in  
19 more detail later in my testimony, Lone Star is a new, transmission-only utility  
20 that does not currently have rates in place. Lone Star was granted a CCN in  
21 Docket Nos. 38230 and 38642 to build specific transmission assets and must  
22 obtain rates from the Commission in order to begin to recover its investment.



1    **Q.    WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
2           **PROCEEDING?**

3    A.    The purpose of my direct testimony is to:

- 4                   •   summarize Lone Star's rate filing and introduce the witnesses who will  
5                           testify on behalf of Lone Star in support of its rate-filing package;
- 6                   •   provide an overview of Lone Star's ultimate parent company, NextEra  
7                           Energy, Inc. ("NextEra Energy") and its business operations;
- 8                   •   provide background information on Lone Star as well as an overview  
9                           of Lone Star's CREZ Transmission Project and associated facilities;
- 10                  •   provide an overview of the economic benefits of the Lone Star project  
11                           to the Texas economy in terms of job creation, increases in tax  
12                           revenues and other indirect benefits; and
- 13                  •   discuss Lone Star's status as a new-entrant utility, the unique policy  
14                           considerations that new entrant status presents, and explain why Lone  
15                           Star is asking for — and needs — interim rates in this proceeding.

16

17   **Q.    HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH**  
18           **YOUR TESTIMONY?**

19   A.    Yes. I have prepared and sponsor Exhibits MGG-1 and MGG-2. Exhibit MGG-1  
20           is an organizational chart depicting how Lone Star is situated within the NextEra  
21           Energy family of companies and Exhibit MGG-2 is a matrix that identifies all of  
22           the witnesses filing direct testimony in support of Lone Star's rate filing and  
23           provides a brief overview of their testimony.

1 Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR  
2 DIRECT SUPERVISION?

3 A. Yes.  
4

5 **II. SUMMARY OF LONE STAR'S RATE REQUEST**

6 Q. PLEASE SUMMARIZE THE COMPANY'S RATE REQUEST.

7 A. Section VII of my direct testimony provides additional detail regarding Lone  
8 Star's rate request. Briefly, Lone Star is asking the Commission to establish  
9 interim and final rates that correspond to the in-service dates of Lone Star's  
10 facilities. In exchange for this consideration, Lone Star proposes that the  
11 Commission to require as part of its Final Order in this case that Lone Star submit  
12 documentation sufficient to true-up the projected capital used in this rate filing  
13 with its actual capital investment within 120 days of placing the entire CREZ  
14 project in service. This will ensure that Lone Star's final approved rates  
15 ultimately reflect Lone Star's actual invested capital.  
16

17 With respect to the interim rate request, Lone Star's total calculated revenue  
18 requirement reflects actual and projected capital investment associated with the  
19 Sam Switch and Navarro Substations, control centers, and Energy Management  
20 Systems ("EMS") facilities and certain field offices that will be placed in service  
21 in or before April 2012. In addition, as a new entrant with no historical data,  
22 Lone Star has relied on projected operations and maintenance expense ("O&M")  
23 for the rate period of April 1, 2012 to March 31, 2013. This results in a total

1       calculated revenue requirement of \$18,367,001, and reflects a proposed return on  
2       equity ("ROE") of 11.00% and a capital structure of 48% debt and 52% equity.

3  
4       With respect to final rates, Lone Star's total calculated revenue requirement  
5       reflects actual and projected capital investment reflective of the entirety of its  
6       CREZ transmission project. In addition, Lone Star has relied on projected O&M  
7       for the rate period of April 1, 2013 to March 31, 2014, which represents the first  
8       12 months during which all of Lone Star's transmission facilities will be  
9       operational. This results in a total calculated revenue requirement of  
10      \$140,104,460 and reflects a proposed ROE of 11.00% and a proposed capital  
11      structure of 48% debt and 52% equity.

12  
13   **Q.   WHAT OTHER WITNESSES ARE TESTIFYING IN SUPPORT OF THE**  
14   **COMPANY'S RATE APPLICATION?**

15   **A.**   Lone Star is presenting the direct testimony of 14 other witnesses. Attached to  
16       my testimony and incorporated herein is a matrix, Exhibit MGG-2, which  
17       describes the subject matter addressed by each of the Company's witnesses in the  
18       order in which their testimony appears in the rate filing package.

**III. OVERVIEW OF NEXTERA ENERGY**

1  
2 **Q. PLEASE PROVIDE A BRIEF OVERVIEW OF LONE STAR'S**  
3 **ULTIMATE PARENT COMPANY, NEXTERA ENERGY.**

4 A. NextEra Energy is regularly recognized as a leading energy company. NextEra  
5 Energy operates nearly 43,000 megawatts ("MW") of generating capacity and has  
6 approximately 15,000 employees in 28 states and Canada. In 2011, NextEra  
7 Energy was named one of the top 10 most socially responsible companies in the  
8 world on Fortune magazine's annual survey of the "World's Most Admired  
9 Companies," and was the number one company overall in its sector for the fifth  
10 consecutive year. In addition, NextEra Energy was named one of the top 10 most  
11 innovative companies in the world in Fortune's 2010 annual survey.

12  
13 **Q. PLEASE IDENTIFY AND BRIEFLY DESCRIBE NEXTERA ENERGY'S**  
14 **PRINCIPAL SUBSIDIARIES.**

15 A. NextEra Energy's principal subsidiaries are Florida Power & Light Company  
16 ("FPL") and NextEra Energy Resources, LLC ("NEER"). FPL is a vertically  
17 integrated, rate-regulated utility. FPL serves approximately 4.5 million customer  
18 accounts in Florida, and it has approximately 66,743 miles of distribution lines  
19 and over 6,600 circuit miles of 69 kV or above transmission lines. NEER is the  
20 largest generator of renewable energy from the wind and sun in North America.  
21 Combined, NextEra Energy's subsidiaries also operate the third largest nuclear  
22 power generation fleet in the United States, with eight nuclear units at five plant  
23 sites in Florida, New Hampshire, Iowa and Wisconsin.

1    **Q.    WHY IS NEXTERA ENERGY RELEVANT TO THIS PROCEEDING?**

2    A.    In addition to being Lone Star's ultimate parent company, NextEra Energy is  
 3           relevant to this proceeding because NextEra Energy is committed to continuing to  
 4           invest in electric reliability projects where the regulatory climate is stable and  
 5           predictable. NextEra Energy was attracted to the CREZ project by virtue of the  
 6           investor friendly environment and strong economic growth in Texas, as well as  
 7           NextEra Energy's experience in constructing and operating the types of electric  
 8           reliability projects desired by the State. By affording constructive regulatory  
 9           treatment for Lone Star's request for initial rates in this proceeding, the  
 10          Commission will continue to establish a favorable regulatory climate that is  
 11          welcoming to new entrants and encourages additional investments in Texas  
 12          electric reliability projects.

13

14                                    **IV. DESCRIPTION OF LONE STAR'S OPERATIONS**  
 15                                    **AND CREZ TRANSMISSION LINE**

16   **Q.    PLEASE DESCRIBE THE NATURE OF LONE STAR'S OPERATIONS IN**  
 17           **TEXAS.**

18   A.    Lone Star is a new entrant in the Texas electric transmission service market. As  
 19           referenced above, the Company responded with interest in 2008 when the  
 20           Commission, pursuant to Legislative action, ordered the construction of a number  
 21           of transmission projects that are capable of transmitting 18,456 MW of wind  
 22           power from West Texas and the Panhandle to the more heavily populated areas in  
 23           the ERCOT region. In Docket Nos. 35665 and 37902, Lone Star was selected by  
 24           the Commission as a transmission service provider ("TSP") and officially became

a partner in the Texas effort to provide the electric transmission needed to facilitate the growing demand for clean, renewable energy. Consistent with its selection as a CREZ TSP, in Docket Nos. 38642 and 38230, the Company was granted a CCN to construct, operate, and maintain its section of the CREZ transmission project (approximately 320 miles of 345 kV transmission, along with the associated substations and other facilities).

**Q. IS LONE STAR REGISTERED TO DO BUSINESS IN TEXAS?**

A. Yes. Lone Star was formed and registered with the Texas Secretary of State on May 3, 2007.

**Q. WHERE IS THE COMPANY'S PRINCIPAL OFFICE LOCATED?**

A. Lone Star's principal office is located at 301 Congress Avenue, Suite 1850, Austin, Texas 78701.

**Q. HOW IS LONE STAR ORGANIZED?**

A. Lone Star is a Delaware limited liability company and a wholly owned subsidiary of Lone Star Transmission Capital, LLC, a holding company that is wholly owned by NextEra Energy Transmission, LLC ("NEET"). NEET is a wholly owned subsidiary of NextEra Energy Infrastructure, LLC, which is a direct, wholly owned subsidiary of NextEra Energy Capital Holdings, Inc. ("NextEra Capital Holdings"), which is wholly owned by NextEra Energy. A depiction of this organizational structure is attached as Exhibit MGG-1.

1   **Q.   WHERE WILL LONE STAR'S PORTION OF THE CREZ LINE BE**  
 2   **LOCATED?**

3   A.   As further described in Lone Star witness David Turner's direct testimony, the  
 4   transmission line circuits will originate in the new Oncor Electric Delivery  
 5   Company LLC ("Oncor") Central A ("Scurry South") Substation and traverse  
 6   from Scurry South, which is located south of Snyder in Scurry County, to West  
 7   Shackelford, which is located southwest of Albany in Shackelford County, and  
 8   then terminate in the Sam Switch and Navarro Substations. Lone Star will  
 9   construct and operate three switching substations (West Shackelford, Sam Switch  
 10   and Navarro), and two series compensation stations (Romney and Kopperl),  
 11   located at points approximately one-third and two-thirds of the distance between  
 12   West Shackelford to Sam Switch. To operate the system, Lone Star will also  
 13   develop and maintain both Primary and Backup Control Centers, and Primary and  
 14   Backup EMS. Lone Star is bringing its facilities on-line expeditiously through a  
 15   two-phased approach described below.

16  
 17   **Q.   WHAT IS THE EXPECTED IN-SERVICE DATE FOR LONE STAR'S**  
 18   **CREZ TRANSMISSION PROJECT?**

19   A.   In Phase I, Lone Star is initially constructing, energizing, and operating two  
 20   substations, the Sam Switch Substation and the Navarro Substation, by connecting  
 21   them to existing Oncor 345 kV electric transmission lines, and it will also  
 22   construct and bring on-line its Primary and Backup Control Centers and Primary  
 23   and Backup EMS. In addition, Lone Star's headquarters in Texas is already

1 occupied and functional, and Lone Star intends to complete its field office in or  
2 near Hillsboro, Texas prior to placing the Navarro and Sam Switch Substations in  
3 service. These facilities are collectively referred to as the "Phase I Facilities" and  
4 currently are planned to be in service in or before April 2012.

5  
6 In Phase II, Lone Star will complete the construction of the West Shackelford  
7 Substation and the Romney and Kopperl Series Compensation Stations, and  
8 connect them to the Sam Switch and Navarro Substations by constructing more  
9 than approximately 320 miles of new 345 kV transmission line facilities. Lone  
10 Star will also complete its field office in or near Abilene. I refer to these facilities  
11 collectively as the "Phase II Facilities." The Phase II Facilities are scheduled to  
12 be operational no later than March of 2013. These in-service dates and related  
13 information are more fully described in the direct testimony of Mr. Turner.

14  
15 **Q. PLEASE BRIEFLY DESCRIBE THE CONSTRUCTION STATUS OF**  
16 **LONE STAR'S CREZ TRANSMISSION PROJECT.**

17 **A.** As more fully described in Lone Star witness Daniel Mayers' direct testimony,  
18 Lone Star has divided its transmission project into ten 30-mile sections (referred  
19 to as Segments A through J), and those line segments and the substations are being  
20 constructed on a parallel schedule. Lone Star has acquired all of the land  
21 necessary for construction of the substations. Ground breaking for the Navarro  
22 Substation occurred on February 28, 2011, and for the Sam Switch Substation on



1 May 9, 2011. Right-of-way ("ROW") acquisition for the transmission line is  
2 underway and more than 60% complete as of the date of this filing.  
3

4 **Q. IS LONE STAR'S CONSTRUCTION SCHEDULE CONSISTENT WITH**  
5 **THE TIMELINES PRESENTED TO THE COMMISSION IN PRIOR**  
6 **DOCKETS?**

7 A. Yes. Lone Star's schedule for constructing the line and placing its facilities in  
8 service is consistent with its prior representations to the Commission, and is  
9 consistent with the Commission's objective of completing all CREZ projects by  
10 year-end 2013. As Mr. Mayers explains in greater detail, to facilitate efficient and  
11 rapid construction, Lone Star relied on the best-in-class construction experience  
12 of its affiliate companies, NEER and FPL. Recognizing the benefits in terms of  
13 quality, efficiency and lower costs that this approach would bring to the project,  
14 the Commission granted a limited waiver to the Code of Conduct to allow Lone  
15 Star to use NEER and FPL engineering and construction personnel.  
16

17 **Q. PLEASE EXPLAIN HOW LONE STAR IS STAFFED.**

18 A. Lone Star's organizational structure relies on a mix of technical and regional  
19 knowledge, as well as the expertise of employees in affiliated companies that are  
20 highly knowledgeable and experienced in utility operations and processes. In  
21 addition to staffing its Texas-based operations with key personnel who possess a  
22 great deal of regional and ERCOT specific-experience, Lone Star also relies on  
23 the technical expertise and resources of its parent and affiliates, particularly FPL,

1 to support the performance of its responsibilities as a new Texas electric utility.  
2 As shown throughout the direct testimony of Lone Star's witnesses, the  
3 capabilities, quality and institutional knowledge of Lone Star's affiliates are  
4 among the best in the industry and would be difficult for Lone Star to replicate  
5 this experience on its own or obtain it elsewhere. An added benefit of this  
6 structure is that it allows Lone Star to keep its organization relatively small and  
7 adequately staffed, while mitigating the need to hire additional employees or enter  
8 additional third-party vendor-service contracts. At the same time, this structure  
9 allows Lone Star to share in the operational efficiencies of a well-established  
10 shared-support organization.

11  
12 **Q. IS LONE STAR'S PLAN TO RELY ON FPL AND OTHER AFFILIATES**  
13 **FOR SERVICES CONSISTENT WITH THE TESTIMONY LONE STAR**  
14 **FILED IN ITS CCN AND CODE OF CONDUCT DOCKETS?**

15 A. Yes. When Lone Star was selected to undertake the responsibility for the  
16 construction, ownership and operation of CREZ transmission facilities in this  
17 state, Lone Star represented that it would rely on FPL's significant experience in  
18 the engineering, procurement, construction, ownership and operation of high-  
19 voltage transmission lines. Lone Star indicated that FPL, through its  
20 Transmission and Substations operations group ("TS Group"), would provide  
21 personnel, material resources and technical expertise for operating and  
22 maintaining any transmission lines awarded to Lone Star. Lone Star witness  
23 Ronald Critelli stated as follows: