> FPL, one of the largest and most respected and honored electric utilities in the country, will play a pivotal role through its transmission and substation operations teams. They will provide personnel and material resources, along with technical expertise for operating and maintaining Lone Star's CTP facilities after they become operational. Providing these support services outside of Florida is nothing new to FPL. FPL provides field and maintenance expertise to its affiliates in 25 states.[1]

Consistent with this representation and recognizing the benefits of relying on the FPL TS Group for support, the Commission recently approved a limited waiver to Lone Star's Code of Conduct[2] that allows Lone Star to rely on the TS Group for a variety of technical and support services. The use of the FPL TS Group support is more fully discussed in Mr. Turner's direct testimony.

Q. WILL LONE STAR RELY ON AFFILIATES FOR OTHER SUPPORT SERVICES?

A. Yes. As more fully discussed in the direct testimony of Mr. Turner and other Company witnesses, Lone Star relies on the expertise of its parent, NEET, as well as its affiliates, NEER and FPL, to provide key support services to the Company. Lone Star's ability to rely on the substantial and highly qualified expertise within the NextEra Energy corporate family in all operational and administrative dimensions of effectively managing a regulated utility has been a primary driver of the Company's ability to keep the project on schedule, effectively manage costs, and will ensure that expertise is available to Lone Star for efficient and

[1] Docket No. 35665, Responsive Testimony of Ronald D. Critelli, Jr. at 9.
[2] Docket No. 39551, *Application of Lone Star Transmission, LLC for a Limited Waiver with Respect to its Code of Conduct,* Final Order (Sept. 30, 2011).

reliable future operations. The economies of scale attendant to using available affiliate resources rather than bringing on a full, separate staff will benefit Texas customers.

V. ECONOMIC BENEFITS OF THE LONE STAR PROJECT

Q. HAS THE LONE STAR PROJECT BENEFITTED THE TEXAS ECONOMY?

A. It certainly has. Apart from the public benefits of Lone Star's CREZ project to improving electric reliability and enabling the transmission of clean, renewable energy, a myriad of indirect economic benefits accrue to the public as a result of Lone Star's project.

Q. HOW HAS THE LONE STAR PROJECT BENEFITTED THE MARKET FOR CONSTRUCTION JOBS IN TEXAS?

A. Constructing Lone Star's approximately 320 mile electric transmission line and associated facilities will create approximately 900 Full-time Equivalents (*i.e.*, job years assuming a standard work year per person of 2,080 hours) in construction jobs over the roughly three years required to construct the project. Construction of Lone Star's project is discussed in greater detail in Mr. Mayers' direct testimony.

Q. HOW ELSE DOES THE PROJECT BENEFIT THE TEXAS ECONOMY?

A. In addition to the job market benefits of the Lone Star project, Lone Star's project improves the Texas tax base. The construction of the CREZ transmission line and

associated facilities represents the purchase of real properties and the placement of new personal properties within the 11 counties spanned by the new facilities. The new facilities are incremental additions to county property tax digests, thereby giving rise to additional annual property tax revenues. For the Lone Star project, the property improvements will bring approximately $12 million in incremental property tax revenues to the counties in the initial in-service year, and substantial continuing property tax revenues each year thereafter. The capital-intensive additions and incremental tax revenues brought by this type of project are particularly welcomed in host counties because they are not accompanied by a proportionally increased demand for county services, such as schools, fire, police, water and sewer connections and roads. Therefore, the revenue increase usually represents a net increase in available funds to cover other, potentially underserved, budgetary needs. The various taxes paid by Lone Star are addressed in greater detail in the direct testimony of Lone Star witness Brian Murphy.

Q. IS THERE A MECHANISM FOR ESTIMATING THE TOTAL DIRECT AND INDIRECT ECONOMIC ACTIVITY RESULTING FROM THE PROJECT?

A. Yes. The U.S. Department of Commerce – Bureau of Economic Analysis ("BEA") prepares Regional Input-Output Methodology multiplier tables in order to estimate the total direct and indirect economic activity deriving from the effect of new primary dollars spent in a given area. This is often referred to as the economic multiplier effect or ripple effect. For Texas and the electric utilities

industry, the economic final demand multiplier established by the BEA is 1.8996. Based on this multiplier and Lone Star's project cost estimate of $800 million, the overall favorable increase in economic activity resulting from the Lone Star project can be reasonably estimated to exceed $1.5 billion.

Q. PLEASE SUMMARIZE THE BENEFITS OF THE LONE STAR PROJECT ON THE TEXAS ECONOMY.

A. The benefits of the Lone Star project are substantial. By designing the CREZ and attracting new entrants such as Lone Star to participate, the Legislature and the Commission have had a meaningful and beneficial impact on the Texas economy by creating construction and permanent jobs, improving tax revenues and increasing direct and indirect economic activity.

Q. HOW ARE THE ECONOMIC BENEFITS OF THE LONE STAR PROJECT RELEVANT TO LONE STAR'S REQUEST TO ESTABLISH INITIAL RATES?

A. The economic benefits of Lone Star's CREZ project are relevant to the rate case because, as previously mentioned, the Commission's decision in this case will send an important signal to the investment community about the Texas regulatory environment as it relates to investing in these types of electric reliability projects. Constructive treatment in this request for initial rates will make it more likely that Lone Star and other companies will make similar types of investments in the future, producing additional benefits for the Texas economy.

VI. POLICY ISSUES PRESENTED IN THIS RATE CASE

Q. DOES LONE STAR'S RATE CASE PRESENT UNIQUE POLICY CONSIDERATIONS?

A. Yes. While Lone Star has relied on the Commission's rate filing package instructions and schedules as much as possible, certain elements of this case are unique due to Lone Star's status as a new entrant and the distinct circumstances surrounding CREZ. As discussed in more detail in Section II of my testimony, Lone Star's status as a new entrant means that it does not have existing rates and that it has no historic data on which to develop rates. Consequently, Lone Star has necessarily relied on a combination of actual and projected capital investment as well as projected expenses in order to develop rates that will enable it to begin providing transmission service as its facilities are placed into service.

Q. ARE THERE ANY OTHER POTENTIAL IMPLICATIONS THAT MAY AFFECT LONE STAR?

A. Yes. Clearly this case will determine whether Lone Star is able to recover its costs and have the opportunity to earn a reasonable return on its investment. In addition, I believe that the Commission's decisions on ROE and capital structure are vitally important to Lone Star's ability to compete for capital not just in Texas, but nationally and internationally. The CREZ initiative is an unprecedented effort that has placed Texas in the forefront of a national effort to promote renewable energy. As Lone Star witness Dr. William Avera explains in his direct testimony, these significant CREZ projects come at a time of great

uncertainty in capital markets. This fact, coupled with the risks that Lone Star faces by virtue of its being a start-up utility, present unique issues that are different from those faced by traditional transmission and distribution electric utilities that have existing rates and have been a part of the Texas electricity market for many, many years. In order to be a part of the vibrant Texas market, Lone Star needs a strong balance sheet to compete with other utilities for capital. Dr. Avera's direct testimony makes clear that this is accomplished by establishing solid ROEs and capital structures that will better position Lone Star to access the capital markets at favorable terms and conditions. Finally, as discussed in Section II above, by affording constructive regulatory treatment for Lone Star's request for initial rates in this proceeding, the Commission will continue to facilitate a favorable regulatory climate that encourages additional investments in Texas electric reliability projects.

VII. OVERVIEW OF THE COMPANY'S RATE CASE FILING

Q. WHAT DOES LONE STAR HOPE TO ACCOMPLISH WITH THIS RATE CASE FILING?

A. Lone Star seeks to establish initial rates that will allow it to recover its reasonable and necessary operating expenses and provide the Company an opportunity to earn a reasonable return on its invested capital that is used and useful in providing service to the public.

Q. IS IT FEASIBLE TO USE HISTORIC DATA TO ESTABLISH LONE STAR'S RATES?

A. No. As a new entrant in the Texas market, Lone Star has no pre-existing rates and does not have historical test year data on which to base its rate request. Rather, Lone Star's rate filing package contains a mix of actual data as well as reasonable projections of future costs and expenses related to its CREZ project.

Q. HOW DOES LONE STAR PROPOSE TO ESTABLISH ITS INITIAL RATES?

A. Lone Star believes that it is most efficient and appropriate to establish Lone Star's initial rates through a phase-in rate approach approved in a single rate case filing. In support of this approach, Lone Star's rate filing package contains two sets of schedules and tariffs. The first set of schedules and tariffs support interim rates reflecting capital investment and associated O&M expense for its Phase I Facilities to be effective when Lone Star's Phase I Facilities are energized in or before April 2012. The second set of schedules and tariffs support the Company's final rate request and reflect total project capital investment and O&M expense to be effective when Lone Star's Phase II Facilities are energized in or before March 2013.

Q. HOW CAN THE COMMISSION ENSURE THAT THE FINAL RATES ESTABLISHED FOR LONE STAR REFLECT ACTUAL INVESTMENT AT THE TIME THE PROJECT FACILITIES ARE COMPLETED AND PLACED INTO SERVICE?

A. In order to ensure that the final rates are reflective of actual capital investment, in conjunction with approving Lone Star's interim and final rates, Lone Star is proposing a true-up filing within 120 days of energizing the Phase II Facilities. 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 rates to the actual total project investment and make any necessary rate adjustments. 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.

Q. ARE THERE BENEFITS ASSOCIATED WITH LONE STAR'S PROPOSAL?

A. Yes. First, it is a conservative approach. Lone Star prepared its case using the traditional Statement of Intent rate filing package, utilizing the applicable schedules and using actual and projected capital and expenses reflective of the time period that the requested rates will be in effect. Lone Star's reliance on the traditional tools that the Commission uses to review rates provides a sound framework within which the Commission can examine the reasonableness of the Company's rate request. In addition, the proposed true-up filing will ensure that Lone Star's final rates reflect actual capital investment at the time the facilities are placed in service. In order to ensure that no customer is harmed by using projected capital to initially establish rates, Lone Star will refund with interest any incremental difference in rates that results from the true-up. This means that the rate case is just like a traditional rate case, which establishes final rates based on actual capital investment.

Second, it is efficient and avoids the need for burdensome, duplicative regulatory proceedings. Lone Star's proposal will protect customers and accomplish the goal of allowing it to have tariffs on file with the Commission when its facilities are energized. This will allow the Company to begin charging rates for its services sufficient to cover the Company's reasonable and necessary operating expenses, as well as provide the Company with the opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public. Lone

Star's proposal will avoid the need to file multiple rate cases in close proximity to each other, and will also avoid the associated duplication of litigation and effort on the same or similar issues to be decided, which is not cost-effective or efficient for the Commission, Lone Star or its customers.

Third, Lone Star's proposal gives effect to the strong public policy goal of both bringing new businesses into the State and providing clean, renewable energy to the citizens of Texas through the CREZ transmission lines. Section 39.904 of the Public Utility Regulatory Act contains the Texas Legislature's goal for renewable energy, which contains the requirement that the Commission develop a process for identifying CREZ as well as a transmission plan that will deliver renewable generation to customers in the most beneficial, cost-effective manner. That is precisely what the Commission did, and Lone Star is a part of the CREZ transmission process because of that process. Additionally, both the Commission and the Legislature have made it clear that new businesses are welcome in Texas, which is another factor in Lone Star's decision to be a part of the ERCOT electricity market. Even though it has no existing rates or data on which to create a historic test year, Lone Star's proposal allows it to recover its capital investment and accompanying expenses through rates in furtherance of the public policy of the state of Texas while ensuring that customer interests are protected.

VIII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

AFFIDAVIT OF MICHAEL G. GRABLE

BEFORE ME, the undersigned authority, on this day personally appeared Michael G. Grable, who, having been placed under oath by me, did depose as follows:

1. "My name is Michael G. Grable. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge. My current position is President of Lone Star Transmission, LLC.

2. I have prepared the foregoing direct testimony and the attached exhibits offered by me are true and correct to the best of my knowledge."

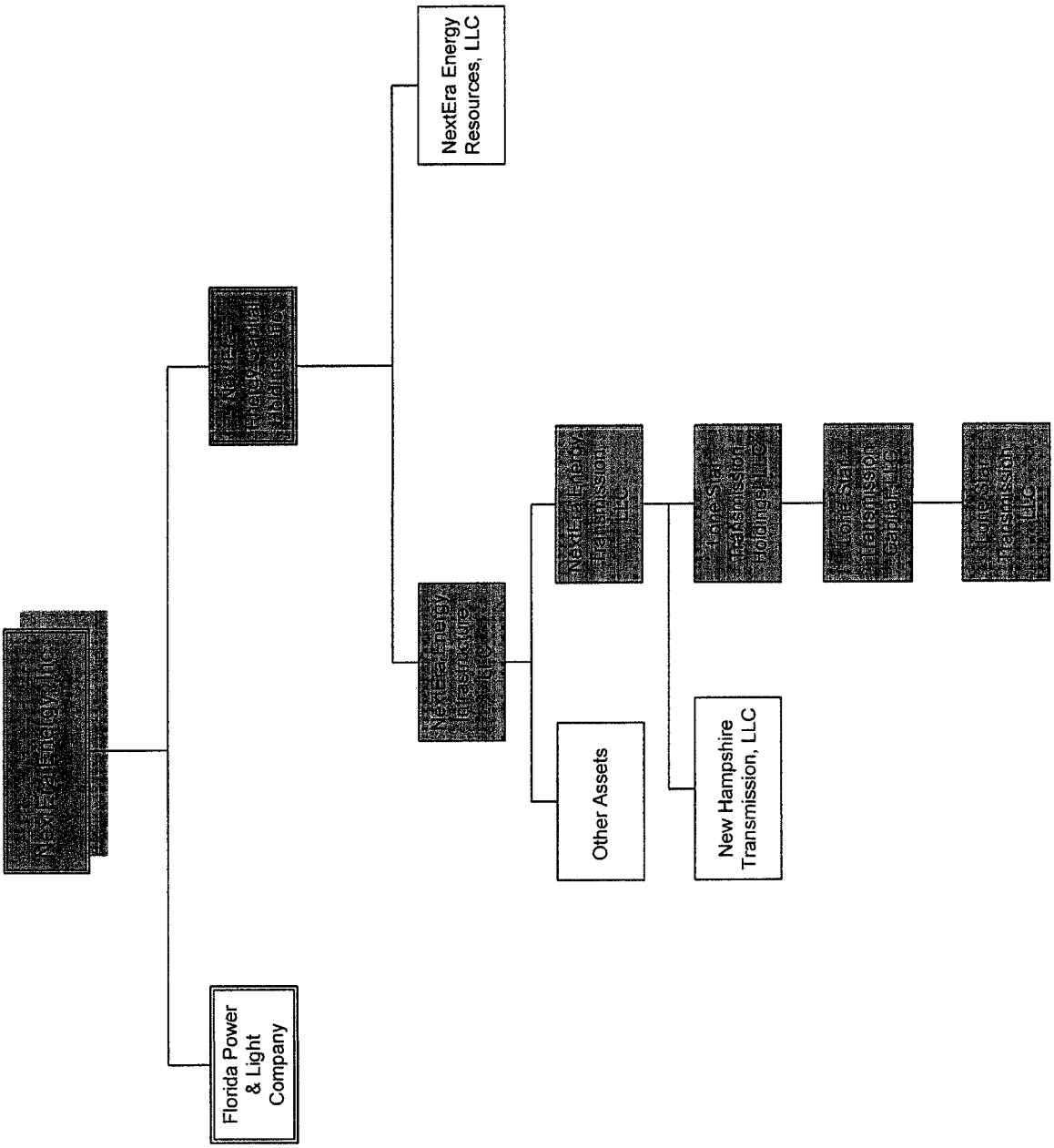
Further affiant sayeth not.

Michael G. Grable

19th SUBSCRIBED AND SWORN TO BEFORE ME by the said Michael G. Grable this day of December, 2011.

JACOB DANTE LEFFLER
Notary Public, State of Texas
My Commission Expires
September 08, 2015

Notary Public, State of Texas


Florida Power & Light Company
NextEra Energy Resources, LLC
Other Assets
New Hampshire Transmission, LLC

WITNESS	TOPIC	SUMMARY
Michael Grable President of Lone Star Transmission, LLC	Overview & Policy	• summarizes Lone Star's rate filing and introduces the witnesses who will testify on behalf of Lone Star in support of its rate-filing package; • provides background information on Lone Star, an overview of Lone Star's CREZ Transmission Projects and associated facilities, and introduces the witnesses who will support that Lone Star's staffing plan and experience provide an appropriate mix of technical and regional expertise and help ensure the safe, reliable and efficient provision of service; • provides an overview of the economic benefits of the Lone Star project to the Texas economy in terms of job creation, increases in tax revenues and other indirect benefits; and • explains Lone Star's status as a new-entrant utility, the unique policy considerations that new entrant status presents, and explains why Lone Star is asking for—and needs—interim rates in this proceeding.
David Turner Project Director and Director of Operations for Lone Star Transmission, LLC	Transmission Cost of Service / Transmission Capital Investment and Operations and Maintenance Expense	• describes Lone Star's organization, operating functions, management philosophy, and budgetary planning process; • demonstrates that Lone Star's management philosophy, budgetary planning process, capital investment, and O&M expenses are reasonable and adequate for the provision of safe and reliable transmission service; • provides an overview of shared services provided by affiliates; and • explains how Lone Star's Transmission Operations organization will benefit from FPL's Transmission and Substations business unit, which has the resources, personnel, and expertise to complement Lone Star's Transmission Operations organization by providing transmission-related support services, including certain shared technical, field, and maintenance services, which the Commission approved in Lone Star's limited waiver request.

Dan Mayers Director of Engineering and Construction for NextEra Energy Resources, LLC	Transmission Line and Substation Engineering and Construction	• supports the original cost of utility plant balances used to calculate Lone Star's proposed interim and final rates; • addresses the investment associated with the development, engineering, design, procurement and construction of Lone Star's transmission system; • provides an overview of the development of the cost estimates and the current construction status of the project; • discusses the activities and resulting costs associated with the engineering, design, procurement and construction of the three switching substations, two series compensation stations and the transmission lines that will be part of Lone Star's transmission system; • explains the processes used for controlling capital expenditures; and • supports the reasonableness and necessity of the affiliate costs Lone Star is incurring for services performed by NEER's Transmission/Substation Engineering and Transmission Construction organization on Lone Star's facilities.
Cheryl Dietrich Director of Business Management of NextEra Energy Transmission, LLC	Shared Services	• discusses the benefits of Lone Star's reliance on NextEra affiliates for corporate support services, the need for the specific corporate support services, and the reasonableness of specific affiliate corporate support service expenses; • describes the Company's billing and cost allocation methodologies for affiliate corporate support services, which are consistent with the Corporate Support Services Agreements between Lone Star and its affiliates; • details the controls, policies, and procedures which ensure that Lone Star's affiliate costs are monitored and billed properly and are reasonable and necessary; • provides a summary of Lone Star's affiliate expense request for both interim and final rates; and • confirms that all affiliate costs are reasonable and necessary, Lone Star is not charged a higher price than those charged to other affiliates or non-affiliates, such costs are billed at cost, and services are not duplicative of any services provided by Lone Star or any other affiliates.

Thomas Flaherty Senior Vice President in the Energy, Chemicals and Utilities practice of Booz & Company	Shared Services / Allocation of Affiliate Costs	• demonstrates that the services provided by Lone Star's affiliates are necessary to support Lone Star's business needs; • explains that the affiliate services provide either direct or indirect benefits to Lone Star, with many activities providing benefits across several categories; • describes Lone Star's budget development process, the nature of interactions between Lone Star and its affiliates in budget planning, frequent analysis and review by management, and benchmarking conducted by NEER and FPL, which ensures that corporate support service costs are reasonably managed and controlled; • concludes that the assignment and allocation of affiliate costs to Lone Star from FPL and NEER are reasonable and appropriate; and • shows that Lone Star's total support service costs are around the average when compared to similar entities and that services costs at FPL, one of the main entities supporting Lone Star, and are consistently better than peers that were analyzed.
Julie Rice Director of Compensation & Planning for NextEra Energy Resources, LLC	Compensation & Benefits / Human Resources	• describes the FPL and NEER Human Resources ("HR") organizations, the services they provide to Lone Star, the benefits that result for Lone Star's customers, and the reasonableness of costs that are charged to Lone Star; • sets forth the total pay philosophy through which Lone Star employees are offered competitive, market-based salaries and benefits and explains the industry data against which Lone Star assesses the reasonableness of its total pay program; • explains the comprehensive health, welfare, retirement and other benefits available to Lone Star employees at a reasonable cost; and • supports the reasonableness and necessity of Lone Star's HR expenses that it seeks to recover through rates.

Jeanne H. Camp Chief Actuary, Robert Hughes Associates, Inc.	Self-Insurance Reserve	• explains the role of an actuary; • provides an overview and description of the actuarial analysis conducted for Lone Star, which predicts the level of property losses Lone Star is likely to experience in the future; and • includes Lone Star's annual expected losses for its commercially insured and self-insured assets, which form the basis for Mr. Hughes' recommendations for Lone Star's accruals and target reserve level for the self-insurance reserve.
Robert Hughes Chairman and CEO of Robert Hughes Associates, Inc.	Self-Insurance Reserve	• addresses the purpose of a self-insurance reserve; • describes how a self-insurance reserve operates; • provides an estimate of the annual accrual necessary to provide for expected property losses that are not covered by commercial insurance; • provides an estimate of a target amount to accumulate in the self-insurance reserve along with a recommended time period over which this accrual is to be made; and • includes a cost benefit analysis demonstrating that self-insurance at the levels proposed by Lone Star is a lower cost alternative to purchasing insurance and is in the public interest, consistent with Commission Rule 25.231(b)(1)(G).
Brian Murphy Senior Tax Director for Florida Power & Light Company	Federal and State Taxes	• explains the Company's method for calculating federal income taxes; • supports why a Consolidated Tax Savings Adjustment of $0 is appropriate for Lone Star; • describes the inclusion of Accumulated Deferred Federal Income Taxes in rate base; • addresses the calculation of ad valorem or property taxes; • includes a discussion of the calculation of state franchise tax; and • supports the affiliate costs included in this filing for tax services provided by Florida Power & Light Company's Tax Department to Lone Star.
Jay Joyce President of Expergy®	Cash Working Capital	• sponsors the results of the lead-lag study, performed in accordance with Commission Substantive Rule §25.231(c)(2)(B)(iii), used to measure Lone Star's cash working capital requirement for the Company's operations.

Dane Watson A Partner of Alliance Consulting Group	Depreciation	• performs and discusses the recent depreciation study completed for Lone Star transmission assets based on the depreciable plant expected to be placed in service and final depreciation rates when all assets are placed in service; and • supports the reasonableness and necessity of the recommended depreciation rates and associated depreciation expense for Lone Star assets based on the results of the depreciation study.
Aldo Portales Assistant Treasurer for Lone Star Transmission, LLC	Financing / Cost of Long-Term Debt / Capital Structure	• supports Lone Star's cost of debt and capital structure that are used to calculate Lone Star's overall rate of return; • details the competitive solicitation process that resulted in Lone Star's recently executed debt financing for the construction period; • discusses Lone Star's plans to re-finance its debt in early 2013; • demonstrates that Lone Star's requested capital structure of 48% debt and 52% equity, which forms the basis for the attractive pricing received in the Debt Financing, and provides sufficient equity to enable Lone Star to continue to access the capital markets in times of economic uncertainty, is reasonable for Lone Star; and • addresses the reasonableness of the affiliate charges for the NextEra Energy Treasury Organization that are included in Lone Star's rates.
William Avera President of FINCAP, Inc.	Capital Structure, Cost of Capital, and Return on Equity ("ROE")	• supports an ROE rate of 11% as reasonable and necessary for Lone Star to have necessary access to capital and provide and appropriate return to its equity investors; • addresses the operations and finances of Lone Star, as well as conditions in the capital markets and the general economy that affect Lone Star; • examines the relationship between ROE and the ability to attract capital for Lone Star for continued investment in Texas, including consideration of the specific risk exposures faced by Lone Star; • explains in detail the development of the capital market estimates of the cost of equity, including the various analyses conducted to estimate the cost of equity; and • discusses the independent analysis that confirms the reasonableness of Lone Star's proposed capital structure, sponsored by Lone Star witness Aldo Portales.

Richard Cribbs Controller of NextEra Energy Resources, LLC	Accounting	• substantiates the Company's accounting of costs and rate base is reasonable and necessary; • calculates the transmission cost of service underlying the requested interim and final rates; • supports the revenue requirements that form the basis for the Company's requested rates; • explains and supports the Company's proposed rate design and requested rate schedules, including the Wholesale Transmission Service Rate Schedule; and • sets for the Company's request for approval of a Rate Case Expense Rider and Ad Valorem Tax Rider.
Mike Warren Law Offices of Mike Warren	Rate Case Expenses	• describes the process Lone Star employed to manage the rate case and the way Lone Star implemented that process; • addresses the reasonableness of Lone Star's rate case preparations and management; • explains the reasonableness of Lone Star's decision to retain outside counsel and consultants for the rate case; • describes the way that Lone Star reasonably managed its outside lawyers and consultants as well as its internal and affiliate resources; and • opines upon the reasonableness of the fees and expenses Lone Star seeks to recover in the rate case.

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

DAVID K. TURNER

ON BEHALF OF

LONE STAR TRANSMISSION, LLC

January 9, 2012

INDEX TO THE DIRECT TESTIMONY OF

DAVID K. TURNER, WITNESS FOR

LONE STAR TRANSMISSION, LLC

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EXECUTIVE SUMMARY OF DAVID K. TURNER

Lone Star Transmission, LLC ("Lone Star" or the "Company") seeks in this rate filing to recover Lone Star's costs for operations and maintenance ("O&M"), including administrative and general ("A&G") activities, and Lone Star's capital investment. I describe Lone Star's organization and operating functions, Lone Star's management philosophy and budgetary planning process and provide an overview of shared services provided by corporate affiliates. Lone Star's management philosophy, budgetary planning process, capital investment and expenses are reasonable and adequate for the provision of safe and reliable transmission of electric energy.

Lone Star's Transmission Operations organization will benefit from Florida Power & Light Company's ("FPL") Transmission and Substations business unit ("TS Group"), which has the resources, personnel and expertise to complement Lone Star's Transmission Operations organization by providing needed transmission-related support services, including certain shared technical, field, and maintenance services that were approved in a prior limited waiver request. By obtaining these transmission-related support services from TS Group, Lone Star will be able to achieve certain efficiencies and cost savings for Lone Star customers that Lone Star would not otherwise be able to achieve on its own, provide reliable and safe transmission service, provide open access to the transmission grid on a non-discriminatory basis and meet the anticipated needs of the Texas electric energy market. My testimony demonstrates the reasonable and necessary bases for these costs that Lone Star should be allowed to recover in this proceeding.

DIRECT TESTIMONY OF DAVID K. TURNER

I. POSITION AND QUALIFICATIONS

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

A. My name is David K. Turner. My business address is 301 Congress Ave., Suite 1850, Austin, Texas 78701. I am Project Director and Director of Operations for Lone Star Transmission, LLC.

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

A. I am testifying on behalf of Lone Star.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated magna cum laude from Texas A&M University with a Bachelor of Science Degree in Civil Engineering in 1978 and am a licensed professional engineer in the State of Texas. I serve on the Board of the Annual Transmission & Substation Design & Operation Symposium sponsored by the University of Texas at Arlington, which provides continuing education to engineers and other utility personnel involved in transmission and substation design and operation. I have also completed numerous continuous education courses/symposiums applicable to electric utility operations, maintenance and construction from the University of Wisconsin at Madison, the University of Texas at Arlington, the Texas Engineering Extension Service, Siemens Power Technologies International, Sargent & Lundy, Power Engineers, and Megger Group Limited.

Prior to joining Lone Star in April 2010, I held a number of positions at the Lower Colorado River Authority ("LCRA"), where I worked for more than 24 years. During my tenure at LCRA, I held positions in transmission engineering and management and served on a number of committees, including the System Reliability Team responsible for evaluating and recommending improvements to electric transmission and substation design, operations and maintenance. During my tenure at LCRA, I also chaired the Transmission Line Subcommittee of the National Rural Electric Cooperative Association and served on that subcommittee for many years. Prior to joining LCRA, I worked for consulting engineering firms for more than seven years (*e.g.*, Stoeltje Associates in Austin, Texas and Brown & Root, Inc. in Houston, Texas). At those firms, I was responsible for the engineering design of many varied commercial and industrial projects, including several cogeneration facilities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?

A. Yes. I have testified before the Public Utility Commission of Texas ("Commission") on numerous occasions. I sponsored testimony for Lone Star in its application for a limited waiver with respect to its Code of Conduct in Commission Docket No. 39551 and in its initial application for a Certificate of Convenience and Necessity ("CCN") for Central A to Central C to Sam Switch to Navarro in Docket No. 38230, a portion of which was severed into Docket No. 38642. I sponsored testimonies for LCRA Transmission Services Corporation's

("LCRA TSC") Competitive Renewable Energy Zones ("CREZ") Transmission Plan Proposal in Docket No. 35665 and also sponsored testimony for LCRA TSC in the following dockets: 20827, 22762, 24380, 28450, 29065, 29684, 29833, 32934, 33844, 33978 and 37778.

II. PURPOSE OF DIRECT TESTIMONY

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

A. My testimony supports Lone Star's requested recovery of the capital investment and associated O&M, including A&G associated with its CREZ project. In order to demonstrate the reasonable and necessary bases for these costs, I describe Lone Star's organization and operating functions, describe Lone Star's management philosophy and budgetary planning process, and support Lone Star's need for the O&M and A&G services provided by its affiliate companies and third-party vendors, as well as support the affiliate costs associated with transmission capital investment.

Q. HOW DOES YOUR TESTIMONY RELATE TO THE DIRECT TESTIMONY OF OTHER COMPANY WITNESSES IN THIS CASE?

A. I co-sponsor the capital investment included in Lone Star's filing in conjunction with Lone Star witness Daniel Mayers. In addition, I support the need for the O&M and A&G services required to operate Lone Star's transmission system, while Lone Star witnesses Cheryl Dietrich and Thomas Flaherty sponsor the

reasonableness of the affiliate cost allocations associated with these necessary services.

Q. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN CONNECTION WITH YOUR TESTIMONY?

A. Yes. Consistent with the context of my testimony, I sponsor or co-sponsor the schedules listed in the table of contents.

III. OVERVIEW OF CREZ TRANSMISSION PROJECT AND LONE STAR'S COST RECOVERY PROPOSAL

Q. PLEASE BRIEFLY DESCRIBE THE CREZ TRANSMISSION PROJECT THAT LONE STAR IS CONSTRUCTING.

A. In Docket Nos. 35665 and 37902, the Commission selected Lone Star to participate as a "new entrant" in the Texas transmission market. Subsequently, in Docket Nos. 38230 and 38642, the Commission approved Lone Star's CCNs to construct its 345 kV double/single circuit transmission line that will be used to safely and reliably transmit electric energy across portions of West and North Central Texas. In addition to the transmission line itself, Lone Star's facilities will consist of three switching substations (West Shackelford, Sam Switch and Navarro), two series compensation stations (Romney and Kopperl), two Control Centers (Primary and Backup), two Energy Management Systems ("EMS") (Primary and Backup), and offices in Texas (*i.e.*, two Field Offices and an Administration Headquarters). Lone Star is bringing its facilities on-line expeditiously through a two-phased approach described below.

Q. WHAT IS THE TWO-PHASED APPROACH THAT LONE STAR IS USING TO CONSTRUCT AND BRING ITS TRANSMISSION FACILITIES ON-LINE?

A. In Phase I, Lone Star will construct, energize and operate two substations, the Sam Switch Substation and the Navarro Substation, by connecting them to several existing Oncor Electric Delivery Company LLC ("Oncor") 345 kV electric transmission lines. Lone Star will also construct and operate its Primary and Backup Control Centers and EMS facilities. Lone Star's headquarters in Texas is already occupied and operational. Lone Star intends to complete its field office in or near Hillsboro, Texas prior to placing the Navarro and Sam Switch Substations into service. All of these facilities are currently planned to be in service by the end of April 2012.

Through coordination with Oncor and the Electric Reliability Council of Texas, Inc. ("ERCOT"), Lone Star intends to bring Navarro on-line by completing construction of the substation and connecting and energizing four of Oncor's 345 kV circuits in March 2012 and subsequently connecting and energizing the other four Oncor 345 kV circuits in April 2012. Through coordination with Oncor and ERCOT, Lone Star intends to bring the Sam Switch Substation on-line by completing construction of the substation and connecting and energizing all four Oncor transmission circuits in April 2012.

Lone Star's Control Centers and EMS facilities will become operational when the Navarro Substation is connected to one set of Oncor transmission lines in March 2012 as currently planned. Lone Star is constructing, staffing and bringing on-line its Primary and Backup Control Centers in and near Austin in Travis County. Its Primary EMS will be located in an existing FPL facility in Miami in Miami-Dade County, Florida and Lone Star's Backup EMS will be located in an existing FPL facility in Daytona Beach in Volusia County, Florida. These control centers and EMS facilities will be used initially to operate the Navarro and Sam Switch Substations. Construction of Lone Star's Control Centers and EMS will be completed by January 2012 and fully operational prior to energizing the Navarro Substation.

In Phase II, Lone Star will construct the West Shackelford Substation and the Romney and Kopperl Series Compensation Stations. Lone Star will complete its field office in or near Abilene prior to placing Phase II transmission line facilities in service. All of Lone Star's facilities are currently planned to be completed in or before March 2013.

Lone Star's West Shackelford Substation and the Romney and Kopperl Series Compensation Stations will be connected to the Sam Switch and Navarro Substations by constructing approximately 320 miles of new 345 kV electric transmission line facilities. Lone Star's 345 kV electric transmission line will originate in the new Oncor Central A ("Scurry South") Substation and traverse

from Scurry South (located south of Snyder in Scurry County) to West Shackelford (located southwest of Albany in Shackelford County), and terminate in the Sam Switch and Navarro Substations. Series compensation stations (Romney and Kopperl) will be located at points approximately one-third and two-thirds of the distance between West Shackelford and Sam Switch.

Q. HOW DOES LONE STAR PROPOSE TO BEGIN RECOVERING THIS CAPITAL INVESTMENT?

A. As discussed in Lone Star witness Michael Grable's testimony, Lone Star seeks to begin recovering capital investment and associated O&M and A&G expenses in two phases. Specifically, Lone Star seeks to implement interim rates reflective of its capital investment during the interim period that will take effect when its first substations are placed in service. Lone Star seeks to implement final rates reflective of total project capital investment and O&M and A&G expenses when its Phase II facilities are placed in service. In addition, Lone Star proposes to make a true-up filing within 120 days of placing all of its Phase II facilities in service to reconcile the capital investment used to calculate final rates with the actual capital investment spent to construct Lone Star's CREZ project and associated facilities. Any incremental difference between the capital investment amounts will be subject to refund with interest or a potential surcharge in order to ensure that Lone Star's rates reflect the actual, original cost of the facilities.

Q. DOES THIS PROPOSAL STRIKE A REASONABLE BALANCE BETWEEN LONE STAR'S NEED TO TIMELY RECOVER ITS INVESTMENT AND THE NEED TO ENSURE THAT RATES REFLECT ACTUAL COSTS?

A. Yes. In response to the Commission's expedited schedule for the CREZ transmission build-out, Lone Star has attempted to bring its facilities on-line expeditiously through two phases. And, as a new entrant, Lone Star has no way to recover any of its investment until rates are approved by the Commission. As Mr. Grable explains, Lone Star's proposed rates reflect its need to timely recover investment as facilities are placed in service and ensures, through the true-up process, that the rates paid by customers reflect only the actual cost of the capital invested to construct Lone Star's facilities. Lone Star's interim rates also allow Lone Star to recover its O&M and proportionate A&G expenses during that same period without allocating these expenses to capital investment in final rates.

Q. WHAT BENEFITS ARE REALIZED BY THE IN-SERVICE TIMING OF LONE STAR'S FACILITIES?

A. Several benefits will be realized by phasing the in-service timing of Lone Star's facilities. First, Lone Star must integrate its facilities into the ERCOT transmission outage coordination process. Lone Star's phased-in approach complies with this process. In addition, the Phase I substation facilities may provide incremental reliability benefits by incrementally reducing the overall length of the transmission line between breakers in line terminals. Lone Star's

construction of the Navarro and Sam Switch Substations will reduce the length between breakers of line exposed to lightning and other sources of outages for each of the existing 345 kV electric lines that tie into these substations. Generally speaking, reduced line length between breakers can result in less frequent outages of each particular section of line between breakers, due to lightning or other natural causes.

In addition, the timing of the substation in-service date will provide Lone Star with 9-12 months of actual operational experience and coordination with ERCOT and other transmission service providers prior to commencing operations on the more complex, series-compensated transmission line facilities.

A. Summary of Interim Rate Request

Q. WHAT CAPITAL INVESTMENT HAS LONE STAR INCLUDED IN ITS INTERIM RATE REQUEST?

A. For interim rate purposes, Lone Star seeks recovery of approximately $59.6 million in capital investment, which includes capitalized costs for the development and implementation of two 345 kV substations (*i.e.*, the Sam Switch Navarro Substations), two Control Centers (Primary and Backup Control Centers), two Energy Management Systems (Primary and Backup EMS), and two offices (one field office and its Austin office). Lone Star has not purchased any properties that will be held for future use.

Q. WHAT O&M EXPENSE DOES LONE STAR SEEK TO RECOVER AS PART OF ITS INTERIM RATE REQUEST?

A. Lone Star is requesting O&M expense in the amount of approximately $6.8 million, including an allocated A&G expense in proportion to its capital investment in the interim period. This amount is based on a projected interim rate period of April 1, 2012 through March 31, 2013 and captures costs necessary to operate and maintain facilities, as well as A&G expenses. The projected interim rate period includes O&M expense to operate and maintain Lone Star's Phase I facilities (*i.e.*, Sam Switch and Navarro, two Control Centers, two EMS facilities, and offices) in the first year of operations and to prepare for operation of the Phase II facilities. Additionally, Lone Star is requesting approximately $1.7 million in a self-insurance reserve, discussed later in this testimony.

B. <u>Summary of Final Rate Request</u>

Q. PLEASE DESCRIBE THE CAPITAL INVESTMENT THAT LONE STAR SEEKS TO RECOVER IN FINAL RATES.

A. Lone Star seeks recovery of approximately $784.5 million in capital investment. This amount includes the amount in the interim request and capitalized costs for the development and implementation of Lone Star's entire transmission system that will, under Lone Star's proposal, be adjusted in a subsequent true-up filing. Lone Star's capital investment also includes infrastructure maintenance and reactive funding for storms and equipment failures (*e g.*, substation capital spares,

transmission line capital spares). Mr. Grable provides the details of the proposed true-up filing in his direct testimony.

Q. WHEN WILL THE ACTUAL CAPITAL COSTS FOR LONE STAR'S TRANSMISSION PROJECT BE KNOWN?

A. Actual capital costs will be determined when all work orders are closed-out approximately 2-3 months after the in-service date of the project.

Q. WHAT O&M EXPENSE DOES LONE STAR SEEK TO RECOVER AS PART OF ITS FINAL RATE REQUEST?

A. Lone Star is requesting O&M expense in the amount of approximately $13.7 million in final rates. This amount is derived based on a projected rate period of April 1, 2013 to March 31, 2014 and captures costs necessary to operate and maintain facilities, as well as A&G expenses. Lone Star selected this rate period because it represents a full year of activity after the entirety of Lone Star's CREZ transmission system becomes operational. Additionally, Lone Star is requesting approximately $4.5 million in a self-insurance reserve, also discussed later in this testimony.

IV. CAPITAL INVESTMENT IN LONE STAR'S TRANSMISSION SYSTEM

Q. WITH RESPECT TO THE CAPITAL INVESTMENT PORTION OF LONE STAR'S RATE REQUEST, PLEASE SUMMARIZE THE COMPONENTS OF THE REQUEST THAT YOU SPONSOR AND THOSE SPONSORED BY MR. MAYERS.

A. The following table summarizes the discrete components of Lone Star's capital investment and the responsible Company witness:

Sponsoring Witness for Lone Star's CREZ Project Capital Investment

Facility	Sponsoring Witness
Substations -Engineering & Design -Procurement of Material & Equipment -Construction of Facilities	Daniel Mayers
Transmission Towers & Lines -Engineering & Design -Procurement of Material & Equipment -Construction of Facilities	Daniel Mayers
ROW & Land Acquisition	David K. Turner
Control Centers, EMS facilities & Office Equipment	David K. Turner
Capital Spares	David K. Turner
Regulatory Assets	David K. Turner
Other	David K. Turner

The Regulatory Assets include capitalized costs to acquire the CCN and Commission Docket No. 39545, Lone Star's *Notice of Corporate Reorganization,* which involved the Company's Sale Transfer Merger filing. Other costs include those for Overall Project Development and Allowance for Funds Used During Construction ("AFUDC"), which are allocated to capital costs as discussed in the following paragraph.

The following table summarizes Lone Star's capital investment, with Overall Project Development and AFUDC allocated, and the total amounts reflected in Lone Star's interim and final proposed rates:

Facility	Interim Rate Capital Investment ($ millions)	Final Rate Capital Investment ($ millions)
Substations	$47.88	$140.96
Transmission Towers & Lines	$0.00	$501.47
ROW & Land Acquisition	$0.95	$118.37
Control Centers, EMS facilities & Office Equipment	$9.49	$9.69
Capital Spares	$0.31	$2.54
Regulatory Assets	$0.94	$11.51
Totals	$59.58	$784.54

Q. HOW DID THE COMPANY QUANTIFY THE CAPITAL INVESTMENT INCLUDED IN LONE STAR'S CALCULATION OF RATE BASE?

A. In order to quantify the capital investment included in its rate filing, Lone Star relied on its actual investments (*e.g.*, actual investments through September 30, 2011) and the capital budgets Lone Star developed for various aspects of this project, including its substations, series compensation stations, transmission lines, control centers, EMS facilities and offices.

Q. HOW DID LONE STAR DEVELOP ITS CAPITAL BUDGETS?

A. In general, Lone Star based the various capital budgets for this project on actual costs, as well as information provided by various Subject Matter Experts ("SMEs"), including, but not limited to, SMEs with expertise in engineering and

construction, ROW and land acquisition, and control centers and EMS facilities. These SMEs have extensive experience and expertise in their respective fields and of the type required for Lone Star's project. To the extent applicable, Lone Star also considered the technical requirements of ERCOT and the ERCOT Competitive Renewable Energy Zone Transmission Optimization ("ERCOT CTO") Study. Lone Star similarly considered market studies in order to identify the reasonable and necessary cost of ROW and land acquisition.

Q. HOW DO THE CAPITAL COSTS INCLUDED IN THIS RATE FILING COMPARE TO THE ESTIMATES LONE STAR HAS PREVIOUSLY PROVIDED TO THE COMMISSION SINCE OBTAINING ITS CCN?

A. The capital costs included in Lone Star's rate filing compare favorably with the estimates Lone Star has consistently provided to the Commission since obtaining its CCN in late 2010, including the most recently filed estimate with the Commission on October 24, 2011 at $799.7 million (*i.e.*, total costs including those footnoted in the October 24, 2011 filing). Thus, the Capital Costs in final rates at $784.5 million are slightly less than the costs most recently filed with the Commission prior to filing this rate case.

Q. HOW DO THE CAPITAL COSTS INCLUDED IN THIS RATE FILING COMPARE TO THE ESTIMATES PROVIDED IN THE ERCOT CTOS?

A. Lone Star's capital costs compare favorably with the ERCOT CTOS construction estimate at $1.88 million per mile. Notably, ERCOT's CTOS estimate assumed

straight line transmission and did not include AFUDC, Development, ROW and Land and Property Taxes. Using Mr. Mayers' construction costs for the transmission lines at $449.63 million and its length at approximately 320 miles, Lone Star's comparable per-mile cost is approximately $1.41 million per mile, which is less than the ERCOT CTOS construction estimate of $1.88 million per mile.

Q. WHAT COST CONTROL PROCESSES DOES LONE STAR HAVE IN PLACE TO ENSURE THAT ITS CAPITAL COSTS AND RELATED O&M EXPENSE REMAIN REASONABLE?

A. As explained in Mr. Mayers' direct testimony, Lone Star's use of competitive bid procurement practices are designed to ensure that outside services and materials are obtained at fair and reasonable pricing. Similarly, Ms. Dietrich and Mr. Flaherty explain the cost control processes that are in place to ensure that the affiliate shared services support costs are reasonable and necessary. In addition, project status, budgets, costs, and expenses are evaluated, reported, and monitored monthly to ensure that Lone Star's objectives are achieved and that the costs incurred are reasonable and accurately reported.

A. ROW and Land Acquisition

Q. WHAT AMOUNT OF CAPITAL INVESTMENT ASSOCIATED WITH ROW AND LAND ACQUISITION IS LONE STAR REQUESTING?

A. With respect to its interim rate request, Lone Star is requesting approximately $948,000 in ROW and land acquisition. Lone Star's interim rate request for ROW and land acquisition includes only costs for the Sam Switch and Navarro Substations. With respect to its final rate request, Lone Star is requesting approximately $118.4 million in ROW and land acquisition costs. Lone Star's final rate request for ROW and land acquisition includes all land purchased to construct each of the substations and series compensation stations that are a part of Lone Star's CREZ project and all of the ROW for Lone Star's transmission line. Also included in the requested amount are costs for ROW Land Development. These costs relate to the management of the overall ROW and land acquisition process, including labor, shared services, 3rd party Consulting, Project Management Contractors, Home Office Support and Other Costs. Lone Star's ROW and land acquisition costs also include costs charged directly to each Lone Star Facility for Land Negotiation, Eminent Domain Actions, Land Acquisition Surveys, Environmental Surveys and Permitting, and Utility Research and Coordination.

The ROW and land acquisition costs for each of Lone Star's substations, series compensation stations and transmission line facilities, rounded to the nearest thousand dollars, are listed in the table below:

Phase	Facility	ROW and Land Acquisition Cost
Phase I	Navarro 345 kV substation	$598,000
	Sam Switch 345 kV substation	$350,000
	Total Phase I: Interim Rate Period	**$948,000**
Phase II	Transmission Facilities Central A to West Shackelford	$17,582,000
	Transmission Facilities West Shackelford to Sam Switch	$83,274,000
	Transmission Facilities Sam Switch to Navarro	$15,022,000
	Romney 345 kV Series Compensation Station	$374,000
	Kopperl 345 kV Series Compensation Station	$367,000
	West Shackelford 345 kV Substation	$800,000
	Total Phase II:	**$117,419,000**
Phase I & II	**Total Phase I & II: Final Rate Period**	**$118,367,000**

Q. WHAT IS THE CURRENT STATUS OF LONE STAR'S ROW AND LAND ACQUISITION ACTIVITIES?

A. With respect to cost, more than $38 million of the total $118.4 million investment in ROW and land has already been incurred, as of September 30, 2011. As of the date of this filing, Lone Star has already acquired the land necessary to construct all of its substation and series compensation stations more than 60% of the required transmission line easements. The land acquisition process for the entire

project is expected to be complete by July 2012 and will have involved obtaining transmission line easements from more than 900 landowners across properties located in 11 counties (Scurry, Fisher, Jones, Shackelford, Callahan, Eastland, Comanche, Erath, Bosque, Hill and Navarro Counties) across a distance of approximately 320 miles.

Q. DO THE FACTORS DRIVING ROW AND LAND ACQUISITION COSTS DIFFER FROM LONE STAR'S OTHER CAPITAL COSTS, SUCH AS CONSTRUCTION AND MATERIALS?

A. Yes, unlike costs that Lone Star can identify based on the fixed contracts that it has executed with its contractors and various vendors, ROW and land costs are driven by factors largely outside of Lone Star's control, such as changes in real estate markets, the existence (or lack) of willing landowners, changes in the law (*i.e.*, most recently with the passage of Senate Bill 18), and eminent domain (*e.g.*, legal fees, negotiations and court costs). Each of these factors has impacted the cost for ROW and land acquisition, and thus has impacted the overall cost of Lone Star's transmission system.

Q. HAVE ANY OTHER FACTORS ASSOCIATED WITH LAND ACQUISITION AND ROW IMPACTED OVERALL PROJECT COSTS?

A. Yes. In accordance with the Commission's directive and orders in Docket Nos. 38230 and 38642, Lone Star has worked collaboratively with landowners in order

to address their concerns by making certain route adjustments to mitigate the impact to landowners' properties.

Q. HOW DID LONE STAR MANAGE LANDOWNER REQUESTS FOR ROUTE MODIFICATIONS?

A. In deciding whether to make landowner-desired route adjustments, Lone Star considered whether all affected landowners were in agreement, whether environmental, engineering, or other constraints prevented the request, whether the overall project schedule would be significantly impacted and whether the overall project costs would be significantly impacted.

Q. HOW HAS THE PASSAGE OF SENATE BILL 18 IMPACTED ROW ACQUISITION AND ITS ATTENDANT COSTS?

A. Lone Star modified its ROW acquisition processes for the parcels which fall under the new requirements of Senate Bill 18, effective on September 1, 2011, to ensure compliance with its provisions. For example, Lone Star implemented processes that would allow for more time between initial offers and final offers in order to obtain the required appraisal needed for the final offer. This process change, made necessary by Senate Bill 18, introduced two factors that increased time and costs related to ROW and land acquisition.

First, prior to the implementation of Senate Bill 18, appraisals were required for eminent domain proceedings, but not required for final offers to landowners.

With the implementation of Senate Bill 18, appraisals are now required for both eminent domain proceedings and for every final offer made to a landowner. As a result, Lone Star must now obtain an appraisal for every ROW transaction that requires a final offer and incurring the cost to obtain the appraisal, regardless of whether Lone Star could reach agreement prior to an eminent domain proceeding. Thus, costs for appraisals have increased Lone Star's costs for ROW acquisition.

Second, Senate Bill 18's provisions increase the time allotted for both the negotiation process and the eminent domain process itself (*e.g.*, time allotted for appointing commissioners and setting hearing dates). To mitigate effects that these lengthened timeframes could have on the construction schedule (*e.g.*, delays in ROW acquisition causing construction delays and increased construction costs for demobilization and remobilization, delays affecting necessary outages scheduled with ERCOT, and delays in in-service dates), Lone Star has had to increase the resources devoted to the ROW acquisition process. These additional resources were necessary to initiate ROW proceedings earlier in the process and thereby, allow Lone Star to meet its construction schedules.

Q. WHAT PRINCIPLES HAS LONE STAR RELIED ON TO GUIDE ITS LAND AND ROW ACQUISITION PROCESSES AND ACTIVITIES?

A. Lone Star designed its land and ROW acquisition efforts to ensure the fair and reasonable treatment of landowners, the efficient acquisition of ROW and the incurrence of prudent costs. Lone Star has relied on the Commission Orders in

Docket Nos. 38230 and 38642, which required Lone Star to cooperate with landowners and to implement route modifications that mitigate impacts to landowners' properties. Lone Star has listened to landowners' concerns and addressed them where practicable. Lone Star has also actively addressed landowners' concerns with easement provisions, incorporating measures to address concerns when feasible. Lone Star is also managing ROW acquisition through the use of regular and frequent meetings, a detailed schedule that documents key activities and milestones, geospatial databases which monitor performance with key attributes (including access rights and construction rights), and special construction requirements and dashboards.

Q. WHAT PROCESSES ARE BEING USED BY LONE STAR TO ENSURE THE SUCCESSFUL ACQUISITION OF ROW AND LAND FOR ITS PROJECT?

A. Lone Star has developed several processes to ensure successful ROW and land acquisition and is utilizing the services of several vendors to implement these processes. Lone Star uses market studies, compensation summary reports, appraisals and other relevant information to determine the amounts of offers to landowners. Lone Star also attempts to avoid condemnation proceedings to the extent reasonable and practical.

Lone Star uses several vendors for land-related acquisition services including: ownership verification and title work, surveys, appraisals, negotiations, legal,

crossings and permits, document management and project oversight. Vendors submit regular reports documenting work performed. Lone Star reviews these reports to validate invoices prior to payment and to ensure work was performed as expected. Meetings with those individuals responsible for ROW acquisition, surveying, engineering and construction are held regularly and Lone Star uses these meetings to monitor progress, review potential challenges which might affect construction schedules and identify proactive measures to address those challenges. To assist with these efforts, Lone Star maintains a detailed land acquisition schedule that identifies key activities and milestones, critical paths, resources and dependencies. All teams have access to geospatial databases which enable timely access to current status of land acquisition (*e.g.*, right of entry, negotiations, executed easement and eminent domain). Daily dashboards are published and distributed to team members as another means to track ROW and land acquisition progress on a real-time basis.

Q. WHAT PARAMETERS DID LONE STAR USE TO SELECT THE LOCATIONS FOR THE SUBSTATIONS?

A. Lone Star identified locations for West Shackelford, Sam Switch, and Navarro prior to filing its CCN in Commission Docket No. 38230. After the Commission approved the route in Docket No. 38230, Lone Star was able to identify locations for Romney and Kopperl, these sites being located at approximately one-third and two-thirds the distance from West Shackelford to Sam Switch along the Commission-approved route.

Lone Star selected the Sam Switch Substation site from a willing seller to facilitate the interconnection of the existing Oncor 345 kV double circuit lines that run between the Tradinghouse Substation in McLennan County to the Venus Substation in Ellis County. Lone Star selected a site from a willing seller that would provide for construction of the Sam Switch Substation adjacent to the existing Oncor 345 kV transmission line. Four Oncor circuits will terminate at the Sam Switch Substation.

Lone Star selected the Navarro Substation site from a willing seller to facilitate the interconnection of two existing Oncor double circuit lines, the Big Brown to Watermill and the Limestone to Venus 345 kV lines. Eight Oncor circuits will terminate at the Sam Switch Substation.

The Commission approved Lone Star's proposed location for the West Shackelford Substation in Docket No. 38230. In addition, ERCOT reviewed the locations of the substations submitted by Lone Star and determined the proposed location of the West Shackelford Substation was reasonable and cost-effective.

Following the Commission's approval of the selected transmission line route in Docket No. 38230, Lone Star located the Romney and Kopperl Series Compensation Substations at locations approximately one-third and two-thirds of the total mileage between West Shackelford and Sam Switch, taking into account access via public roads, existing electric infrastructure, and willing sellers.

Q. WHAT PROCESS AND PARAMETERS DID LONE STAR USE TO SELECT THE PARCELS THAT MUST BE ACQUIRED IN ORDER TO CONSTRUCT THE TRANSMISSION LINE?

A. Following the Commission's approval of Lone Star's route, Lone Star identified those parcels upon which easements would be required by using aerial photography. As Lone Star gained access to properties for environmental walkthroughs and engineering review, Lone Star continued to refine the alignment and required easements on properties which had been previously noticed in Lone Star's CCN case. Lone Star also incorporated route modifications to mitigate impacts to landowners' properties when feasible and when doing so would not add significant costs to the project.

Q. HAS LONE STAR BEEN GENERALLY SUCCESSFUL IN ACQUIRING TRANSMISSION LINE ROW OUTSIDE OF THE CONDEMNATION PROCESS?

A. Yes. So far, Lone Star has generally been successful in acquiring transmission line ROW, with more than 80% acquired through negotiations without the use of the condemnation process.

Q. PLEASE DESCRIBE THE COSTS FOR ROW LAND DEVELOPMENT INCLUDED IN LONE STAR'S ROW AND LAND ACQUISITION COSTS.

A. Lone Star's transmission line ROW and land acquisition costs include costs charged directly to each Lone Star facility (*i.e.*, each substation, series

compensation station and transmission line segment), including: Central A to Central C (W. Shackelford), Central C (W. Shackelford) to Sam Switch and Sam Switch to Navarro for Land Negotiation, Eminent Domain Actions, Land Acquisition Surveys, Project Management and Environmental Surveys & Utility Coordination, and an allocated portion of Overall Project Development and AFUDC.

With respect to Land Negotiation, Lone Star's costs amount to approximately $73 million for costs associated with payments to landowners and costs paid to outside contractors to negotiate with landowners to maintain a geospatial database tracking ROW acquisition progress across the project.

With respect to Eminent Domain Actions, Lone Star's costs amount to approximately $10.4 million for costs associated with eminent domain actions. These costs include payments already posted with the appropriate courts, as well as actual and projected legal fees.

With respect to Land Acquisition Surveys, Lone Star's costs amount to approximately $13.7 million for costs associated with on-the-ground surveys, land plats and field notes necessary to acquire easements.

With respect to Project Management, Lone Star's costs amount to approximately $7.2 million for costs associated with overall project management of the ROW

and land acquisition processes, progress, and schedule to help ensure the close coordination of land acquisition with construction activities.

With respect to Environmental Surveys and Utility Coordination, Lone Star's costs amount to approximately $1.9 million for costs associated with necessary on-the-ground environmental surveys and environmental reports and associated with necessary coordination with subsurface and overhead utilities and crossing agreements, and for necessary coordination with other transmission service providers.

Q. ARE THE LAND ACQUISITION COSTS INCLUDED IN LONE STAR'S FILING REASONABLE AND NECESSARY EXPENSES?

A. Yes. Lone Star's ROW and land acquisition processes ensure that the costs paid for ROW land acquisition are reasonable, necessary and reflective of the Commission's order that Lone Star work with landowners to develop the final transmission line routing. With respect to its substations, Lone Star identified potential tracts of land that were both suitable for the substations and that were located adjacent to existing Oncor 345 kV electric transmission lines. This placement facilitated the interconnection of the substations so that customers would not be faced with incurring additional costs if CCNs were required and new lines had to be constructed to extend those 345 kV lines to a substation site away from the existing lines. For its transmission line ROW, Lone Star has relied on market studies and appraisals to forecast its costs and has engaged various

resources as discussed earlier in this testimony to manage and perform the various functions necessary to ensure successful completion of ROW and land acquisition.

B. Control Centers

Q. WHAT AMOUNT OF CAPITAL INVESTMENT ASSOCIATED WITH CONTROL CENTERS AND OFFICE EQUIPMENT IS LONE STAR REQUESTING?

A. Lone Star seeks to recover as part of its interim rates capital investment in the Primary and Backup Control Centers in the amount of $6.5 million and offices in Texas in the amount of $0.4 million. These amounts are included in Lone Star's interim rate request since these facilities will be in service when the Sam Switch and Navarro Substations are energized.

Q. PLEASE DESCRIBE THE CONTROL CENTER CAPITAL INVESTMENT THAT LONE STAR SEEKS TO INCLUDE IN RATE BASE.

A. Lone Star's capital investment in its Primary and Backup Control Centers includes costs at $6.5 million, which includes Structures and Improvements, Development, Communication Equipment, Computer Equipment and an allocated portion of Overall Project Development and AFUDC.