Q. PLEASE DESCRIBE THE STRUCTURES AND IMPROVEMENTS COSTS IN THE CONTROL CENTER CAPITAL INVESTMENT THAT LONE STAR HAS INCLUDED IN RATE BASE.

A. With respect to Structures and Improvements, the cost for Lone Star's Primary Control Center amounts to approximately $1.8 million and the cost for the Backup Control Center capital investment amount to approximately $822,000.

These costs include shared services (*i.e.*, project management), outside construction services (*i.e.* Structura, the general contractor), owner provided equipment (*e.g.*, furniture), permits, outside architecture/engineering services, accumulated rent during development and landlord credits as an offset for tenant improvements. These costs are summarized below:

Structures & Improvements	Primary Control Center	Backup Control Center
Contractor	$992,000	$473,000
Owner-Provided Equipment	$385,000	$149,000
Architect/Engineer	$431,000	$20,000
Permits	$2,000	$2,000
Offset for Tenant Improvements	($92,000)	($4,000)
Accumulated Rent	$30,000	$162,000
Project Management	$40,000	$20,000
Total	$1,788,000	$822,000

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

A. With respect to Development costs, these costs include Labor & Shared Services, Outside Services and Other expenses necessary to develop Lone Star's Primary Control Center and Backup Control Center, as well as Lone Star's Primary EMS, Backup EMS and offices in Texas. These Development costs include program development, site selection, and outside services from ScottMadden (management consultants) and AECOM (architect/engineer).

Development costs are allocated, using a pro rata percentage based on "pre-allocation" capital costs, to Lone Star's Primary Control Center (44%) and Backup Control Center (25%), as well as to Lone Star's Primary EMS (16%), Backup EMS (11%) and Field Offices (4%). These percentages total 100% of the total Development Cost. Please refer to the following table for total Development costs:

Items in the Total Development Cost	Development Costs
Labor	$1,383,000
Shared Services	$345,000
Outside Services	$1,151,000
Other	$239,000
Total Development	$3,118,000

Again, these amounts do not reflect Overall Project Development costs and AFUDC.

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

A. With respect to Communications Equipment, the costs in Lone Star's Primary Control Center and Backup Control Center capital investment amount to $0.7 million. These costs include circuit build-out, network equipment, firewall equipment, wiring, phone equipment, racks, servers and owner-provided equipment. Please refer to the following table:

Communication Equipment	Primary Control Center	Backup Control Center
Circuit build-out	$150,000	$150,000
Network Equipment	$20,000	$20,000
Firewall Equipment	$22,000	$22,000
Wiring	$50,000	$50,000
Phone Equipment	$60,000	$60,000
Racks	$16,000	$16,000
Servers	$48,000	$48,000
Owner Provided Equipment	$5,000	$5,000
Total	$371,000	$371,000

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

A. With respect to Computer Equipment, the costs in Lone Star's Primary Control Center and Backup Control Center capital investment amount to $0.7 million. These costs include computer hardware and video projection systems or screens.

Please refer to the table below:

Computer Equipment	Primary Control Center	Backup Control Center
Computer Hardware	$65,000	$53,000
Video Wall, Projection	$375,000	$225,000
Total	$440,000	$278,000

Q. IS LONE STAR USING AN OUTSIDE CONTRACTOR TO PERFORM THE BUILD-OUT ACTIVITIES FOR ITS CONTROL CENTERS? IF SO, HOW WERE THESE OUTSIDE CONTRACTORS SELECTED?

A. Yes, Lone Star selected a very experienced construction contractor, Structura, among other qualified bidders to construct the build-out of its Control Centers using a competitive bidding process. Structura was selected as the successful bidder for reasons including its competitive pricing, its qualifications and experience, and its ability to deliver the project on the timeline requested by Lone Star. Structura excels at technically challenging, time sensitive projects and was named one of the Top 125 General Contractors in Texas and Top Design Build Firms in Texas by Texas Construction.

Q. ARE THE FUNCTIONS TO BE PERFORMED AT PRIMARY AND BACK UP CONTROL CENTERS ESSENTIAL TO LONE STAR'S TRANSMISSION SYSTEM?

A. Yes. The functions to be performed at Lone Star's Primary and Backup Control Centers are essential to Lone Star's transmission system. Lone Star must be able to safely and reliably control and operate Lone Star's transmission system in real

time, monitor performance, take whatever actions are needed to ensure the reliability of its area; and exercise specific authority to alleviate operating emergencies in accordance with applicable NERC Reliability Standards and ERCOT Nodal Operating Guides. Lone Star is required to comply with the Reliability Standards and Operating Guides, as well as the specific practices described in the Operating Guides for the ERCOT Region.

Lone Star will utilize its facilities at its Primary and Backup Control Centers to ensure Lone Star's Transmission Operators are equipped to meet obligations defined in these NERC Standards and ERCOT Operating Guides and be able to possess the responsibility and clear decision-making authority to take whatever actions are needed to ensure the reliability of its area and exercise specific authority to alleviate operating emergencies.

Q. HAS LONE STAR COMPLETED ALL REQUIRED REGISTRATIONS IN ORDER TO OPERATE ITS CONTROL CENTERS?

A. Yes. Lone Star has registered with the Texas Reliability Entity ("Texas RE") as a Transmission Owner, Transmission Operator and Transmission Planner. In addition, Lone Star has registered with ERCOT as a transmission service provider and as an ERCOT Transmission Operator.

Q. WHO WILL BE RESPONSIBLE FOR OPERATING LONE STAR'S CONTROL CENTERS?

A. The Lone Star System Operations group will be responsible for the operation of the Lone Star transmission system and using the EMS facilities to perform power system modeling, power system network analysis, respond to alarming, maintain situational awareness and ensure security and reliability. Lone Star's System Operations group will monitor, control, prepare and schedule look-ahead operations, analyze events, predict events and simulate alternative operating conditions, and report for regulatory compliance.

Lone Star's primary objectives in power system operation are safety, reliability, security, quality and efficiency. To meet these objectives, Lone Star's System Operations Group will utilize a comprehensive set of monitoring and control functions and an advanced set of power system applications with state-of-the-art capabilities in order to achieve and maintain optimal operations at all times.

Q. ARE CONTROL FACILITIES NECESSARY TO OPERATE TRANSMISSION AND SUBSTATION FACILITIES AND MEET OBLIGATIONS UNDER CERTAIN NERC RELIABILITY STANDARDS AND ASSOCIATED ERCOT OPERATING GUIDES AND PROTOCOLS?

A. Yes. Control facilities are necessary to enable qualified personnel to operate transmission and substation facilities and fulfill obligations under NERC Reliability Standards and ERCOT Operating Guides and Protocols. Lone Star's

Control Centers will be used as the control facilities necessary to provide the means for NERC-certified and trained operators to operate Lone Star's transmission line and substation facilities and meet Lone Star's obligations to NERC and ERCOT.

In addition, Lone Star has entered into the "LST-ERCOT Wide Area Network Agreement" that requires Lone Star to establish the telecommunications network and facilities necessary to exchange operating information within Lone Star with the ERCOT ISO and with other entities as necessary to maintain system reliability. This network includes redundant and diversely routed voice and data links. Lone Star's telecommunications facilities will be monitored and controlled by operating personnel in the Lone Star control center that is staffed 24 hours a day, 7 days per week.

Q. WHAT RELIABILITY CONSIDERATIONS AND OTHER PARAMETERS DID LONE STAR USE TO SELECT THE LOCATIONS FOR THE CONTROL CENTERS?

A. Lone Star considered several different sites for Primary Control Center and the Backup Control Center no more than one hour apart in terms of drive time, with the availability to provide backup power, good accessibility, avoidance of physical hazards, avoidance of communications hazards, and avoidance of security concerns and/or the ability to secure the site. Cost and structural security and integrity were also important factors. Also, these sites were located in areas

with limited exposure to weather events that could affect its transmission assets in relatively close proximity to Lone Star's headquarters and ERCOT. The Primary and Backup Control Centers will be constructed in compliance with Uptime Institute Tier I Reliability Standards.

In addition, the Primary Control Center site was selected based on operational and financial considerations, as well as the fact that the site provides for future growth. The Backup Control Center site was selected based on its ability to provide available redundant power through an existing backup Generator during the construction of the Primary Control Site and the fact that it offered sufficient geographic diversity from the Primary Control Center. In addition, both sites have a hardened exterior and allow flexible Control Room layout with some growth capability, are easily accessible from airport and major arteries, and offered favorable lease terms.

Q. IS THE CAPITAL INVESTMENT RELATED TO THE CONTROL CENTERS REASONABLE, NECESSARY AND PRUDENTLY INCURRED?

A. Yes. Lone Star carefully and prudently investigated several options for locations of the control centers. Lone Star's site selection also ensures compliance with NERC standards for backup operations, which requires that control centers be accessible to each other and thereby allow service continuity in the event one of the locations becomes inoperable. In addition, the materials, equipment and

development costs requested by Lone Star are required to construct and operate the control centers in a safe, reliable manner and to comply with ERCOT and NERC requirements. Finally, Lone Star's competitively bid contract with Structura is fixed-price and includes provisions that require Structura to complete the control centers on schedule.

C. Energy Management Systems

Q. PLEASE DESCRIBE THE EMS CAPITAL INVESTMENT THAT LONE STAR HAS INCLUDED IN ITS RATE BASE.

A. Lone Star has included, in both its interim and final rate request, its capital investment in Primary EMS housed at an existing facility in Miami, Florida and its Backup EMS housed in Daytona, Florida. Lone Star's capital investment in Primary and Backup EMS facilities totals $2.6 million. This amount includes costs for Development, Computer Equipment, Computer Software, Communication Equipment and an allocated portion of Project Development and AFUDC.

Q. PLEASE DESCRIBE THE PRIMARY COST COMPONENTS OF THE EMS CAPITAL INVESTMENT THAT LONE STAR IS REQUESTING.

A. Lone Star's capital investment in its Primary and Backup EMS includes costs for Computer Equipment, Development, Computer Software and Communication Equipment. 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.

With respect to Computer Equipment, Lone Star's Primary EMS and Backup EMS capital investment is $1,292,000.

With respect to Development, Lone Star's Primary EMS and Backup EMS capital investment is $865,000. These costs include labor, shared services, outside services and other expenses specific to the development of Lone Star's Primary EMS and Backup EMS. Development costs include program development and site selection. Program development includes outside services from ScottMadden (management consultants) and AECOM (architect/engineer).

With respect to Computer Software, Lone Star's Primary EMS and Backup EMS capital investment is $329,000.

With respect to Communication Equipment, Lone Star's Primary EMS and Backup EMS capital investment is $28,000.

Q. ARE THE EMS FACILITIES ESSENTIAL TO LONE STAR'S TRANSMISSION SYSTEM?

A. Yes. Just like Lone Star's Control Centers, the EMS facilities are essential to operate Lone Star's system and meet Lone Star's obligations under the NERC

Reliability Standards and associated ERCOT Operating Guides. Lone Star's EMS will provide a modern platform and advanced applications for the analysis and optimization of day-to-day transmission operations with robust and scalable processing, time series recording and control of devices. The EMS functionality will provide both the tools and the capability to increase efficiency and optimize the power system operation and will provide automated key functions, such as voltage and system flow status alarming and notifications. Lone Star's EMS will respond to the operator's needs for supervisory control and wide area network security, monitoring, control, preparation and scheduling of look-ahead operations, disturbance analysis, prediction of events and simulation of alternative operating procedures, and reporting for regulatory compliance.

Lone Star's EMS is also designed to facilitate continuous improvements in operational performance. For example, Lone Star's EMS will provide system data availability and recordings that can be used for post event analysis to provide additional insights into the dynamic response of the power system. This provides new opportunities for verification and comparison of transmission planning models, leading to improved planning and utilization of the transmission system. The major benefits of Lone Star's EMS include: optimal utilization of the transmission network assets, enhanced network security and continuous monitoring of system conditions, early warning of incipient operating conditions that could lead to loss of transmission service, and advanced visualization and situational awareness for operators, leading to enhanced grid operation.

Q. WHO WILL BE RESPONSIBLE FOR OPERATING LONE STAR'S EMS FACILITIES?

A. Lone Star's EMS group is responsible for the maintenance of the equipment and infrastructure necessary to ensure that the EMS performs to the original specifications in the areas of Supervisory Control And Data Acquisition, power system modeling, power system network analysis, alarming, situational awareness and electrical security and reliability. Managing Lone Star's system involves planning, monitoring and controlling the transmission assets to achieve and maintain an optimal operating state at all times.

Q. WHY DID LONE STAR CHOOSE TO LOCATE ITS EMS FACILITIES IN FLORIDA?

A. Lone Star's decision was primarily driven by the fact that there were existing Primary and Backup EMS locations in Miami, Florida and Daytona, Florida that could be utilized by Lone Star to effectively and efficiently meet the in-service dates for Lone Star's facilities. By housing Lone Star's EMS facilities within existing facilities, Lone Star could take advantage of existing infrastructure and employee expertise that was remotely located from Lone Star's field assets. This, in turn, allowed Lone Star to construct its Primary and Backup Control Centers at a lower cost than would have been incurred if the EMS facilities were housed at Lone Star's Primary and Backup Control Centers and enabled Lone Star to avoid the need to hire more EMS-dedicated personnel.

Q. IS THE CAPITAL INVESTMENT IN THE EMS FACILITIES REASONABLE AND NECESSARY TO THE PROVISION OF UTILITY SERVICE?

A. Yes, Lone Star reasonably selected existing locations to house its EMS facilities and thereby avoided the additional costs that would have been otherwise incurred to build additional infrastructure necessary to support these facilities. Further, Lone Star was able to rely on existing personnel with operating system expertise, as well as existing relationships that its affiliates have with vendors, in order to acquire equipment and software on favorable terms.

D. Capital Spares and Office Equipment

Q. PLEASE DESCRIBE LONE STAR'S INVESTMENT IN CAPITAL SPARES.

A. Lone Star must necessarily have on hand a certain level of inventory of substation and transmission line Capital Spares to repair and/or replace equipment on an as-needed basis. The amounts for capital investment for Capital Spares included in the Company's interim and final rate requests are approximately $0.3 million and $2.5 million, respectively, inclusive of allocated Overall Project Development and AFUDC.

Q. HAS LONE STAR INCLUDED ANY OFFICE EQUIPMENT INVESTMENT IN ITS RATE FILING?

A. Yes. Lone Star's operations require two Field Offices, which are located in or near Hillsboro and Abilene, Texas. In order to be fully operational, Lone Star must purchase furniture, computer equipment and telecommunications equipment. Lone Star estimates these costs to be approximately $0.6 million ($0.2 million each per field office and for Lone Star's Austin office) for the final rate period.[1] The field offices will be used by Lone Star's High Voltage Leads, Protection & Control Engineers, and Field Operations Manager as part of the day-to-day operation of the transmission system.

Q. ARE THE CAPITAL INVESTMENTS RELATED TO CAPITAL SPARES AND OFFICE EQUIPMENT REASONABLE, NECESSARY AND PRUDENTLY INCURRED?

A. Yes, Lone Star's capital investments in Capital Spares and Office Equipment are reasonable, necessary, and prudently incurred. As a prudent operator, Lone Star must have capital inventory on hand. Lone Star must also maintain offices to operate its daily business.

[1] For the interim rate period, this amount is approximately $0.4 million for one field office and Lone Star's Austin office.

E. CCN and Regulatory Asset Costs

Q. PLEASE DESCRIBE THE TYPES OF COSTS INCURRED BY LONE STAR AS PART OF THE CCN ACQUISITION AND DEVELOPMENT PROCESS.

A. Lone Star has incurred costs related to CCN licensing and other regulatory proceedings. For example, of the CCN costs, approximately $0.9 million is allocated to the interim rates and the total of approximately $11.5 million is included in final rates, including allocated Overall Project Development and AFUDC.

These costs include the legal expenses associated with Lone Star's CCN proceedings and related proceedings, as well as other prior and ongoing legal matters. Lone Star has necessarily incurred certain costs for routing and development of its project.

In addition, Lone Star has incurred costs related to routing and environmental assessment, alternative route development and analyses, open houses conducted prior to filing the CCN application, coordination with the public during routing, land ownership research, parcel mapping, preliminary engineering designs, cost estimates for transmission line and substation facilities in each of the CREZ CCN categories, and from testimonies prepared by Lone Star and its experts. Also included in this amount are the costs associated with the notice provided to the public in accordance with Commission Rule.

Q. ARE ANY INTERNAL LABOR COSTS INCLUDED IN THIS COST CATEGORY?

A. Yes. As discussed below, internal labor costs were incurred by Lone Star. Shared Services were provided by NextEra Energy Transmission, LLC ("NEET"), FPL and NextEra Energy Resources, LLC ("NEER")/Project Management. Lone Star's costs for labor were incurred through direct timesheet charges to Work Breakdown Structure numbers set up for Lone Star's CCN activities. Lone Star and Shared Services employees have provided essential support to the preparation and defense of Lone Star's CCN application both at the Commission and on appeal. In addition, Lone Star and Shared Services personnel have been responsible for managing consultants involved in the CCN (*e.g.*, routing and environmental consultants, aerial photography, mapping and determining property ownership, real estate market studies). Lone Star also incurred coordination costs during the route designation and evaluation process. Lone Star personnel communicated with other interconnecting utilities to ensure that Lone Star's plans were consistent with existing transmission operations, system design and system topology. Lone Star coordinated with other CREZ transmission service providers to determine whether Lone Star's proposed routes may cross or otherwise present reliability considerations with their proposed or selected routes.

Q. PLEASE DISCUSS THE OUTSIDE SERVICES ACTIVITIES THAT LONE STAR REQUIRED.

A. With respect to outside legal services, Lone Star was required to retain outside legal and other professional services to prepare and defend Lone Star's CCN application at the Commission and on appeal to the court. In addition, Lone Star also incurred environmental and routing costs from Burns & McDonnell to prepare alternative routes, assist with open houses and prepared an Environmental Assessment that was required in the CCN application for Lone Star's transmission lines. Similarly, Lone Star retained engineering and technical services from Electrical Consultants, Inc. and Siemens to prepare preliminary designs for cost estimates required in the CCN application and for engineering support for Lone Star's transmission lines and substation facilities.

Lone Star also incurred costs for contractors to support the development of alternative routes, conduct open houses, coordinate with the public and support discovery and testimonies required in the CCN application for Lone Star's transmission lines. In response to the notice of open house meetings, Lone Star received over a thousand contacts through phone calls, letters and emails via the website. Lone Star also received 385 questionnaire responses that were completed by people who attended the open house meetings. In general, Lone Star responded to phone calls with phone calls, letters with letters, and e-mail correspondence via e-mail. Lone Star held open houses in October 2009 to receive feedback from the public and met with landowners and their

representatives. As part of these meetings, Lone Star contractors were hired to participate in tours of the properties, review maps and discuss the routing process.

Lone Star incurred costs for services to support and advise Lone Star in preparing alternative routes, conducting open houses and preparing the CCN application for Lone Star's transmission lines.

Lone Star incurred costs for property ownership research, parcel mapping and cost estimate data for land in the CCN application for Lone Star's transmission lines. In addition, for each county crossed by a proposed route, Lone Star was required to obtain the most recent publicly available tax parcel mapping, either directly from the county appraisal district or a third-party map company that the county appraisal district uses to maintain their mapping. The most recent publicly available tax records for the county were then searched to find the tax card(s) that correspond with the parcel. Each of these tax cards contains the information necessary to identify the tax owner(s) of record for each parcel.

Lone Star incurred costs for routing data required to prepare alternative routes, open house exhibits, the Environmental Assessment, and cost estimates in the CCN application for Lone Star's transmission lines.

Q. ARE ALL OF THESE COSTS REASONABLE AND NECESSARY?

A. Yes. The work performed by Lone Star and its internal and external contractors was reasonable and necessary to obtain and support the CCNs to construct Lone Star's CREZ project.

F. Overall Project Development Costs and AFUDC

Q. PLEASE DESCRIBE THE OVERALL PROJECT DEVELOPMENT COSTS INCURRED BY LONE STAR.

A. Lone Star has included Overall Project Development costs in the amount of approximately $7.8 million incurred through March 2012 and $7.4 million incurred through March 2013; in aggregate this totals $15.2 million in final rates.

Lone Star's costs for Overall Project Development include Labor, Shared Services, Outside Services, Depreciation and Capitalized Property Taxes, Rent & Utilities, and Other costs relating to the entire CREZ project.

These Overall Project Development costs have been allocated to Lone Star's facilities, in Phase I and in Phase II, as shown below:

Overall Project Development Costs	Project Development Through Mar-12 ($ millions)	Project Development Apr-12 Through Mar-13 ($ millions)	Project Development Total ($ millions)
Allocated to Phase I Assets	$0.63	$0.00	$0.63
Allocated to Phase II Assets	$7.16	$7.43	$14.59
Total Allocated Project Development	$7.79	$7.43	$15.22

Q. PLEASE DESCRIBE THE LONE STAR LABOR COMPONENT INCLUDED IN THE OVERALL PROJECT DEVELOPMENT COSTS.

A. Lone Star's capitalized labor costs in total amount to approximately $3.9 million. Lone Star's labor costs are for Lone Star's employees and activities primarily related to overall administration, regulatory, compliance, and the overall project. These costs include salaries, incentives, and pensions and benefits. It is important to note that Lone Star's direct employee labor costs have been capitalized until the Project is placed in service, at which point labor costs are reflected as O&M expense. During the interim period, a portion of these costs are included in O&M based on the relative percentage of assets placed in service during the interim period.

Q. PLEASE DESCRIBE THE SHARED SERVICES COMPONENT OF OVERALL PROJECT DEVELOPMENT COSTS.

A. As it relates to Overall Project Development costs, the majority of Lone Star's costs for Shared Services were related to labor. The Shared Services costs in Overall Project Development relate to the following functions: accounting, audit, compliance, construction, engineering, human resources, customer service, development, finance, IM services, legal, management (business, executive, and project management), maintenance, operations, real estate, regulatory, sourcing, tax, technical services, technology, telecommunications and treasury.

The total amount of Shared Services capitalized Overall Project Development cost is $3.9 million.

Q. PLEASE DESCRIBE THE OUTSIDE SERVICES COMPONENT OF OVERALL PROJECT DEVELOPMENT COST.

A. The Outside Services include activities that were required by Lone Star, but could not be met by the Company or Affiliate resources.

These Outside Services costs in Overall Project Development total to approximately $3.4 million.

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Q. WHAT AMOUNT OF DEPRECIATION AND CAPITALIZED PROPERTY TAX IS INCLUDED IN OVERALL PROJECT DEVELOPMENT COSTS?

A. Lone Star's costs for Depreciation and Capitalized Property Tax are approximately $2.6 million. Please refer to the testimony of Lone Star witness Richard B. Cribbs for more information concerning Depreciation and Capitalized Property Taxes.

Q. PLEASE DESCRIBE THE PROPERTY TAXES INCLUDED IN OVERALL PROJECT DEVELOPMENT COSTS.

A. Lone Star has included costs in the amount of $1.1 million in the interim rate period and, in aggregate, $12.9 million in final rates for ad valorem or property

taxes incurred during construction. These are taxes assessed by taxing authorities in each county in which Lone Star is constructing facilities.

Location	Property Taxes
Navarro 345 kV substation	$680,000
Sam Switch 345 kV substation	$450,000
Phase I	**$1,130,000**
Transmission Facilities (Central A to W Shackelford)	$2,900,685
Transmission Facilities (W Shackelford to Sam Switch)	$5,907,450
Transmission Facilities (Sam Switch to Navarro)	$796,244
50% compensation on West Shackelford to Navarro/Sam Switch at Kopperl and Romney substations	$1,540,000
West Shackelford substation	$630,000
Phase II	**$11,774,380**
Total Subs + Transmission Lines	**$12,904,380**

Q. ARE PROPERTY TAXES A REASONABLE AND NECESSARY COST THAT SHOULD BE RECOVERED IN LONE STAR'S RATES?

A. Yes, Lone Star's payments for property taxes are normal expenses that are reasonable and necessary and should be recovered in Lone Star's rates.

Q. WHAT AMOUNT OF RENT & UTILITIES IS INCLUDED IN OVERALL PROJECT DEVELOPMENT COSTS?

A. Lone Star's costs for Rent & Utilities within Overall Project Development costs total to approximately $870,000.

Q. PLEASE DESCRIBE THE OTHER COSTS COMPONENTS OF LONE STAR'S OVERALL PROJECT DEVELOPMENT COSTS.

A. The Other costs included in Lone Star's Overall Project Development costs include dues, insurance, supplies, direct-employee travel, miscellaneous items and total $627,000.

Q. PLEASE DESCRIBE HOW TOTAL OVERALL PROJECT DEVELOPMENT COSTS WERE ALLOCATED TO LONE STAR'S FACILITIES.

A. Lone Star's Total Overall Project Development costs through March of 2012 were allocated generally on a pro rata basis to Phase I and Phase II facilities. In addition, Overall Project Development costs that will be incurred in the interim period will be allocated to capital associated with Phase II facilities. These costs and allocations are shown in the workpapers supporting my direct testimony.

Q. ARE OVERALL PROJECT DEVELOPMENT COSTS A REASONABLE AND NECESSARY COST THAT SHOULD BE RECOVERED IN LONE STAR'S RATES?

A. Yes. Especially since Lone Star is a "new entrant" Transmission Service Provider, Lone Star necessarily incurred Overall Project Development costs which were reasonable and necessary to develop Lone Star as a company and its project. These costs were incurred prudently as discussed above.

Q. WHAT AFUDC AMOUNT HAS LONE STAR INCLUDED THIS FILING?

A. Lone Star has included costs for AFUDC in this filing. Lone Star has included AFUDC of approximately $1.8 million in interim rates and approximately $61.9 million in final rates (*i.e.*, the sum of AFUDC in all phases of Lone Star's project). Mr. Cribbs supports the accrual of the AFUDC amounts which are included in the costs of Lone Star's Phase I and Phase II facilities.

V. OPERATIONS AND MAINTENANCE EXPENSE

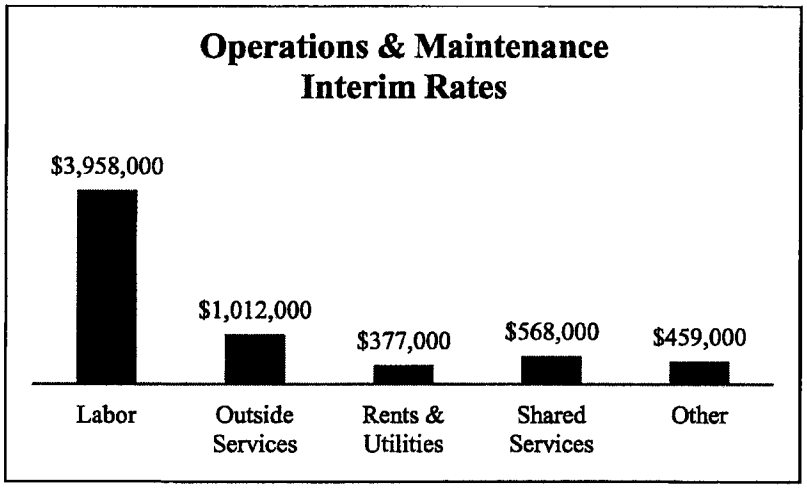
Q. WHAT O&M EXPENSE HAS LONE STAR INCLUDED IN ITS RATE FILING?

A. Lone Star has included a level of projected O&M expense that is necessary to maintain and operate its transmission system in a safe and reliable manner.[2] O&M expenses include the cost of labor and expenses incurred in the supervision and direction of the operation of the transmission system as a whole; the costs of

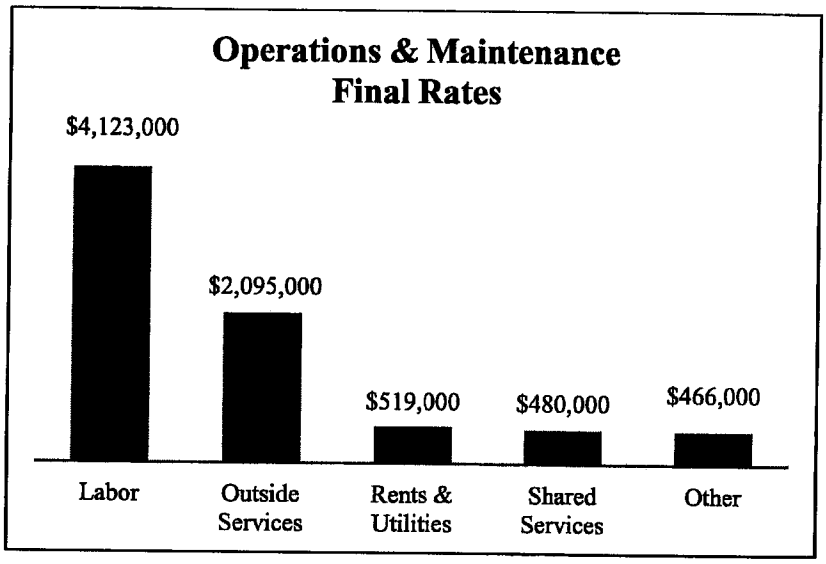
[2] With respect to projected O&M expenses, including A&G expense, Lone Star will provide updated information to the extent known and required by the Commission's rate filing package requirements.

labor, materials used and expenses incurred by a transmission provider to monitor, assess and operate the electric system and individual transmission facilities in real-time to maintain safe and reliable operation of the transmission system; the expense incurred to manage transmission facilities to maintain system reliability and to monitor the real-time flows and direct actions; and the expenses for system planning of the bulk electric system. In addition, A&G-related activities are captured in the Company's O&M expense. A&G activities are discussed in Section VI of my direct testimony.

The following chart depicts Lone Star's O&M expense, excluding A&G expense in interim rates:



The following chart depicts Lone Star's O&M expense, excluding A&G expense in final rates:



Q. PLEASE DESCRIBE HOW YOU HAVE QUANTIFIED THE O&M EXPENSE INCLUDED IN LONE STAR'S RATE FILING.

A. Lone Star identified the O&M activities that are necessary to provide safe and reliable electric power associated with its two substations in the interim period and for all facilities and the approximately 320 miles of electric transmission line facilities from April 1, 2013 through March 31, 2014. To that end, Lone Star developed its O&M expense by identifying necessary transmission reliability programs and developing the related costs based on internal expectations and certain competitive bids for O&M services. In addition to those costs, Lone Star also calculated its O&M expense for labor, rents, vehicles, equipment, tools and other expenses.

Q. PLEASE DESCRIBE LONE STAR'S TRANSMISSION RELIABILITY PROGRAM AND HOW RELIABILITY PROGRAMS AFFECT O&M ACTIVITIES.

A. Reliability can be measured in a variety of means. The frequency of outages, the percentage of time available to ERCOT customers, and compliance with applicable Commission and NERC reliability standards can all be used to measure reliability. O&M programs can have a positive impact on reliability when implemented proactively and at levels appropriate for each type of equipment.

Lone Star's transmission reliability programs will be based upon and adapted from FPL's well-established O&M practices for its transmission and substation facilities. Inspection and maintenance cycles vary by type of equipment.

By way of example, with respect to transmission line maintenance, Lone Star intends to utilize a 12-month cycle for vegetation management (utilizing bi-annual ROW inspections) and a 72-month cycle for general maintenance, including detailed thermography and climbing inspections. Lone Star will also perform repairs as needed, and in a timely manner, in response to results obtained from ground patrols and air patrols.

Q. HOW WILL LONE STAR'S O&M ACTIVITIES BE PERFORMED?

A. Lone Star will use FPL's well-established O&M practices for its transmission and substation facilities. Lone Star will be supported by FPL's 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. By obtaining these transmission-related support services from TS Group, Lone Star will be able to achieve certain efficiencies for Lone Star customers that Lone Star would not otherwise be able to achieve on its own, provide reliable and safe transmission service and meet the anticipated needs of the Texas electric energy market.

Q. ARE THE O&M EXPENSES (EXCLUSIVE OF A&G EXPENSE) INCLUDED IN LONE STAR'S FILING REASONABLE AND NECESSARY TO OPERATE AND MAINTAIN LONE STAR'S TRANSMISSION AND SUBSTATION FACILITIES?

A. Yes, the costs for Lone Star's O&M expenses included in this filing are reasonable and necessary to provide safe and reliable electric service, as those costs are based on reliability programs and have been primarily developed from competitive bids, both of which have been developed by experienced SMEs from FPL's TS Group. In addition, Lone Star is utilizing a staffing approach that recognizes and maximizes the benefits derived from using shared services provided by its affiliated companies. Exclusive of A&G expenses, Lone Star's O&M expenses amount to $6.4 million in the interim period and $7.7 million in the final rate period.

Q. WHAT PROCESSES ARE IN PLACE TO ESTABLISH, MONITOR, AND CONTROL LONE STAR'S O&M EXPENSES?

A. Lone Star's O&M expenses are largely driven by the results from inspections that will be analyzed and reviewed by SMEs from FPL's TS Group. Based on these analyses and reviews, SMEs will prescribe the levels of follow-up maintenance to be performed by Lone Star largely through contract services which were competitively bid. In these ways, the levels of maintenance, with its attendant costs, will be effectively controlled by SMEs with the expertise to prescribe appropriate levels of maintenance to ensure the provision of safe and reliable electric service.

Q. WHICH AFFILIATE COMPANIES WILL SUPPORT LONE STAR'S OPERATIONS?

A. Lone Star affiliated companies that provide shared services to Lone Star include NEET, NEER and FPL. Ms. Dietrich sponsors the Services Agreements, cost allocations and affiliate-related expenses and cost recovery of the charges for the services that these entities provide on Lone Star's behalf. I support Lone Star's need for the shared services provided by Lone Star's affiliates.

Q. WILL ANY ENTITIES OTHER THAN LONE STAR'S AFFILIATES PROVIDE O&M SERVICES TO LONE STAR?

A. Yes, Lone Star will use outside services for many of the inspections and the majority of maintenance activities associated with Lone Star's reliability

programs which will be analyzed and reviewed by Lone Star personnel with support from FPL's TS Group.

Q. PLEASE DESCRIBE THE BASIC STRUCTURE OF LONE STAR.

A. Lone Star Transmission is functionally comprised of Lone Star Transmission Administration and Lone Star Transmission Operations. Both of these functional organizations receive support through shared services from company affiliates in accordance with Lone Star's Commission-approved Code of Conduct.

Lone Star's Transmission Administration is primarily involved in administration and compliance, regulatory, legal, accounting, planning and development activities. These activities are discussed in more detail elsewhere in my testimony.

Lone Star's Transmission Operations is primarily engaged in operations, system control, EMS and field operations. These activities are discussed in more detail elsewhere in my testimony.

A. <u>Affiliate Support for O&M Activities</u>

Q. PLEASE DESCRIBE THE SHARED SERVICES PROVIDED BY AFFILIATE COMPANIES TO LONE STAR.

A. Transmission Operations is supported by NEET and business units within FPL and certain NEER organizations. As permitted by Commission Rules and Lone Star's Code of Conduct, Lone Star will rely on shared services for Information

Management (telecommunications support), Technology (operations and maintenance support), Transmission and Substation (operations and maintenance support), Safety and Environmental Management. I discuss in the next section the manner in which support from the affiliated companies is specifically utilized by Lone Star's Transmission Operations, as well as the day-to-day role that affiliate support services have on Lone Star's utility operations.

Q. WHAT ADVANTAGES DOES LONE STAR REALIZE AS A RESULT OF RECEIVING SUPPORT SERVICES FROM ITS AFFILIATES?

A. As explained in the direct testimony of Ms. Dietrich and Mr. Flaherty, Lone Star's affiliates are able to provide support services to Lone Star more efficiently and at a lower cost than could be achieved if Lone Star had to perform these same activities on a stand-alone basis. In addition, the employees working at Lone Star's affiliated companies are highly knowledgeable and experienced in utility operations and processes. As a result, economies are produced through a common knowledge and provision of services. This, in turn, allows companies such as Lone Star to concentrate on serving their primary purpose, which is to provide safe and reliable electric transmission service to its customers. In aggregate, Lone Star's employee workforce in the interim period and in the final rate period will be comprised of less than 50 individuals.

Q. ARE THESE AFFILIATE SERVICES DUPLICATED BY LONE STAR?

A. No, these are unique services only provided by affiliates to Lone Star and are not duplicated by Lone Star.

Q. ARE THE SERVICES PROVIDED BY AFFILIATES ESSENTIAL TO LONE STAR'S OPERATIONS?

A. Yes, Lone Star requires these services to meet its obligations to its customers in a safe and reliable manner and enables Lone Star to keep its O&M organization relatively small by avoiding the necessity of hiring its own employees or a third party to perform them without the support of NEET, NEER and FPL.

B. <u>O&M Activities of Lone Star Transmission Operations Organization</u>

Q. PLEASE DESCRIBE THE PRIMARY RESPONSIBILITIES OF TRANSMISSION OPERATIONS AND HOW IT INTERFACES WITH AFFILIATES THAT PROVIDE SERVICES TO LONE STAR.

A. The primary responsibility of Transmission Operations is to ensure that Lone Star provides reliable and safe transmission service at a reasonable cost, complies with applicable laws and regulations (including reliability requirements) and meets the anticipated needs of the electric energy market. Transmission Operations is responsible for transmission grid management, field operations, inspections and maintenance activities for the Lone Star system. Transmission Operations is supported by both Lone Star personnel and shared services support provided by NEET, NEER and FPL.

Q. WHAT IS THE BASIC STRUCTURE OF THE TRANSMISSION OPERATIONS ORGANIZATION?

A. Transmission Operations is organized into three primary departments: System Operations, Field Operations and EMS. System Operations and Field Operations staff will be located in Texas; EMS staffing will be located in Florida.

Q. PLEASE DESCRIBE HOW TRANSMISSION OPERATIONS IS STAFFED.

A. Transmission Operations is located in Texas and is staffed at a level that allows it to perform its primary function, which is to operate and maintain Lone Star's transmission and substation facilities. The staffing level of Transmission Operations also reflects the shared services support Lone Star receives from its affiliated companies, as well as the fact that IT support, facility management and security will be contracted and provided by outside services.

Transmission Operations will be responsible for planning and will direct the overall operations effort, monitor and document compliance with applicable NERC Reliability Standards and the ERCOT Protocols and Operating Guides (collectively, "NERC and ERCOT Standards"). Lone Star Transmission Operations will utilize the FPL TS Group to provide specific support to Lone Star as needed. As discussed above, Transmission Operations is divided into three primary departments which are described below.

System Operations

The System Operations group will be responsible for operating Lone Star's system on a 24/7 basis, monitoring reliability and network conditions, scheduling outages in coordination with other utilities and ERCOT, and supporting construction and maintenance activities. In addition, the System Operations group will assist operators by evaluating system conditions, reliability impacts, coordinating transmission element outages and providing data for updating operational models. The System Operations group will also be accountable for grid operations, monitoring and controlling Lone Star's substation facilities and implementing ERCOT emergency operations in compliance with NERC and ERCOT Standards. System Operations will coordinate facility outages for necessary maintenance and construction. Field Operations

Field Operations

Field Operations will be responsible for field operations, maintenance, and construction in a safe, timely and reliable manner. Field Operations includes the following key functions: reliable operation of Lone Star's switching stations; periodic inspections; operational, functional and diagnostic testing; preventative and reactive maintenance of relaying protection and substation equipment; periodic inspections; and summer and storm preparedness. NERC and ERCOT Standards require Lone Star to develop and implement testing and maintenance programs for its facilities. For example, in accordance with NERC Reliability Standard PRC-005-1a, Lone Star must develop maintenance and testing programs

for the protection systems installed on its facilities (lines and substations). Field Operations will be responsible for these programs.

Field Operations will be supported by outside services for major maintenance activities and management of equipment inventories to both support normal operations and meet emergencies. FPL TS Group will provide SMEs through shared services and support development of equipment specifications, equipment recommendations, best practices and procedures related to installation and maintenance of assets, testing methods and technical support through experienced engineers and analysts. Lone Star employees will perform field and office functions with assistance from both Lone Star contractors and FPL shared resources.

EMS Systems

The EMS Systems group is responsible for the installation, maintenance, modification, and repair of hardware, software, and data used to monitor and operate Lone Star's substations and communicate with Lone Star's Control Centers and ERCOT. In addition, EMS Systems will supervise the overall operation of the applications and infrastructure associated with the Lone Star Control Center systems and update and modify the control system on an as-needed basis, maintain cyber security and ensure functionality in extreme weather events during other adverse conditions. EMS Systems will be supported by the FPL Transmission Technology group, which will assist with development and

implementation of the EMS platform for Lone Star System Operations from Lone Star servers securely located at FPL operations data centers. Lone Star will utilize a stand-alone EMS platform supported by dedicated Lone Star staffing and using the FPL Technology organization to support both Primary and Backup EMS platforms.

Q. IS LONE STAR APPROPRIATELY STRUCTURED, STAFFED AND BUDGETED TO PERFORM ITS PRIMARY FUNCTION?

A. Yes. Lone Star is appropriately structured to perform its primary function – the operation and maintenance of Lone Star's transmission and substation facilities to ensure its facilities provide safe and reliable electric service. It is also equipped to meet NERC and ERCOT system requirements, as well as meet its obligations under PURA and Commission Rules. Lone Star's staffing levels are relatively small and representative of the shared services support Lone Star receives from its affiliates. In addition, Lone Star's staff is deployed in a manner that reasonably and adequately considers the geography of the Lone Star footprint locating field offices in Texas close to the project area; locating control centers in Texas close to the support from Lone Star's headquarters and relatively close to Texas RE and ERCOT; and locating EMS Systems in Florida close to supporting groups providing shared services. Finally, key positions within Lone Star are filled with well-qualified and experienced individuals who possess varied experiences in relevant fields.

Q. ARE THE O&M ACTIVITIES PERFORMED BY LONE STAR AND ITS AFFILIATES NECESSARY TO THE PROVISION OF UTILITY SERVICE BY LONE STAR?

A. Yes. As discussed above, the O&M activities performed by Lone Star and Lone Star's affiliates are necessary to ensure the safe and reliable operation of Lone Star's transmission system. Moreover, with respect to the shared services provided by its affiliates, Lone Star would need to duplicate these services by either hiring additional employees or outsourcing these necessary activities.

C. Charitable Contributions

Q. HAS LONE STAR INCLUDED AN O&M AMOUNT RELATED TO CHARITABLE CONTRIBUTIONS IN ITS RATE FILING?

A. Yes. Lone Star is committed to supporting the vital services that charitable organizations provide to their communities. Lone Star's contributions to charitable organizations during the interim and final rate periods are expected to be $10,000 and $383,000, respectively. These contributions will be made to 501(c)(3) charitable organizations, such as volunteer fire departments, Boys & Girls clubs, booster clubs, and local United Way Chapters that are located in the vicinity of the Lone Star transmission line and facilities, as well as charitable organizations in Texas.

VI. ADMINISTRATIVE & GENERAL EXPENSES

Q. WHAT A&G EXPENSES HAS LONE STAR INCLUDED IN THIS RATE FILING?

A. Lone Star has included A&G expenses in the amount of approximately $428,000 in the interim period and $6.3 million in the rate period. Lone Star's costs for A&G activities are captured in its O&M expense and include Labor, Shared Services, Outside Services, Rents & Utilities, Charitable Contributions, Insurance, and Other costs. Most of Lone Star's costs for these types of expenses in the interim period are allocated to capital, with the remaining costs allocated to A&G.

Q. WHAT FUNCTIONS ASSOCIATED WITH A&G EXPENSES ARE PERFORMED BY LONE STAR EMPLOYEES (*I.E.*, LABOR)?

A. Lone Star's employees are responsible for overall direction of Lone Star and for monitoring, participation and coordination of regulatory proceedings. In addition, Lone Star employees analyze, develop, and maintain operating and planning compliance processes and procedures. Lone Star employees are also responsible for planning and development activities and will maintain Lone Star's books and records.

Q. PLEASE DESCRIBE THE SHARED SERVICES COMPONENT OF LONE STAR'S A&G EXPENSES.

A. NEET, NEER and FPL perform A&G activities for Lone Star. Lone Star's costs for Shared Services are captured in direct charges and Affiliate Management Fees

(*e.g.*, from FPL and NEER). Ms. Dietrich provides additional detail regarding the components and allocation methodology applicable to the Affiliate Management Fees. The Shared Services in A&G include accounting, audit, compliance, human resources, finance, IM and telecommunications services, legal, management, regulatory, sourcing, tax and treasury.

As permitted by Commission Rules and Lone Star's Code of Conduct, Lone Star avails itself of shared services for legal, business management, finance, information management, supply chain, accounting, real estate services, environmental services, corporate communications, human resources, safety and other shared services. The NEER Engineering & Construction business unit is also providing services to Lone Star during the construction and initial operational phases of Lone Star's work on its CREZ project and will continue to do so from time to time. NEET provides transmission operations management oversight. All of these shared services are available to the Transmission Operations in compliance with Lone Star's Code of Conduct and Limited Waiver approved in Commission Docket No. 39551.

Lone Star relies on the shared support services of its affiliates to help it run its day-to-day business operations. For example, Lone Star relies on NEET, NEER and FPL to provide management and administrative functions, such as human resources, planning and budgeting, accounting, legal, rates and information technology support.

Q. PLEASE DESCRIBE THE OUTSIDE SERVICES COMPONENT OF LONE STAR'S PROJECT DEVELOPMENT COSTS.

A. Lone Star's A&G costs for Outside Services include financial, audit, legal and regulatory services.

Q. ARE THE A&G EXPENSES INCLUDED IN LONE STAR'S RATE FILING REASONABLE AND NECESSARY?

A. Yes. The level of requested expenses for A&G expenses are commensurate with the level of activities Lone Star requires to operate its business. These services are not duplicative and the costs are reasonable as evidenced by the testimony provided by Mr. Flaherty.

VII. MAINTENANCE RESERVE, SELF-INSURANCE & MISC. MATERIALS

Q. PLEASE EXPLAIN LONE STAR'S REQUEST TO ESTABLISH A MAINTENANCE RESERVE.

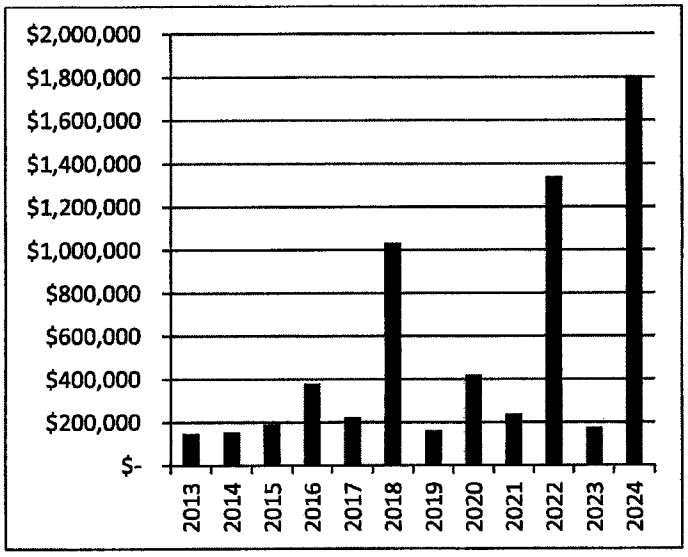
A. Lone Star requests to establish a maintenance reserve in order to accrue, on an annual basis, approximately $285,000 in order to fund maintenance costs with known projected spikes that will occur in future years based on maintenance periods of various lengths and recurring in an overall 12-year cycle.

Q. WILL THE MAINTENANCE RESERVE BE USED TO FUND A PARTICULAR TYPE OF REQUIRED MAINTENANCE?

A. Yes. Lone Star's maintenance reserve will be used to fund necessary substation maintenance activities that vary significantly year-to-year over the forecasted overall 12-year cycle and are identified during inspections and condition assessments. Lone Star's maintenance reserve will not be used to fund inspections and condition assessments, as the costs of these expenses are forecast regularly and consistently from year to year. In addition, the maintenance reserve will not be used for Lone Star's transmission line equipment and facilities.

Q. IS THIS TYPE OF MAINTENANCE RECURRING IN NATURE?

A. Yes, as discussed above, Lone Star will incur in some years of operation relatively large estimated maintenance costs. Lone Star has projected substation maintenance costs to follow an overall 12-year cycle. The figure below depicts estimated substation maintenance costs year-by-year from 2013 through 2024:



As this figure clearly demonstrates, Lone Star's forecasted substation maintenance costs vary significantly year-to-year. While it is not unusual to expect substation maintenance costs for a particular piece of equipment to vary significantly on a year-to-year basis, unlike an established utility with substation equipment of various ages and vintages that can attempt to level its substation maintenance costs on an annual basis, Lone Star's substation equipment will be installed new in a relatively narrow time band of virtually one age and vintage.

Q. WHY DOES LONE STAR NEED TO ESTABLISH A RESERVE FOR THIS TYPE OF EXPENSE?

A. Because rates are designed to recover uniform levels of costs on a year-to-year basis and these costs, while known, vary significantly from year-to-year depending on the point of the maintenance cycle, Lone Star proposes to establish a reserve for this type of expense to be able to fund substation maintenance in 12-year cycles, for the provision of reliable and adequate electric energy through Lone Star's transmission facilities.

Q. HOW DID LONE STAR DETERMINE THE MAINTENANCE RESERVE AMOUNT THAT SHOULD BE ANNUALLY ACCRUED?

A. Lone Star determined the maintenance reserve that should be annually accrued by engaging resources from FPL TS Group to forecast Lone Star's substation maintenance costs during its first 12-year cycle (*i.e.*, 2013 through 2024) using costs from actual bids for substation maintenance services. Lone Star then

averaged those forecasted costs across those same 12 years and, after 2024, Lone Star expects costs to follow the same pattern in subsequent 12-year cycles.

VIII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Lone Star's capital investment and O&M expense, which includes A&G costs, are reasonable and necessary. Lone Star has and will continue to utilize its management philosophy and budgetary planning process, utilizing the experience and expertise of its affiliates to ensure its programs are carried out in a safe, reliable and efficient manner.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

AFFIDAVIT OF DAVID K. TURNER

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

1. "My name is David K. Turner. 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 Project Director and Director of Operations for 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.

David K. Turner

SUBSCRIBED AND SWORN TO BEFORE ME by the said David K. Turner this 9th day of December, 2011.

LAURETTA T ROBINSON
NOTARY PUBLIC
State of Texas
Comm. Exp. 12-03-2014

Notary Public, State of Texas

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

DANIEL MAYERS

ON BEHALF OF

LONE STAR TRANSMISSION, LLC

January 9, 2012

INDEX TO THE DIRECT TESTIMONY OF

DANIEL MAYERS, WITNESS FOR

LONE STAR TRANSMISSION, LLC

LIST OF EXHIBITS

LIST OF SPONSORED/CO-SPONSORED SCHEDULES (INTERIM AND FINAL)

EXECUTIVE SUMMARY

Through my testimony, I co-sponsor the capital investment that Lone Star Transmission, LLC ("Lone Star" or the "Company") seeks to recover through rates. Lone Star's Competitive Renewable Energy Zones ("CREZ") transmission project consists of approximately 320 miles of 345 kV transmission lines, three switching substations, two series compensation stations and other associated facilities necessary to safely and reliably operate the transmission facilities. My testimony:

- 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 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 on Lone Star's facilities by NextEra Energy, Inc.'s ("NextEra Energy") Engineering and Construction organization. This includes employees from NextEra Energy Resources, LLC ("NEER") and Florida Power & Light Company ("FPL"), (collectively "E&C").

My direct testimony together with the exhibits and supporting materials demonstrates that the investment associated with the engineering, design, procurement and construction of Lone Star's CREZ facilities is reasonable, necessary and should be approved by the Public Utility Commission of Texas ("Commission") for inclusion in Lone Star's rates.

DIRECT TESTIMONY OF DANIEL MAYERS

I. POSITION AND QUALIFICATIONS

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

A. My name is Daniel Mayers. My business address is 700 Universe Blvd., Juno Beach, Florida 33408. I am Director of Engineering and Construction for NEER working as a shared service employee on behalf of Lone Star, consistent with the Lone Star Code of Conduct as approved by the Commission in Docket No. 36890. I support the transmission line and substation engineering and construction for Lone Star's CREZ facilities.

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

A. I am testifying on behalf of Lone Star.

Q. PLEASE SUMMARIZE YOUR EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. I have over 28 years of experience in transmission system planning, substation and transmission line design and engineering, transmission line siting and permitting, project management and construction at both FPL and NEER. I hold a Bachelor of Science Degree in Electrical Engineering from the University of Pittsburgh and a Master of Science Degree in Engineering Management from the University of South Florida.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?

A. Yes. I have previously filed testimony for Lone Star in Commission Docket No. 38230, which involved the Company's Application for a Certificate of Convenience and Necessity ("CCN") for the CREZ transmission lines that are the subject of this rate case.

II. PURPOSE OF DIRECT TESTIMONY

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

A. I co-sponsor the capital investment that Lone Star has included in this rate filing. In particular, my direct testimony demonstrates that the costs associated with the engineering, design, procurement and construction of Lone Star's CREZ facilities are reasonable, necessary and should be approved by the Commission for recovery in Lone Star's rates. In addition, I support the reasonableness and necessity of the capitalized affiliate costs for services performed on Lone Star's facilities by E&C.

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

A. My direct testimony, in combination with that of Lone Star witness David Turner, supports the projected original cost of utility plant balances used to calculate Lone Star's proposed interim and final rates. In particular, I address the investment

associated with the engineering, design, procurement and construction of Lone Star's transmission system. Mr. Turner sponsors the investment associated with land acquisition and right-of-way procurement, and the design, procurement and construction of Lone Star's Control Centers and Energy Management Systems, as well as the Overall Project Development costs and Accumulated Funds Used During Construction ("AFUDC") associated with Lone Star's CREZ project. Mr. Turner also supports the expense associated with the operations and maintenance ("O&M") of these facilities. Other Lone Star witnesses, such as Cheryl Dietrich, sponsor the cost allocations and affiliate-related expenses and cost recovery issues associated with these facilities.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. First, I provide a general overview of the development of the costs that I am sponsoring and the current construction status of the project. I then discuss the activities and resulting costs associated with the engineering, design, procurement and construction of the three switching substations (West Shackelford, Sam Switch and Navarro), two series compensation stations (Romney and Kopperl) and the transmission lines that will be part of Lone Star's transmission system.

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

A. Yes. I have prepared and sponsor the exhibit listed in the table of contents.