

1 **Q. WILL LONE STAR'S SUPPORT SERVICE NEEDS CHANGE ONCE ITS**
2 **PORTION OF THE CREZ LINES BECOMES FULLY OPERATIONAL?**

3 A. No. Except as described in the testimony of Lone Star witness Daniel Mayers,
4 during the construction phase of the project, Lone Star will require a significant
5 level of support from the NEER and FPL Engineering and Construction ("E&C")
6 team. As described in the testimony of Mr. Turner, once Lone Star's substations
7 and transmission line become operational, the E&C support services will quickly
8 ramp down and ultimately cease.

9
10 For example, during the Interim rate period (April 1, 2012 through March 31,
11 2013), affiliate costs related to E&C support are projected to be \$2,497,743. In
12 contrast, during the Final rate period (April 1, 2013 through March 31, 2014),
13 affiliate costs related to E&C support are projected to be \$1,137,834, with no
14 costs projected to be billed after December 2013.

15
16 In all other support service areas, Lone Star will require a relatively stable level of
17 support services over time. These services include NEET governance and
18 management oversight and FPL and NEER back office, infrastructure and
19 corporate support.

1 **Q. ARE ANY OF THE AFFILIATE SERVICES PROVIDED TO LONE STAR**
2 **DUPLICATED BY ANY OTHER AFFILIATES OR BY LONE STAR**
3 **ITSELF?**

4 **A.** No. Schedule V-K-4 provides detailed descriptions of the affiliate services
5 provided to Lone Star and demonstrates that there are clear differences in the
6 nature of the activities and services performed by NEET, FPL and NEER. In
7 addition, because some functions have both direct billed and allocated charges,
8 the amounts are reduced by any direct charges so as not to duplicate or overcharge
9 the affiliates. Further, Lone Star's review processes, as discussed further below in
10 my testimony, ensure that the Company needs the services provided and neither
11 receives nor pays for duplicative services.

12

13 **C. Specific Services Supported**

14 **Q. DOES YOUR TESTIMONY PROVIDE A DETAILED DISCUSSION OF**
15 **ANY SPECIFIC CLASSES OF SUPPORT SERVICES NECESSARY FOR**
16 **LONE STAR'S OPERATIONS?**

17 **A.** Yes, as discussed below, I address the following support service costs:

- 18 • Business Management and Business Services support provided by
19 NEET.
- 20 • The Corporate Governance, IM, and Law Department support
21 provided by NEER and FPL.
- 22 • Corporate Communications, Corporate Real Estate, Internal Audit, and
23 Strategy, Policy and Process Improvement support provided by FPL.

24 Witnesses that support other specific classes of services are identified on pages 5-
25 6 of my direct testimony.

1 **Q. HOW DO YOU PRESENT THE SPECIFIC CLASSES OF SUPPORT**
2 **SERVICES THAT YOU ARE COVERING?**

3 A. I summarize the services provided by each function, the amount being requested,
4 and demonstrate that there is no duplication of services and that the affiliate
5 services being provided are essential to Lone Star. More detailed descriptions of
6 the functional areas and the services they provide can be found in Schedule V-K-
7 4. First I address NEET, then common services provided by both NEER and
8 FPL, such as the Law Department and IM. I then discuss the unique services
9 provided by NEER and FPL individually. Finally, please refer to Section VI of
10 my testimony for a more detailed description of how the cost estimates discussed
11 below were developed.

12

13 **1. NEET**

14 **a. Business Management**

15 **Q. WHAT SERVICES DOES NEET BUSINESS MANAGEMENT PROVIDE**
16 **TO LONE STAR?**

17 A. NEET business management provides support for the implementation of
18 strategies, financial planning and forecasting, affiliate transaction analysis,
19 regulatory filings and other financial management activities.

1 **Q. HOW MUCH OF LONE STAR'S O&M REQUEST IN THIS CASE**
2 **RELATES TO NEET BUSINESS MANAGEMENT COSTS THAT WILL**
3 **BE BILLED TO LONE STAR?**

4 A. The projected expense for the NEET Business Management is \$72,549 to be
5 included in interim rates and \$1,174,838 to be included in Lone Star's final rates.
6

7 **Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY**
8 **OTHER AFFILIATE?**

9 A. No, these are unique services only provided by NEET Business Management and
10 not duplicated by any other affiliate or Lone Star.
11

12 **Q. ARE THE BUSINESS MANAGEMENT SERVICES PROVIDED BY NEET**
13 **ESSENTIAL TO LONE STAR'S OPERATIONS?**

14 A. Yes, the functions performed by NEET Business Management are those required
15 of any affiliate of a large publicly traded holding company. Lone Star receives
16 the benefit of sharing staff that can perform corporate financial oversight and
17 guidance, ensure affiliate charges are appropriate and other financial management
18 related duties without having to hire a full-time staff.

b. Business Services

Q. WHAT SERVICES DOES NEET BUSINESS SERVICES PROVIDE TO LONE STAR?

A. NEET Business Services provides management and oversight, project management, process management and other corporate functions.

Q. HOW MUCH OF LONE STAR'S O&M REQUEST IN THIS CASE RELATES TO NEET BUSINESS SERVICES THAT WILL BE BILLED TO LONE STAR?

A. The projected expense for NEET Business Services is \$8,540 to be included in interim rates and \$59,082 to be included in Lone Star's final rates.

Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY OTHER AFFILIATE?

A. No, these are unique services only provided by NEET Business Services and not duplicated by any other affiliate or Lone Star. However, there may be situations where other affiliates perform similar work in support of Lone Star, but it is complementary rather than duplicative. For example, NEET Business Services provides rate case support in developing schedules and coordinating deliverables. FPL also provides rate case support by sharing their expertise on the logistics of rate case systems and processes to train NEET on the use of these tools.

1 **Q. ARE THE BUSINESS SERVICES PROVIDED BY NEET ESSENTIAL TO**
 2 **LONE STAR'S OPERATIONS?**

3 A. Yes, the functions performed by NEET Business Services are those required of
 4 any affiliate of a large publicly traded holding company. Lone Star receives the
 5 benefit of sharing staff who perform strategic business planning, coordinate
 6 regulatory filings and provide process support, as well as other corporate support
 7 functions, without having to hire a full-time staff.

8

9 **2. NEER and FPL**

10 **a. Corporate Governance**

11 **Q. WHAT TYPE OF CORPORATE GOVERNANCE SUPPORT IS**
 12 **PROVIDED TO LONE STAR?**

13 A. Lone Star relies on the President and CEO of NEER for direction and advice
 14 affecting the construction and operation of Lone Star's CREZ facilities. This
 15 input is essential and consistent with the Commission's selection of Lone Star as a
 16 CREZ new entrant. In addition, Lone Star benefits from FPL's corporate
 17 governance activities, which are those traditionally required to be performed in
 18 other large, publicly held energy companies. This includes services of the shared
 19 executive officers of NextEra Energy who are engaged in strategy and
 20 compliance-related activities. Other governance support includes activities
 21 associated with the NextEra Energy Board of Directors, Investor Relations and
 22 Internal Controls. As discussed in Mr. Grable's direct testimony, NextEra

1 Energy's Corporate Governance services bring a level of experience that is
2 nationally recognized.

3

4 **Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE**
5 **RELATES TO CORPORATE GOVERNANCE THAT WILL BE BILLED**
6 **TO LONE STAR?**

7 A. Because Corporate Governance is an allocated expense billed through the NEER
8 Affiliate Management Fee ("NEER AMF") and FPL Affiliate Management Fee
9 ("FPL AMF"), the projected expense for Corporate Governance is included in the
10 total AMF allocations of \$13,099 to be included in interim rates and \$412,511 to
11 be included in Lone Star's final rates.

12

13 **Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY**
14 **OTHER AFFILIATE?**

15 A. No, even though both NEER and FPL provide Corporate Governance support
16 services, each company provides support for different activities, as explained
17 above.

18

19 **b. Information Management**

20 **Q. WHAT SERVICES DOES IM PROVIDE TO LONE STAR?**

21 A. FPL is responsible for the management and administration of the enterprise
22 hardware, software and telecommunication systems, while NEER provides SAP
23 and data management support.

1 **Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE**
2 **RELATES TO IM SERVICES THAT WILL BE BILLED TO LONE**
3 **STAR?**

4 A. The projected expense for IM is \$71,986 to be included in interim rates and
5 \$91,330 to be included in Lone Star's final rates - \$1,542 from NEER and
6 \$70,444 from FPL for interim rates; \$6,211 from NEER and \$85,119 from FPL
7 for final rates.

8

9 **Q. GIVEN THAT BOTH NEER AND FPL PROVIDE IM SERVICES, IS**
10 **THERE A DUPLICATION OF FUNCTIONS AND POTENTIALLY**
11 **COSTS?**

12 A. No, even though both NEER and FPL provide IM services, each company
13 provides support for different systems, as explained above.

14

15 **Q. ARE THE IM SERVICES PROVIDED BY NEER AND FPL ESSENTIAL**
16 **TO LONE STAR'S OPERATIONS?**

17 A. Yes, Lone Star must have basic financial and operating computer systems to track
18 cost and monitor operations. Absent affiliate support, Lone Star would have to
19 procure certain software and hardware, and install and maintain it to serve the
20 same functions, at a potentially higher cost and loss of efficiency due to those
21 systems not being readily available at the inception of the company.

1 c. Law Department

2 **Q. WHAT SERVICES DOES THE LAW DEPARTMENT PROVIDE TO**
3 **LONE STAR?**

4 A. The Law Department is comprised of attorneys employed by both NEER and FPL
5 who provide support to Lone Star. NEER general counsel services include
6 support for financing contracts, construction contracts, lease negotiations and
7 contracts, employment law support, title commitments, land purchase agreements
8 and right of way easement agreements. FPL general counsel services include
9 legal support for business units (e.g., litigation, labor, and employment,
10 commercial contracting, corporate governance and regulatory proceedings, as
11 well as all other operational legal matters), monitoring compliance with federal,
12 state and local laws, regulations and ordinances, and negotiating and reviewing
13 agreements.

14
15 **Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE**
16 **RELATES TO THE LAW DEPARTMENT SERVICES THAT WILL BE**
17 **BILLED TO LONE STAR?**

18 A. The projected expense for the Law Department is \$20,236 to be included in
19 interim rates and \$256,413 to be included in Lone Star's final rates - \$11,783
20 from NEER and \$8,453 from FPL for interim rates; \$63,731 from NEER and
21 \$192,682 from FPL for final rates.

1 **Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY**
2 **OTHER AFFILIATE?**

3 A. No, these services are not duplicated since both NEER and FPL law departments
4 work together to coordinate services and have designated lawyers assigned to
5 Lone Star who have specific expertise depending on Lone Star's needs.

6

7 **Q. ARE THE LAW DEPARTMENT'S SERVICES PROVIDED BY NEER**
8 **AND FPL ESSENTIAL TO LONE STAR'S OPERATIONS?**

9 A. Yes, all companies require legal support, especially regulated utilities, and Lone
10 Star receives the benefit of lawyers with extensive and varied expertise without
11 having a full-time legal team.

12

13 3. **FPL**

14 a. **Corporate Communications**

15 **Q. WHAT SERVICES DOES FPL CORPORATE COMMUNICATIONS**
16 **PROVIDE TO LONE STAR?**

17 A. The Corporate Communications department provides centralized services related
18 to email, employee communication, interactive and social media for the company.

1 **Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE**
2 **RELATES TO CORPORATE COMMUNICATIONS SERVICES THAT**
3 **WILL BE BILLED TO LONE STAR?**

4 A. Because Corporate Communications is an allocated expense billed through the
5 FPL AMF, the projected expense for Corporate Communications is included in
6 the total FPL AMF allocation of \$1,746 to be included in interim rates and
7 \$55,947 to be included in Lone Star's final rates.

8

9 **Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY**
10 **OTHER AFFILIATE?**

11 A. No, these are unique services only provided by FPL Corporate Communications
12 and not duplicated by any other affiliate or Lone Star.

13

14 **Q. ARE THE CORPORATE COMMUNICATION SERVICES PROVIDED**
15 **BY FPL ESSENTIAL TO LONE STAR'S OPERATIONS?**

16 A. Yes, they are an important resource that provides various communication
17 channels for employee and management information sharing, publicizing events
18 or company initiatives and insuring timeliness and consistency in the presentation
19 and content of the information.

1 **b. Corporate Real Estate**

2 **Q. WHAT SERVICES DOES FPL CORPORATE REAL ESTATE PROVIDE**
3 **TO LONE STAR?**

4 A. FPL Corporate Real Estate, which is part of ECCS, assists Lone Star in finding
5 and leasing office space, as well as assisting in the furniture and office space use
6 allocation.

7
8 **Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE**
9 **RELATES TO FPL CORPORATE REAL ESTATE COSTS THAT WILL**
10 **BE BILLED TO LONE STAR?**

11 A. The projected expense for FPL Real Estate Services is \$26,286 to be included in
12 interim rates and \$35,824 to be included in Lone Star's final rates.

13
14 **Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY**
15 **OTHER AFFILIATE?**

16 A. No, these are unique services only provided by FPL Corporate Real Estate
17 Services and not duplicated by any other affiliate or Lone Star.

18
19 **Q. ARE THE CORPORATE REAL ESTATE SERVICES PROVIDED BY FPL**
20 **ESSENTIAL TO LONE STAR'S OPERATIONS?**

21 A. Yes, these services are essential to Lone Star's operations as it has a need for
22 ongoing lease negotiation support and other real estate-related activities.

1 c. Internal Audit

2 **Q. WHAT SERVICES DOES FPL INTERNAL AUDIT PROVIDE TO LONE**
3 **STAR?**

4 A. The Internal Audit department conducts internal audits of various processes to
5 ensure compliance and that adequate controls exist to protect the assets of the
6 company.

7
8 **Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE**
9 **RELATES TO INTERNAL AUDIT SERVICES THAT WILL BE BILLED**
10 **TO LONE STAR?**

11 A. The projected expense for Internal Audit is \$4,418 to be included in interim rates
12 and \$43,851 to be included in Lone Star's final rates.

13
14 **Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY**
15 **OTHER AFFILIATE?**

16 A. No, these are unique services only provided by FPL Internal Audit and not
17 duplicated by any other affiliate or Lone Star.

18
19 **Q. ARE THE INTERNAL AUDIT SERVICES PROVIDED BY FPL**
20 **ESSENTIAL TO LONE STAR'S OPERATIONS?**

21 A. Yes, they are required for Sarbanes-Oxley compliance and perform an essential
22 role in monitoring the company's internal control system.

1 **d. Strategy, Policy and Process Improvement**

2 **Q. WHAT SERVICES DOES FPL STRATEGY, POLICY AND PROCESS**
3 **IMPROVEMENT PROVIDE TO LONE STAR?**

4 A. The Strategy, Policy and Process Improvement department provides building
5 security; risk identification and management; quality, planning and analysis for
6 operational excellence; and environmental strategy and support services which
7 cover compliance, water and wildlife, air and hazardous substances.

8

9 **Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE**
10 **RELATES TO STRATEGY, POLICY AND PROCESS IMPROVEMENT**
11 **SERVICES THAT WILL BE BILLED TO LONE STAR?**

12 A. Because Strategy, Policy and Process Improvement is an allocated expense billed
13 through the FPL AMF, the projected expense for Strategy, Policy and Process
14 Improvement is included in the total FPL AMF allocation of \$1,541 to be
15 included in interim rates and \$44,035 to be included in Lone Star's final rates.

16

17 **Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY**
18 **OTHER AFFILIATE?**

19 A. No, these are unique services only provided by FPL Strategy, Policy and Process
20 Improvement and not duplicated by any other affiliate or Lone Star.

1 **Q. ARE THE STRATEGY, POLICY AND PROCESS IMPROVEMENT**
2 **SERVICES PROVIDED BY FPL ESSENTIAL TO LONE STAR'S**
3 **OPERATIONS?**

4 A. Yes, they are required for security, environmental compliance and emergency
5 management services. Process improvement and quality initiatives are good
6 business practices which provide opportunities to improve the way work is
7 performed.

8

9 **IV. BILLING AND COST ALLOCATION METHODOLOGIES**

10 **Q. HOW ARE AFFILIATE CHARGES BILLED TO LONE STAR?**

11 A. Affiliate charges are billed to Lone Star using three methods: direct billed, direct
12 assigned, or allocated. These three methods are described in more detail below in
13 my testimony.

14

15 Whenever possible all charges are direct billed to Lone Star. Charges are direct
16 assigned when direct billed is not feasible but a direct measure of cost causation
17 exists. Finally, charges are allocated if direct billed charges are not feasible or no
18 direct measure of cost causation exists. Lone Star strives to use the direct billed
19 method whenever possible and has been successful as evidenced by the fact that a
20 high percentage of its total affiliate costs is direct billed, which is discussed in the
21 next section of my testimony.

The chart below summarizes the types of billing methods utilized by each affiliate. These methods are discussed in detail in Schedule V-K-11.

Figure 3 – Summary of Billing Methods

Affiliate	Direct Billed	Direct Assigned	Allocated
NEET	X		
NEER	X	X	X
FPL	X	X	X

A. Direct Billed

Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE RELATES TO COSTS THAT WILL BE DIRECT BILLED TO LONE STAR?

A. The projected expense for direct billed charges is \$705,220 to be included in interim rates and \$2,791,341 to be included in Lone Star's final rates. This represents approximately 92% of total affiliate expenses projected in interim rates and 74% of total affiliate expenses projected in final rates. The direct billed costs represent the vast majority of the total affiliate costs being requested in both the interim and final rates and are analogous to a services contract with a third party.

Q. CAN YOU DESCRIBE DIRECT BILLED COSTS IN GREATER DETAIL?

A. Yes. Direct billed costs include time, travel expenses, and other costs of resources used exclusively for the provision of services that are readily identified with an activity. An example of direct billed costs would be the salary of an affiliate's engineer working on the construction of Lone Star's transmission line.

1 Direct billed charges can be either external or internal. External direct billed
2 charges are costs paid to third parties on behalf of Lone Star, such as travel
3 expenses, temporary labor, consulting and legal services and insurance. Internal
4 direct charges are labor costs, where personnel track time and charge to certain
5 WBS Elements set up to separately capture Lone Star support. Internal labor
6 costs are transferred at a fully loaded rate by using the employee's salary plus a
7 labor related overhead.

8

9 **Q. CAN YOU EXPLAIN IN GREATER DETAIL HOW LABOR RELATED**
10 **OVERHEAD COSTS ARE BILLED?**

11 A. Labor related overhead costs, which are direct billed through a labor loader rate,
12 include vacation, sick leave, benefits, taxes and administrative costs, such as
13 office space and supplies. The labor loader rate is a percentage that is multiplied
14 by the hourly wage rate and added to that hourly wage rate to be billed for
15 employee time spent on Lone Star activities. This methodology is applied to
16 labor charges for employees from NEET, NEER and FPL who do work for Lone
17 Star. NEET, NEER and FPL labor loader rates are each slightly different due to
18 the fact that the labor related and administrative costs of each company are not the
19 same. Exhibits CLD-3A, CLD-3B, and CLD-3C show the calculation of each
20 affiliate's labor loader rate.

1 **B. Direct Assigned**

2 **Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE**
3 **RELATES TO DIRECT ASSIGNED COSTS THAT WILL BE BILLED TO**
4 **LONE STAR?**

5 A. The projected expense for direct assigned charges is \$25,970 to be included in
6 interim rates and \$26,000 to be included in Lone Star's final rates. This
7 represents approximately 3% of total affiliate expenses projected in interim rates
8 and 1% of total affiliate costs projected in final rates.

9
10 **Q. CAN YOU EXPLAIN THE DIRECT ASSIGNED METHOD IN GREATER**
11 **DETAIL?**

12 A. Yes, direct assigned expenses are the cost of resources used jointly in the
13 provision of both Lone Star and an affiliate's activities that are apportioned using
14 direct measures of cost causation. Assigning the cost of office space not owned
15 or leased by Lone Star, using the square footage occupied by Lone Star, would be
16 an example of direct assigned costs. The charges are based on the number of
17 square feet utilized by Lone Star.

1 **C. Allocated**

2 **Q. WHAT AMOUNT OF LONE STAR'S O&M REQUEST IN THIS CASE**
 3 **RELATES TO ALLOCATED COSTS THAT WILL BE BILLED TO LONE**
 4 **STAR?**

5 A. The projected expense for allocated charges is \$35,034 to be included in interim
 6 rates and \$969,485 to be included in Lone Star's final rates. This represents
 7 approximately 5% of total affiliate expenses projected in interim rates and 26% of
 8 total affiliate expenses projected in final rates. Please refer to the discussion later
 9 in this section of my testimony that explains the increase in the projected expense
 10 from one rate period to the next.

11

12 **Q. CAN YOU EXPLAIN ALLOCATED COSTS IN GREATER DETAIL?**

13 A. Yes, allocated expenses billed to Lone Star are for corporate support services and
 14 related infrastructure costs common to all affiliates that are billed either through
 15 the FPL AMF or NEER AMF, as appropriate.

16

17 **Q. PLEASE EXPLAIN ALLOCATED COSTS BILLED THROUGH THE**
 18 **AMFS IN GREATER DETAIL.**

19 A. Allocated expenses represent costs incurred to support one or more organizations
 20 but cannot be directly attributable to any single driver or function. Financial
 21 reporting is an example of services that support multiple companies but do not
 22 have a clear cost driver for allocation purposes. Financial reporting costs include
 23 the preparation of the parent company financial reports consolidating affiliated

1 company financials which serves those companies without a direct causal
2 relationship.

3
4 Allocated expenses are those common costs of resources shared by one or more
5 affiliates for which an indirect causal relationship exists. These costs are
6 allocated to the companies that benefit from the shared services through a shared
7 service concept called the Affiliate Management Fee. The AMFs are
8 implemented to address corporate staff shared services and capital benefiting both
9 Lone Star and its affiliates.

10
11 The shared service cost pool is determined annually through an extensive review
12 of the shared services provided to Lone Star and other affiliate companies. The
13 review is performed in conjunction with the annual budget cycle, and these shared
14 costs are allocated to the benefiting companies using specific drivers such as
15 headcount or number of workstations (where available) or the Massachusetts
16 Formula.

17
18 **Q. PLEASE DESCRIBE THE AMF COST ALLOCATION PROCESS.**

19 A. The AMF represents the cost of shared services, less any direct charges, which are
20 accumulated in a cost pool. The cost pool represents the cost of specific functions
21 that provide resources in support of multiple companies. The pool is distributed
22 on a monthly basis to the affiliated companies using specific allocators.

In the case of NEER, the AMF is billed monthly based on a budget estimate and is trued-up to year end actual cost during the first quarter of the subsequent year. The FPL AMF is billed monthly based on actual costs incurred during the month. The AMF allocation may be revised during the year to reflect any significant organizational changes.

Q. UNDER WHAT CIRCUMSTANCES IS THE MASSACHUSETTS FORMULA USED?

A. Where there are no specific driver(s) for allocation of the cost pool(s), the weighted average of payroll, revenues and average gross property plant and equipment is used. This methodology is named the "Massachusetts Formula" and has been an industry standard in other regulatory areas for years. The forecasted amounts for each of the three components mentioned are collected from the benefiting companies and given equal weight. A weighted average is then computed to yield a ratio for each benefiting company. The AMFs may be revised during the year to reflect any significant organizational changes.

Q. PLEASE EXPLAIN THE INCREASE IN THE PROJECTED ALLOCATED AMF COST FROM ONE RATE PERIOD TO THE NEXT.

A. As discussed earlier in my testimony, the projected expense for allocated AMF charges is \$35,034 to be included in interim rates and \$969,485 to be included in Lone Star's final rates. This increase is primarily due to the fact that the majority of the cost pools allocated to Lone Star are allocated using the Massachusetts

Formula. As you recall, the Massachusetts Formula uses the weighted average of payroll, revenues and average gross property plant and equipment to determine the ratio to be allocated to the benefitting companies. In Lone Star's case, these three amounts increase significantly from one rate period to the next driving up the ratio for the Company. As Lone Star grows, its need for shared services and allocated portion of the AMF costs will increase.

D. Summary of Company Specific Billing

Q. CAN YOU PLEASE PROVIDE A BRIEF EXPLANATION OF HOW EACH AFFILIATE COMPANY BILLS LONE STAR?

A. Certainly. The following section of my testimony provides an explanation of how each affiliate company bills Lone Star and how that billing process is documented.

Q. HOW ARE NEET CORPORATE SUPPORT SERVICES BILLED TO LONE STAR?

A. Employees of NEET direct bill travel expenses and any time spent on Lone Star activities to a Lone Star charge account called a WBS Element. WBS Elements are set up on Lone Star's books to separately track charges to Lone Star from non-Lone Star employees. NEET only bills Lone Star for direct charges and does not directly assign or allocate any costs to Lone Star other than those allocated costs included in the labor loader rate.

1 **Q. HOW IS NEET'S CORPORATE SUPPORT BILLING PROCESS**
2 **DOCUMENTED?**

3 A. The NEER Transactions with Subsidiaries and Affiliates Policy and Procedure
4 documents both NEER's and NEET's direct billed billing methodology. A copy
5 is included in Exhibit CLD-2.

6

7 **Q. HOW ARE THE NEER CORPORATE SUPPORT SERVICES BILLED TO**
8 **LONE STAR?**

9 A. NEER bills Lone Star using three methodologies – direct billed, direct assigned
10 and allocated. Direct billed travel expenses and any time spent on Lone Star
11 activities are coded to a Lone Star WBS Element. WBS Elements are set up on
12 Lone Star's books to separately track charges to Lone Star from non-Lone Star
13 employees.

14

15 When direct charging is not practical, NEER uses the two types of allocations,
16 direct assigned and allocated, to distribute a portion of its corporate staff support
17 services costs. As mentioned earlier in my testimony, direct assigned costs are
18 used where a direct measure of cost causation is apparent. An example would be
19 telephone service costs that are distributed to NEER affiliates using the number of
20 telephones assigned to each company.

Allocated costs are billed using the NEER AMF mechanism. The NEER AMF allocations account for common costs that cannot be directly attributable to a given function but provide benefit to the overall organization. These accumulated costs are put in a cost pool and are distributed based on various cost drivers, which are discussed above in more detail.

Q. HOW ARE NEER'S CORPORATE SUPPORT BILLING PROCESSES DOCUMENTED?

A. The NEER AMF Policy and Procedure documents NEER's AMF allocation process. A copy of the NEER AMF Policy and Procedure is included in Exhibit CLD-6. The NEER Transactions with Subsidiaries and Affiliates Policy and Procedure documents NEER's direct billed billing methodology. A copy is included in Exhibit CLD-2.

Q. HOW ARE THE FPL CORPORATE SUPPORT SERVICES BILLED TO LONE STAR?

A. FPL bills Lone Star using three methodologies - direct bill, direct assigned and allocated. Direct billed travel expenses and any time spent on Lone Star activities are coded to a FPL Internal Order that settles to a Lone Star WBS Element. WBS Elements are set up on Lone Star's books to separately track charges to Lone Star from non-Lone Star employees.

1 When direct charging is not practical, FPL uses the two types of allocations,
2 direct assigned and allocated, to distribute a portion of its corporate staff support
3 services costs. Direct assigned costs, as mentioned earlier, are used where a direct
4 measure of cost causation is apparent. For example, office rent is direct assigned
5 based on square feet occupied.

6
7 Allocated costs are billed using the FPL AMF mechanism. The FPL AMF
8 allocations account for common costs that cannot be directly attributable to a
9 given function, but provide benefit to the overall organization. These
10 accumulated costs are put in a cost pool and are distributed based on various cost
11 drivers, which are discussed above in more detail.

12
13 **Q. HOW ARE FPL'S CORPORATE SUPPORT BILLING PROCESSES**
14 **DOCUMENTED?**

15 A. The FPL Cost Allocation Manual ("FPL CAM") documents FPL's direct charge
16 and allocation processes. It is updated periodically by FPL's regulatory
17 accounting staff, usually on an annual basis. The purpose of the FPL CAM is not
18 only to document the cost allocation policies and practices, but to provide
19 guidelines to employees with respect to affiliate transactions. It also discusses the
20 shared services that affiliates receive from FPL. With respect to the various
21 management fee charges described in the FPL CAM, only the FPL AMF applies
22 to Lone Star. A copy of the FPL CAM is included in Exhibit CLD-5.

1 Q. DO THE DIVISIONS WITHIN THE CORPORATE SUPPORT SERVICES
2 ORGANIZATIONS USE THE SAME BILLING METHODS?

3 A. Yes, they use either a direct billed, direct assigned, or allocated method.
4

5 Q. ARE OTHER AFFILIATES CHARGED IN THE SAME MANNER AS
6 LONE STAR WHEN RECEIVING SERVICES FROM NEET, FPL AND
7 NEER?

8 A. Yes. Employees of NEET direct charge all affiliate expenses. FPL and NEER
9 use the three methodologies, direct billed, direct assigned and allocated, when
10 charging all affiliates.
11

12 V. AFFILIATE EXPENSE COST CONTROLS

13 Q. WHAT PROCESSES AND CONTROLS HAS CONE STAR INSTITUTED
14 TO ENSURE THAT ITS AFFILIATE EXPENSES ARE REASONABLE
15 AND NECESSARY?

16 A. As Lone Star's corporate services support organization responsible for affiliate
17 transaction accounting, billing, reviews and controls, NEET Business
18 Management has assisted Lone Star with developing, implementing and
19 maintaining processes to ensure that affiliate expenses are reasonable and
20 necessary. Please refer to Schedule V-K-10 and this section of my testimony for
21 a more detailed description of the processes and controls being collaboratively
22 utilized by Lone Star and NEET Business Management.

1 **Q. PLEASE DISCUSS THE CONTROLS AND PROCESSES USED BY LONE**
 2 **STAR TO ENSURE THE REASONABLENESS AND ACCURACY OF**
 3 **CHARGES FROM ITS AFFILIATES.**

4 A. Lone Star, in conjunction with its affiliates, has instituted controls and processes
 5 to ensure the charges received from its affiliates are accurate and reasonable.
 6 Schedule V-K-7 provides more detail as to the reasonableness of each cost and
 7 Schedule V-K-10 explains the applicable control processes. Further, Lone Star
 8 has a Code of Conduct that prohibits the subsidization of any affiliate. The Code
 9 requires that goods and services purchased from affiliates be purchased at a fair
 10 and reasonable price that reflects the market value of that good or service. All
 11 employees who work on Lone Star projects or activities take the Code of Conduct
 12 training.

13
 14 In short, there are five tiers of controls with respect to charges and services from
 15 affiliated companies:

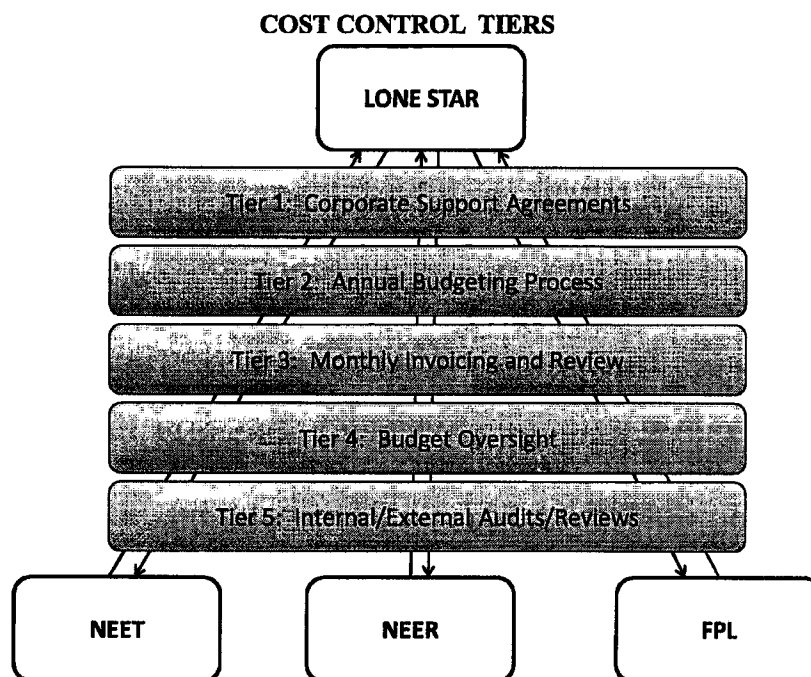
- 16 • Tier 1: Corporate Support Services Agreements – agreements that
 17 define the services to be provided Lone Star. The agreements describe
 18 the process for providing services and payment.
 19
- 20 • Tier 2: The Budget Process – on an annual basis, Lone Star meets with
 21 the affiliate service providers to define the services needed and get a
 22 cost estimate for those services to include in the budget. For allocated
 23 costs, NEER and FPL meet with Lone Star and NEET Business
 24 Management staff to review the cost pools and drivers to determine
 25 whether the allocated costs are relevant to Lone Star and to update the
 26 drivers.
 27
- 28 • Tier 3: The Monthly Invoicing and Review Process – on a monthly
 29 basis, each affiliate provides a report of the charges being billed to

Lone Star and documentation necessary to support the charges, which is then reviewed by Lone Star for approval.

- Tier 4: Budget Oversight – Lone Star and NEET Business Management staff regularly compare budgeted amounts to actual costs incurred. Any material deviations are investigated and discussed with Lone Star’s management team so that appropriate response measures can be taken in a timely manner.
- Tier 5: Internal and External Audits and Reviews – Lone Star is subject to periodic internal and external audits and reviews as determined by company policy, contractual agreements and Lone Star’s Code of Conduct.

I address each of these controls separately below. The figure below also depicts the manner in which the controls operate.

Figure 4 – Cost Control Tiers



1 **A. Corporate Support Services Agreements**

2 **Q. WHAT IS A CORPORATE SUPPORT SERVICES AGREEMENT?**

3 A. In Compliance with Commission Rule 25.94(e), Lone Star and its affiliate service
4 providers have entered into corporate support service agreements. The
5 agreements memorialize the terms and conditions by which the affiliate service
6 providers will perform support services for Lone Star.

7
8 **Q. HOW IS LONE STAR CURRENTLY USING CORPORATE SUPPORT**
9 **SERVICES AGREEMENTS AND WILL THEY BE USED IN THE**
10 **FUTURE?**

11 A. Lone Star has entered into corporate support service agreements with NEET,
12 NEER and FPL for affiliate services. These agreements detail the services
13 provided by each affiliate and specify any methodologies for allowed costs. They
14 were negotiated agreements and can be revised should Lone Star's needs or the
15 affiliate's ability to provide those services change in the future. Additionally,
16 Lone Star makes its corporate support services agreements available in
17 accordance with Commission Rule 25.84 "Annual Reporting of Affiliate
18 Transactions for Electric Utilities" which requires an annual report of affiliate
19 activities for the prior calendar year. Copies of the agreements between Lone Star
20 and each affiliate service provider, NEET, NEER, and FPL, respectively, are
21 attached as Exhibit CLD-4A, B and C.

B. The Budget Process

Q. HOW DOES LONE STAR DETERMINE WHAT SERVICES AND WHAT LEVEL OF SERVICES ARE TO BE PROVIDED BY THE NEET, NEER AND FPL CORPORATE SUPPORT SERVICES ORGANIZATIONS?

A. As part of the annual budget planning process, Lone Star meets with the affiliate service providers to identify the level of services needed for the upcoming year. Allocated costs are carefully reviewed, where both the pool of costs and the allocators (cost drivers) are evaluated for reasonableness and appropriateness with respect to the services benefiting Lone Star. The planning results in an estimated cost for affiliate services, which becomes an input to Lone Star's annual budget. The budgets are then approved by Lone Star, NEET, NEER and FPL management. When new or additional support needs are identified or changes in the plan occur, Lone Star contacts the NEET Business Management Analyst responsible for affiliate transaction accounting to obtain the appropriate charge account, either a WBS Element for NEET or NEER employees or an Internal Order for FPL employees. The charge account determination is based on the type of service being requested and the affiliate company performing the work. A charge account is either set up or identified from the list of existing accounts and provided to the affiliate staff providing services. This process is used by both FPL and NEER to allow Lone Star to control and manage the work performed by its affiliates.

I am directly involved in the process of developing the annual budget for Lone Star's corporate shared services support needs. My department works with Lone Star and the affiliate service providers to identify what services will be requested for the upcoming year and how much the requested services will cost.. All of Lone Star's budget assumptions and final cost estimates require Lone Star's approval.

C. The Monthly Invoicing and Review Process

Q. WHAT CONTROLS DOES LONE STAR UTILIZE ON A MONTHLY BASIS TO ENSURE PROPER BILLING OF AFFILIATE COSTS TO LONE STAR?

A. Lone Star establishes a WBS Element for any charges to be received from its affiliates. The process for setting up a WBS Element includes identifying the purpose, FERC account and the appropriate affiliate company that will use the WBS Element. To ensure affiliate costs are properly billed, Lone Star then receives a monthly invoice or SAP accounting system generated report summarizing each affiliate's charges (both direct and allocated) for that month. Lone Star reviews the monthly invoices to ensure affiliate costs are properly billed.

D. Budget Oversight

Q. WHAT CONTROLS AND OVERSIGHT DOES NEET PROVIDE LONE STAR WITH RESPECT TO AFFILIATE TRANSACTIONS?

A. My department oversees the process for reviewing charges Lone Star receives from its affiliate companies. When there are questions regarding a charge, my staff will access the SAP system for details on the specific transaction listed in the monthly billing summary, and assist Lone Star management and staff in determining the accuracy of the charge before Lone Star management provides their approval to accept the charge. In addition, my department is responsible for reviewing the monthly budget to actual reports and providing management a summary of any variances.

E. Internal and External Audits and Reviews

Q. WILL LONE STAR UNDERGO ANY INTERNAL OR EXTERNAL AUDITS OR REVIEWS?

A. Yes. As discussed in Schedule V-K-10 and in accordance with company policy, NextEra Energy's Internal Audit Department performs periodic audits or reviews of processes to ensure adequate controls are in place and to identify any potential efficiency opportunities. The internal audits/reviews are performed at the request of individual companies or executives. There is no predefined schedule; audits are identified based on risk and need.

In addition, an independent audit of Lone Star's financial statements will be performed on an annual basis per the terms of its financing agreement. A compliance audit will also be performed every three years as required by Lone Star's Code of Conduct.

Q. HOW DO FINANCIAL SYSTEM CONTROLS ENSURE THAT AFFILIATE COSTS ARE CONTROLLED AND BILLED PROPERLY?

A. All of the affiliate companies use the SAP accounting system for recording and billing costs to Lone Star. This provides an added control within the system for intercompany billings and consistency in the data and support provided.

Q. ARE THE PRODUCTS AND SERVICES PROVIDED TO LONE STAR BY ITS AFFILIATES PRICED AT LEVELS THAT ARE FAIR, REASONABLE AND REFLECTIVE OF THE MARKET VALUE FOR THOSE PRODUCTS AND SERVICES?

A. Yes. NEET and NEER bill Lone Star at cost. There is no profit or return included in the affiliate charges. With respect to FPL charges, the Florida Public Service Commission requires that FPL charge affiliates the higher of cost or market when billing for goods and/or corporate support services. Lone Star rarely purchases goods from FPL. However, when it does, FPL's Investment Recovery group performs a market pricing evaluation for each affiliate transfer of goods to ensure FPL's appropriate pricing. To accommodate the Florida requirement while maintaining consistency with this Commission's rules on affiliate charges,

1 Lone Star has made an adjustment to its Cost of Service to ensure that the level of
2 affiliate expense sought satisfies the Texas affiliate standard.

3
4 Please refer to Exhibit CLD-7 for a copy of the Lone Star Investment Recovery
5 policy.

6
7 **Q. PLEASE DESCRIBE THE ADJUSTMENT THAT LONE STAR HAS**
8 **MADE TO ENSURE THAT AFFILIATE CHARGES FROM FPL MEET**
9 **THE TEXAS STANDARD.**

10 A. Lone Star had one transaction with FPL to purchase inventory materials. The
11 total cost of the materials, reflecting FPL's fully allocated cost, was \$1,613. Lone
12 Star made a downward adjustment of \$800 to Construction Work in Progress,
13 which represents the difference between FPL's fully allocated cost and market
14 pricing, to ensure that the level of affiliate expense sought satisfies the Texas
15 affiliate standard.

16
17 **Q. DO THE AFFILIATES PROVIDING SHARED SUPPORT SERVICES TO**
18 **LONE STAR USE A CONSISTENT METHODOLOGY?**

19 A. Yes. As required by Lone Star's Code of Conduct, any goods and services from
20 an affiliate are priced at levels that are fair and reasonable and reflect the market
21 value of those products and services. In addition, as required by PURA, Lone
22 Star does not subsidize the business activities of any of its affiliates with revenues
23 from a regulated service. To provide consistency and ensure compliance, all

goods and services provided by affiliates to Lone Star or any other affiliate are priced using the same cost allocation methodology.

VI. AFFILIATE EXPENSE REQUEST

Q. WHAT IS THE AFFILIATE O&M EXPENSE AMOUNT REQUESTED BY THE COMPANY IN THIS CASE?

A. As discussed in the direct testimony of Lone Star witness Richard Cribbs, Lone Star requests that the Commission establish interim and final rates in this case. With respect to affiliate O&M expenses, Lone Star's request is broken out as follows:

Figure 5 – Affiliate O&M Expenses

	NEET	NEER	FPL	TOTAL
Interim	\$ 366,036	\$ 47,948	\$ 352,241	\$ 766,225
Final	\$ 1,638,430	\$ 588,066	\$ 1,431,414	\$ 3,786,827

Q. WITH RESPECT TO THE COMPANY'S INTERIM RATE REQUEST, WHAT IS THE O&M AMOUNT OF AFFILIATE COST BY FUNCTION?

A. As shown above, NEET, NEER and FPL are projected to bill \$766,225 to Lone Star in shared services during the interim period. Figure 6 below provides a breakdown by function of each affiliate's expenses for interim rates.

1

Figure 6 – Interim Period Affiliate O&M Expenses by Function

Shared Service Function	NEET Billed	NEER Billed	FPL Billed
Accounting and Finance		\$ 12,218	
AMF		\$ 3,459	\$ 31,576
Business Management	\$ 72,549		
Business Services	\$ 8,540		
Corporate Real Estate			\$ 25,965
Human Resources (Recruiting for non-operations personnel, terminations, compensation, and day-to-day personnel support)		\$ 11,534	
Human Resources (Recruiting for transmission and substation operations personnel)			\$ 4,184
Information Management (General support for telecommunications infrastructure, SAP support, data management systems, and desktop support for systems owned, operated, and maintained by NEER)		\$ 1,542	
Information Management (Support for remote access, developing network connectivity and deploying servers for field offices and control centers)			\$ 64,312
Integrated Supply Chain (Procurement of materials, right of way and construction services, and data management software; management oversight for bidding services and vendor negotiation)		\$6,857	
Integrated Supply Chain (Bidding, vendor negotiating, and material purchasing for substation equipment)			\$ 9,097
Internal Audit			\$ 3,068
Law Department (Transaction, regulatory proceedings, financing contracts, construction contracts, debt and equity structuring, real estate office lease negotiations and contracts, employment law support, title commitments, land purchase agreements, and right of way easement agreements)		\$ 11,145	
Law Department (Rate case support, business transaction support, Engineering, Procurement and Construction and environmental agreement activities, corporate law and compliance)			\$ 7,190
Transmission Operations	\$ 278,242		
Transmission and Substation			\$ 203,297
Travel Expenses	\$ 6,705	\$ 1,194	\$ 2,885
Third Party Invoices			\$ 667
Total:	\$ 366,036	\$ 47,948	\$ 352,241

1 **Q. OF THE \$3,786,827 PROJECTED O&M TO BE BILLED BY AFFILIATES**
 2 **TO LONE STAR, HOW MUCH IS PROJECTED TO BE BILLED BY**
 3 **EACH FUNCTION THROUGH FINAL RATES?**

4 **A.** For the \$3,786,827 to be billed by affiliate and included in final rates by Lone
 5 Star, Figure 7 provides a breakdown by function of each affiliate's expenses for
 6 final rates.

7 **Figure 7 - Final Period Affiliate O&M Expenses by Function**

Shared Service	NEET Billed	NEER Billed	FPL Billed
Accounting and Finance		\$ 205,369	
AMF		\$ 103,234	\$ 866,251
Business Management	\$ 1,174,838		
Business Services	\$ 59,082		
Corporate Real Estate			\$ 26,000
Human Resources (Recruiting for non-operations personnel, terminations, compensation, and day-to-day personnel support)		\$ 152,150	
Human Resources (Recruiting for transmission and substation operations personnel)			\$ 55,198
Information Management (General support for telecommunications infrastructure, SAP support, data management systems, and desktop support for systems owned, operated, and maintained by NEER.)		\$ 6,211	
Information Management (Support for remote access, developing network connectivity and deploying servers for field offices and control centers)			\$ 3,552
Integrated Supply Chain (Procurement of materials, right of way and construction services, and data management software; management oversight for bidding services and vendor negotiation)		\$ 45,228	
Integrated Supply Chain (Bidding, vendor negotiating, and material purchasing for substation equipment)			\$ 57,758
Law Department (Legal support for financing agreements, construction contracts and ROW easement agreements)		\$ 44,921	
Law Department (Legal support for business units (e.g., litigation, labor and employment, commercial contracting, corporate governance, regulatory proceedings as well as all other operational legal matters); monitor compliance with federal, state and/or local laws, regulations and ordinances; draft, negotiate and review agreements)			\$ 152,208
Transmission Operations	\$ 309,606		
Transmission and Substation			\$ 245,812
Travel Expenses	\$ 94,904	\$ 30,953	\$ 15,952
Third Party Invoices			\$ 8,682
Total	\$ 1,638,430	\$ 588,066	\$ 1,431,414

1 **Q. HAVE AFFILIATES BILLED LONE STAR FOR WORK ON CAPITAL**
 2 **PROJECTS?**

3 A. Yes, affiliates have provided services to Lone Star throughout the CREZ
 4 development and construction process. Those charges are reflected in Completed
 5 Construction Not Classified, Account 106, Construction Work in Process,
 6 Account 107 and Unamortized Debt Expense, Account 181. Historical and
 7 projected costs included in construction work in progress and unamortized debt
 8 expense are reflected in Schedule V-K-1. Historical and projected costs closed to
 9 plant-in-service are reflected in Schedule V-K-5.

10
 11 **Q. WHAT IS THE AFFILIATE EXPENSE CAPITAL AMOUNT**
 12 **REQUESTED BY THE COMPANY IN THIS CASE?**

13 A. As discussed in the direct testimony of Mr. Cribbs, Lone Star requests that the
 14 Commission establish interim and final rates in this case. With respect to affiliate
 15 capital expenses, Lone Star's request is broken out as follows:

16 **Figure 8 - Affiliate Capital Expenses**

	NEET	NEER	FPL	TOTAL
Interim	\$ 4,367,855	\$ 6,096,970	\$ 4,054,051	\$ 14,518,876
Final	\$ 0	\$ 939,325	\$ 341,350	\$ 1,280,675

1 **Q. DO THE CONTROLS DESCRIBED EARLIER IN YOUR TESTIMONY**
2 **APPLY TO AFFILIATE CHARGES IN SUPPORT OF CAPITAL**
3 **PROJECTS?**

4 **A. Yes. The same controls and processes described earlier in my testimony are**
5 **standard NextEra Energy best practices controls and processes and have been**
6 **applied to both O&M and capital expenses.**

7

8 **Q. ARE THE CLASSES OF AFFILIATE SERVICE THAT ARE DESCRIBED**
9 **IN YOUR TESTIMONY AND THE TESTIMONY OF OTHER COMPANY**
10 **WITNESSES THE SAME CLASSES OF SERVICE THAT WERE USED IN**
11 **SUPPORT OF THE CAPITAL PROJECTS?**

12 **A. Yes.**

13

14 **Q. WAS IT REASONABLE AND NECESSARY FOR THE COMPANY TO**
15 **USE THESE CLASSES OF SERVICE DURING THE COMPANY'S**
16 **INITIAL DEVELOPMENT AND OPERATION?**

17 **A. Of course. Corporate support services have been necessary for the Company's**
18 **operation since its inception. Lone Star received the benefit of sharing staff that**
19 **could perform human resources, tax, legal, finance and accounting, corporate**
20 **governance, engineering and construction, IM and the other services without**
21 **having to hire a full-time staff.**

1 **Q. WERE ANY OF THESE SERVICES DUPLICATED BY LONE STAR OR**
2 **ANY OTHER AFFILIATE?**

3 A. No, the corporate support services provided to Lone Star in support of the capital
4 projects were not duplicated by any other affiliate or Lone Star.

5

6 **Q. WERE THE PRICES CHARGED FOR ANY OF THE FPL, NEET AND**
7 **NEER CORPORATE SUPPORT SERVICES PROVIDED TO LONE STAR**
8 **IN SUPPORT OF THE CAPITAL PROJECTS ANY HIGHER FOR LONE**
9 **STAR THAN THE PRICES CHARGED FOR THE SAME ITEM OR**
10 **CLASS OF ITEMS TO ANY OF FPL'S, NEET'S OR NEER'S OTHER**
11 **AFFILIATES OR DIVISIONS OR A NONAFFILIATED PERSON**
12 **WITHIN THE SAME MARKET AREA OR HAVING THE SAME**
13 **MARKET CONDITIONS?**

14 A. No. As detailed above and confirmed by Mr. Flaherty, all direct billed, direct
15 assigned and allocated costs are charged in a consistent manner and result in the
16 same pricing for Lone Star as prices charged to any affiliates or non-affiliates.
17 This was true throughout Lone Star's initial development and operation.

18

19 **Q. HOW WERE AFFILIATE O&M AND CAPITAL COSTS FOR THE**
20 **INTERIM AND FINAL RATES IDENTIFIED AND QUANTIFIED?**

21 A. Lone Star's cost projections filed in this case were developed as part of the overall
22 Budget Process, which was discussed earlier in my testimony. As part of that
23 process, Lone Star consulted with its affiliate companies that provide support

1 services and determined the level of support that would be required during both
2 the interim and final rate periods to arrive at payroll allocation percentages of
3 time for each affiliate position that would be providing services. The payroll
4 allocation percentages were then provided to HR who prepared a payroll estimate.
5 The appropriate affiliate payroll loader was applied to payroll amounts to arrive at
6 the total billing amount.

7
8 Monthly travel expenses were estimated based on an historical analysis of the
9 average monthly number of trips taken by both Lone Star and affiliate employees.
10 The historical number was then adjusted based on the number of trips expected to
11 perform the work. A market-based cost of \$400 for airfare, \$140 per night for
12 hotel stays, \$10 for breakfast meals, \$15 for lunch meals, \$25 for dinner meals
13 and \$50 per day for car rental was applied to the estimated numbers of monthly
14 trips.

15
16 Where appropriate, annual planning budget assumptions issued by the Accounting
17 Department were used to adjust cost estimates for inflation. The affiliated
18 administrative and general costs indentified and quantified for the interim rate
19 period were allocated between O&M and capital expenses based on the relative
20 portion of total capital dollars placed in service as of the interim rate year as a
21 percentage of the total final capital investment. This represented approximately
22 8% of the total affiliate administrative and general costs being allocated to O&M
23 and the balance to capital.

1 **Q. DOES LONE STAR PROVIDE AFFILIATE SERVICES TO ANY OF ITS**
2 **AFFILIATED COMPANIES?**

3 A. Yes, occasionally Lone Star is contacted by an affiliate to provide consultative
4 services. When this occurs, Lone Star employees direct bill their time and any
5 related expenses to a WBS Element that settles to the requesting company's
6 books. Labor costs are transferred at a fully loaded rate by using the employee's
7 salary plus a labor related overhead. Please refer to Exhibit CLD-3D for the
8 calculation of Lone Star's loader rate, and Exhibit CLD-2, NEER Transactions
9 with Subsidiaries and Affiliates Policy & Procedure, for a more detailed
10 description of the process used to bill internal labor costs.

11

12 **Q. HOW HAS LONE STAR REFLECTED THESE COSTS IN THE RATE**
13 **FILING?**

14 A. These costs are excluded from the rate request and are reflected in Schedule V-K-
15 8.

16

17 **Q. HAS LONE STAR EXCLUDED ALL NON-RECOVERABLE COSTS**
18 **FROM THIS RATE FILING?**

19 A. Yes. All non-recoverable costs, such as lobbying support, have been booked to a
20 separate account for non-recoverable costs and are not requested. Schedule V-K-
21 1 represents the total request for affiliate costs.

VII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony discusses the benefits of Lone Star's reliance on NextEra Energy affiliates for corporate support services, the need for the specific corporate support services and the reasonableness of specific affiliate corporate support service expenses. I describe 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. I demonstrate that the controls, policies and procedures implemented by the Company ensure that Lone Star's affiliate costs are monitored and billed properly and are reasonable and necessary. Finally, I provide a summary of Lone Star's affiliate expense request for both interim and final rates, and confirm 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.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

EXHIBIT CLD-1
LIST OF WITNESSES BY FUNCTION

SUBJECT OF DIRECT TESTIMONY	WITNESS	AFFILIATE EXPENSES / SUBJECTS SUPPORTED
Accounting and Finance - NEER	Richard B. Cribbs	Provides general accounting, accounts payable, property tax and tax research, project valuation and modeling. Financial reporting, month-end closing functions, financial planning and forecasting, income and sales and use tax, senior management oversight, SAP production support: role approvals, role changes, user access, and custom SAP table maintenance, Sarbanes-Oxley Section 404 compliance/administration.
Accounting and Finance - FPL	Richard B. Cribbs	Specific support unique to Lone Star such as regulatory accounting treatment and analysis, and rate case consultation. Provides oversight of all finance functions of NextEra Energy, Inc. and subsidiary and affiliated companies, including investor relations, Controller's staff, Sarbanes-Oxley internal controls and compliance, financial reporting and forecasting, accounting policy and analysis, investments, risk management, corporate tax, and cost allocations.
Business Management - NEET	Cheryl L. Dietrich	Provides executive and management direction for implementation of strategies, processes, and policies for financial planning and forecasting, affiliate transactions, corporate compliance and business activities; corporate financial, due diligence and business reporting; financial transaction monitoring; preparation of debt funding estimates; assistance with the preparation of cost projections, estimates and annual five-year plans; and assistance with the preparation and execution of regulatory filings.
Business Services - NEET	Cheryl L. Dietrich	Provides management oversight, which includes strategic and business planning; support of development, mergers and acquisitions; project management for rate case development and filing; process management system that ensures replication of each operational process; review of regulatory compliance filings reviews; formulation and administration of quality program; establishment of "Operating Model" framework; and monitoring of and participation in legislative impacts.


SUBJECT OF DIRECT TESTIMONY	WITNESS	AFFILIATE EXPENSES / SUBJECTS SUPPORTED
Corporate Communications - FPL	Cheryl L. Dietrich	Provides department management and administration, email, employee communication, centralized services, interactive and social media.
Corporate Governance - NEER	Cheryl L. Dietrich	Provides senior management oversight, strategic direction and governance for NEER, NEET and their subsidiaries' day-to-day operations.
Corporate Governance - FPL	Cheryl L. Dietrich	Executive officers of NextEra Energy, Inc. who are engaged in strategic, tactical and compliance-related activities. Activities associated with the NextEra Energy, Inc. Board of Directors and Investor Relations.
Corporate Real Estate - FPL	Cheryl L. Dietrich	Services include identifying the location for, and leasing of, office space. Furniture use and office space use allocation. Mail and intersite courier services.
Development - NEER	David K. Turner	Performs detailed evaluations of alternatives for transmission business, development of business plan for specific projects to ensure optimal planning, operational and financial structure; works with Project Valuation to develop a financial model.
Engineering and Construction - NEER	Daniel Mayers	Performs project cost and schedule controls, invoice processing, estimating, preliminary engineering and surveying, material specifications, procurement strategy, pole design, transmission line routing, vendor and project management, and manages discovery document collection and review for Engineering and Construction.
Engineering and Construction - FPL	Daniel Mayers	Provides management oversight for the project cost and schedule controls and invoice processing personnel, and consulting for switchyard and substation electrical systems and major equipment.
Human Resources - NEER	Julie S. Rice	Provides recruiting and hiring for non-operations personnel, terminations, compensation, and day-to-day personnel support.

SUBJECT OF DIRECT TESTIMONY	WITNESS	AFFILIATE EXPENSES / SUBJECTS SUPPORTED
Human Resources - FPL	Julie S. Rice	Provides transmission and substation operations personnel recruiting for Lone Star. Performs safety campaigns, compensation and benefits administration, talent acquisition administration, background checks and drug testing, Workforce analytics, Equal Employment Opportunity Commission compliance, workers compensation and safety oversight, administration of employee development, payroll processing, employee call center, health and well being administration, and recruiting administration.
Information Management - NEER	Cheryl L. Dietrich	Provides general support for telecommunications infrastructure, including determining overall technical direction, developing network connectivity and deploying the network and servers. SAP support, data management systems and desk-top support for systems owned, operated and maintained by NEER.
Information Management - FPL	Cheryl L. Dietrich	Support for remote access, developing network connectivity and deploying servers for field offices and control centers. Management and administration of enterprise hardware and software systems.
Integrated Supply Chain - NEER	David K. Turner	Services include bidding, vendor negotiating and material purchasing for substation equipment.
Integrated Supply Chain - FPL	David K. Turner	Provides procurement of materials, right-of-way and construction services and data management software; management oversight for bidding services and vendor negotiation. Business analytics, supplier diversity, master contracts such as travel and other services that benefit the entire organization.
Internal Audit - FPL	Cheryl L. Dietrich	Performs internal audits of company and affiliates, NERC compliance, FERC compliance, and Ethics office. Audits or consultations specific to Lone Star.

SUBJECT OF DIRECT TESTIMONY	WITNESS	AFFILIATE EXPENSES / SUBJECTS SUPPORTED
Law Department - NEER	Cheryl L. Dietrich	<p>Services include support for financing contracts, construction contracts, lease negotiations and contracts, employment law support, title commitments, land purchase agreements, and right-of-way easement agreements.</p> <p>Chief legal counsel and corporate secretaries.</p>
Law Department - FPL	<p>Cheryl L. Dietrich</p> <p>H. Michael Warren for rate case expenses</p>	<p>Provides legal support for business units (e.g., litigation, labor and employment, commercial contracting, corporate governance, regulatory proceedings, as well as all other operational legal matters), monitoring compliance with federal, state and local laws, regulations and ordinances; and negotiating and reviewing agreements.</p> <p>Services include outside legal reviews of annual report and SEC filings; Board of Directors; labor, employment and benefits support; and corporate records and document files handling.</p>
Regulatory Affairs - FPL	<p>David K. Turner</p> <p>H. Michael Warren for rate case expenses</p>	<p>Services include coordinating dockets for regulatory rulemaking policy, rate proceedings and other technical filings.</p>
Strategy, Policy and Process Improvement - FPL	Cheryl L. Dietrich	<p>Provides building security; risk identification and management; quality, planning and analysis for operational excellence; and environmental strategy and support services which cover compliance, water and wildlife, air and hazardous substances.</p> <p>More specifically, this includes Business administration of the department.</p> <p>Building Security to include security officers and guard service, video monitoring and security badge /access administration.</p> <p>Emergency planning and Pandemic Events.</p> <p>Environmental Services strategy, compliance and support on Water and Wildlife, Air Media, and Oil & Hazardous substances.</p> <p>Operational Excellence programs and training.</p>
Transmission and Substation - FPL	David K. Turner	<p>Transmission design and support for CREZ project, such as Transmission line routing, O&M control and dispatch, substation design, protection, control and switchyard communications, relay systems, design review and vendor scope review.</p>

SUBJECT OF DIRECT TESTIMONY	WITNESS	AFFILIATE EXPENSES / SUBJECTS SUPPORTED
	David K. Turner	Central Maintenance - Provides project management and construction oversight for substation, transmission line and switchyard capital improvements at Lone Star; maintenance administration; transmission line, substation and vegetation management and maintenance support services; provides support on substation environmental services for oil-filled equipment and safety and switching training programs.
	David K. Turner	<p>Engineering and Technical - Services include transmission line, substation and protection and control subject matter expertise ("SME") in life cycle condition assessment and maintenance plans and processes; developing list of vendors for bidding materials; design review; facility and master station evaluation; reviewing design for protective relaying design, instrument transformers and metering; developing substation scope of work and switchyard equipment specifications.</p> <p>Develops transmission breaker and equipment specifications. Serves as owner's representative/engineer services on Brownfield construction projects.</p> <p>SME technical engineering support; environmental support related to equipment and animal programs.</p> <p>Transmission equipment consultative services and expertise (remote technical support); event analysis technical support (remote); SME technical support on all asset types in substations and lines</p> <p>Vegetation Management inspects and clears transmission right of way.</p>
	David K. Turner	Provides support and consulting services related to scoping, establishing and operating Supervisory Control and Data Acquisition and overall Energy Management Systems infrastructure and applications for transmission system operations and setup of control room and asset diagnostic analysis and capabilities.
	David K. Turner	Provides support services related to developing and implementing a standardized compliance program/process management.

SUBJECT OF DIRECT TESTIMONY	WITNESS	AFFILIATE EXPENSES / SUBJECTS SUPPORTED
	David K. Turner	Provides budgeting and affiliate billing and reporting support, internal communications and Six Sigma quality program management.
Transmission Operations - NEET	David K. Turner	Oversight and support in implementation of standardized transmission operations processes and procedures for the system control center, energy management system, field asset assessment and maintenance, event response, and reporting through interfaces with FPL Transmission & Substation organization and other corporate support organizations.
Treasury - NEER	Aldo E. Portales	Analysis of financing activities, evaluation of new financing vehicles and instruments and supporting investment activities and banking.

	TRANSACTIONS WITH SUBSIDIARIES AND AFFILIATES POLICY AND PROCEDURE	Procedure #: 5.5
		Rev Date: 12/14/2011 Rev 3
		Responsibility: General Accounting

1. SCOPE

To establish guidance for invoice processing and billing of the following inter-company transactions:

- A. NextEra Energy Resources, LLC and its subsidiaries ("NEER") and NextEra Energy Infrastructure, LLC and its subsidiaries ("Infrastructure") requesting services from Florida Power & Light ("FPL") utility employees.
- B. NEER requesting services from Infrastructure
- C. FPL requesting services from NEER and Infrastructure employees.
- D. Infrastructure requesting services from NEER employees
- E. Invoicing from FPL to NEER and Infrastructure for services rendered by FPL.
- F. Invoicing from NEER to the NEER subsidiaries, FPL, and Infrastructure for services rendered by the NEER.
- G. Invoicing from Infrastructure to its subsidiaries, FPL and NEER for services rendered by Infrastructure.

2. GENERAL

Although FPL, Infrastructure and NEER are wholly owned subsidiaries of NextEra Energy Inc, FPL and certain Infrastructure subsidiaries (e.g. Lone Star Transmission, LLC) are regulated utilities which have adopted rules concerning cost allocation and affiliate transactions. The purpose of this rulemaking is to establish cost allocation requirements to ensure proper accounting for affiliate transactions and non-regulated utility activities in order for these transactions and activities to not be subsidized by utility ratepayers.

The following procedures will facilitate billing of inter-company transactions to/from FPL, Infrastructure, and NEER to ensure compliance with the rules of regulated utilities

3. PROCEDURES

A. NEER and Infrastructure Requesting Services from FPL

NEER and Infrastructure employees must complete the Request for Personnel Services (RFPS) form when requesting services from an FPL employee ([RFPS Database Instruction - FPL doing work for NEER](#)). The RFPS form is located on the Workspace of Lotus Notes or is available through the Corporate Portal/Applications/RFPS Database ([RFPS Database Link](#)) and is available to all employees.

The RFPS form is essential in the process of inter-company invoicing between FPL and NEER or Infrastructure and provides necessary information for FPL and NEER or Infrastructure to process and invoice costs. The completion of the RFPS form is a critical step in the process since FPL and NEER/Infrastructure use different cost objects to track and report costs within the same SAP System. FPL uses an internal order system and NEER and Infrastructure use Work Breakdown Structure (WBS) elements to track costs. FPL employees working on behalf of NEER or Infrastructure will require an internal order number. Through the RFPS process the internal order numbers to be used are mapped to the appropriate WBS elements to be charged at NEER or Infrastructure.