

**JAY JOYCE – REPRESENTATIVE UTILITY PROJECTS**

| Line | Jurisdiction   | Docket          | Company  | Year | Description  |
|------|--|-----------------|--|------|--|
| 1    | Texas Natural Resource Conservation Commission (TNRCC) | 7796-M & 7831-M | City of Kilgore, Texas                                     | 1989 | Wholesale Revenue Requirements, Cost of Service, and Rate Design   |
| 2    | Texas Public Utility Commission (PUC)                  | 8928            | Texas-New Mexico Power Company                             | 1989 | Revenue Requirements   |
| 3    | Texas PUC  | 8585            | Southwestern Bell Telephone Company                        | 1989 | Revenue requirements   |
| 4    | Texas PUC  | 9491            | Texas-New Mexico Power Company                             | 1990 | Revenue requirements, prudence                                     |
| 5    | TNRCC  | 8388-M          | Trinity Water Reserve, Inc. d/b/a Devers Canal System      | 1990 | Rate base, return, rate design                                     |
| 6    | Texas PUC  | 10200           | Texas-New Mexico Power Company                             | 1991 | Revenue requirements, prudence                                     |
| 7    | N/A  | N/A             | TCI Cablevision of Texas, Inc.                             | 1991 | Franchise Compliance   |
| 8    | Oklahoma Corp. Comm.                                   | PUD 001346      | Arkansas-Oklahoma Gas Company                              | 1991 | Cost of Service, Rate Design                                       |
| 9    | TNRCC  | 8293-M          | United Irrigation District of Hidalgo County, Texas        | 1991 | Revenue requirements, cost of service                              |
| 10   | Texas PUC  | 10034           | Texas-New Mexico Power Company                             | 1992 | Deferred Accounting  |
| 11   | Texas PUC  | 9892            | Denton County Electric Cooperative                         | 1992 | Revenue Requirements, settlement negotiations                      |
| 12   | N/A  |                 | Southern Union Gas Company                                 | 1992 | Federal Income Taxes   |
| 13   | TNRCC  |                 | Culleoka Water Supply Corporation                          | 1992 | Wholesale Revenue Requirements, Cost of Service, and Rate Design * |
| 14   | TNRCC  | 8338-A          | City of Lewisville, Texas                                  | 1993 | Revenue requirements, cost of service *                            |
| 15   | N/A  | N/A             | City of Paris, Texas                                       | 1993 | Revenue requirements, cost of service                              |
| 16   | TNRCC  |                 | City of Knollwood, Texas                                   | 1994 | Wholesale Revenue Requirements, Cost of Service, and Rate Design   |
| 17   | N/A  | N/A             | Rockett Special Utility District/City of Midlothian, Texas | 1994 | Water Supply Feasibility Analysis                                  |

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|------|--|-----------|---|------|--|
| 18   | Texas PUC  | 12065     | Houston Lighting & Power Company                                    | 1994 | Revenue Requirements, Restructuring Costs *                        |
| 19   | Texas PUC  | 12900     | Texas-New Mexico Power Company                                      | 1994 | Revenue requirements, rate case expenses *                         |
| 20   | TNRCC  | N/A       | Lakeside Utilities, Inc.  | 1994 | Revenue requirements, cost of service *                            |
| 21   | N/A  | N/A       | City of North Richland Hills, Texas                                 | 1994 | Revenue requirements, cost of service                              |
| 22   | N/A  | N/A       | Detroit Edison/MCN Corporation                                      | 1995 | Merger analysis  |
| 23   | N/A  | N/A       | Illinois Power Company  | 1995 | Merger candidate evaluation  |
| 24   | N/A  | N/A       | Northern States Power/Wisconsin Electric Company                    | 1995 | Merger analysis  |
| 25   | Washington Utilities & Transportation Commission | UE-960195 | Washington Natural Gas/Puget Sound Power & Light                    | 1995 | Merger analysis, testimony in support of merger                    |
| 26   | N/A  | N/A       | General Public Utilities  | 1996 | Merger candidate evaluation  |
| 27   | N/A  | N/A       | San Diego G&E/Southern California Gas Company                       | 1996 | Merger analysis  |
| 28   | Texas PUC  | 14980     | Southwest Public Service Company/Public Service Company of Colorado | 1996 | Testimony in support of merger                                     |
| 29   | New Mexico Public Regulation Commission (PRC)    | 2676      | Southwest Public Service Company/Public Service Company of Colorado | 1996 | Testimony in support of merger                                     |
| 30   | Colorado Public Service Commission               | 95A-513EG | Southwest Public Service Company/Public Service Company of Colorado | 1996 | Testimony in support of merger                                     |
| 31   | N/A  | N/A       | Western Resources/Kansas City Power & Light                         | 1996 | Merger analysis  |
| 32   | N/A  | N/A       | Fort Worth Water Department   | 1996 | Wholesale water revenue requirements, cost of service, rate design |
| 33   | N/A  | N/A       | Nashville Metro Water Services                                      | 1996 | Wastewater Cost of Service and Rate Design                         |
| 34   | Texas PUC  | 18490     | TXU Electric Company  | 1997 | Cash Working Capital (CWC)   |
| 35   | N/A  | N/A       | Tucson Electric Power   | 1997 | Stranded cost quantification                                       |

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| Line | Jurisdiction  | Docket                          | Company   | Year | Description   |
|------|---|---------------------------------|---|------|---|
| 36   | N/A   | N/A                             | Cobb County Water System                          | 1997 | Sewer Development Fee Analysis  |
| 37   | N/A   | N/A                             | Fern Bluff Municipal Utility District             | 1997 | Wastewater Contract Negotiations  |
| 38   | N/A   | N/A                             | Lower Colorado River Authority                    | 1997 | Wastewater Contract Negotiations  |
| 39   | N/A   | N/A                             | Nashville Thermal Transfer Corporation            | 1997 | Financial Advisory Services   |
| 40   | N/A   | N/A                             | Pflugerville Water and Wastewater Utility         | 1997 | Water and Wastewater Revenue Requirements, Cost of Service, Rate Design |
| 41   | N/A   | N/A                             | Travis County Municipal Utility District No.4     | 1997 | Wholesale water revenue requirements, cost of service, rate design      |
| 42   | N/A   | N/A                             | Southwest Power Pool                              | 1998 | Tariff policies and procedures  |
| 43   | N/A   | N/A                             | Houston Public Utilities                          | 1998 | Management Audit  |
| 44   | TNRCC   | N/A                             | Trinity River Authority                           | 1998 | Management Audit  |
| 45   | Texas PUC   | 22350                           | TXU Electric Company                              | 1999 | CWC   |
| 46   | Texas PUC   | 22350                           | TXU SESCO Company                                 | 1999 | CWC   |
| 47   | N/A   | N/A                             | Mt. Carmel Public Utilities                       | 1999 | Valuation   |
| 48   | TNRCC   | 97-0049-UCR                     | Waco Water and Wastewater Utility                 | 1999 | Wholesale water revenue requirements, cost of service, rate design      |
| 49   | Texas Railroad Commission (RRC)                                     | 8976                            | Lone Star Pipeline Company                        | 2000 | CWC   |
| 50   | Texas RRC   | 9145                            | TXU Gas Distribution – Dallas Distribution System | 2000 | CWC   |
| 51   | Georgia PSC   | 14311-U                         | Atlanta Gas Light Company                         | 2001 | CWC   |
| 52   | New Jersey BPU  | GR02040245                      | Elizabethtown Gas Company                         | 2002 | CWC   |
| 53   | United States Bankruptcy Court for the Northern District of Georgia | 02-10835 through 02-10837       | NewPower  | 2002 | Contractual pricing, bankruptcy   |
| 54   | Texas RRC   | 9400                            | TXU Gas Company                                   | 2003 | CWC *   |
| 55   | Texas PUC   | 28840                           | American Electric Power - Texas Central Company   | 2003 | CWC   |
| 56   | North Carolina UC   | E-22, Sub 412                   | Dominion Virginia Electric Power                  | 2004 | CWC   |
| 57   | PUC of Ohio   | 04-571-GA-AIR and 04-794-GA-AAM | Vectren Energy Delivery of Ohio                   | 2004 | CWC *   |

**JAY JOYCE – REPRESENTATIVE UTILITY PROJECTS**

| Line | Jurisdiction  | Docket                 | Company   | Year | Description  |
|------|---|------------------------|---|------|--|
| 58   | Texas Commission on Environmental Quality (TCEQ)          | 2004-0979-UCR          | Chisholm Trail SUD                                  | 2005 | Cost of Service, Rate Design *                     |
| 59   | TCEQ  | 2004-1120-UCR, et. al. | Aqua Texas  | 2005 | Valuation, Cost Allocation, Revenue Requirements * |
| 60   | US District Court for the Northern District of California | C01-20289 RMW          | TXU Energy Services                                 | 2006 | Wholesale Gas Supply Pricing Dispute *             |
| 61   | Superior Court of Fulton County, Georgia                  | 2000-CV-20379          | City of Atlanta Water Utility                       | 2006 | Water Rates *                                      |
| 62   | Texas PUC   | 32093                  | CenterPoint Energy                                  | 2006 | CWC*   |
| 63   | Texas RRC   | 9670                   | Atmos Energy – Mid-Tex                              | 2006 | CWC *  |
| 64   | Texas PUC   | 33309                  | American Electric Power - Texas Central Company     | 2006 | CWC *  |
| 65   | Texas PUC   | 33310                  | American Electric Power - Texas North Company       | 2006 | CWC *  |
| 66   | Oklahoma Corp. Comm.                                      | PUD-200600285          | Public Service Company of Oklahoma                  | 2006 | CWC  |
| 67   | Arkansas PSC  | 060161-U               | CenterPoint Energy Arkansas Gas                     | 2007 | Working Capital *                                  |
| 68   | TCEQ  | 2006-1919-UCR          | Oak Shores Water System                             | 2007 | Water Cost of Service, Rate Design *               |
| 69   | Texas PUC   | 34040                  | TXU Electric Delivery Company                       | 2007 | CWC  |
| 70   | TCEQ  | 2008-0804-UCR          | Kendall County Utility Company                      | 2008 | Water & Wastewater Cost of Service & Rate Design * |
| 71   | Texas PUC   | 35717                  | Oncor Electric Delivery Company                     | 2008 | CWC  |
| 72   | Texas RRC   | 9872                   | CenterPoint Energy Entex Gas – Texas Coast Division | 2008 | CWC *  |
| 73   | New Mexico Public Regulation Commission                   | 09-00171-UT            | El Paso Electric Company                            | 2009 | CWC  |
| 74   | Texas RRC   | 9902                   | CenterPoint Energy Entex Gas – Houston Division     | 2009 | CWC *  |
| 75   | TCEQ  | 2008-1856-UCR          | City of Pecos City                                  | 2009 | Water & Wastewater Cost of Service & Rate Design * |
| 76   | Virginia State Corporation Comm.                          | PUE-2009-0030          | Appalachian Power Company                           | 2009 | CWC *  |
| 77   | Texas PUC   | 37364                  | SWEPCo  | 2009 | CWC *  |
| 78   | Texas PUC   | 37690                  | El Paso Electric                                    | 2009 | CWC *  |
| 79   | West Virginia PSC   | 10-099-E-42T           | Appalachian Power Company & Wheeling Power Company  | 2010 | CWC *  |
| 80   | Texas PUC   | 38339                  | CenterPoint Energy Houston Electric                 | 2010 | CWC *  |

**JAY JOYCE – REPRESENTATIVE UTILITY PROJECTS**

| Line | Jurisdiction                            | Docket              | Company   | Year | Description |
|------|---|---------------------|---|------|-------------|
| 81   | Texas RRC                               | 9985, 9986, 9987    | CenterPoint Energy Entex Gas – Beaumont Division    | 2010 | CWC *       |
| 82   | Texas RRC                               | 10006, 10007, 10018 | CenterPoint Energy Entex Gas – Texas Coast Division | 2010 | CWC *       |
| 83   | Texas RRC                               | 10038               | CenterPoint Energy Entex Gas – South Texas Division | 2010 | CWC *       |
| 84   | Oklahoma Corp. Comm.                    | PUD-201000050       | Public Service Company of Oklahoma                  | 2010 | CWC         |
| 85   | Virginia State Corporation Comm.        | PUE-2011-00037      | Appalachian Power Company                           | 2011 | CWC *       |
| 86   | New Mexico Public Regulation Commission | 11-00042-UT         | New Mexico Gas Company                              | 2011 | CWC         |
| 87   | Texas PUC                               | 39896               | Entergy Texas, Inc.                                 | 2011 | CWC *       |

\* Indicates projects where Mr. Joyce was a testifying expert witness

**Substantive Rule §25.231(c)(2)(B)(iii)**

- (iii) A reasonable allowance for cash working capital. The following shall apply in determining the amount to be included in invested capital for cash working capital:
- (I) Cash working capital for electric utilities shall in no event be greater than one-eighth of total annual operations and maintenance expense, excluding amounts charged to operations and maintenance expense for materials, supplies, fuel, and prepayments.
  - (II) For electric cooperatives, river authorities, and investor-owned electric utilities that purchase 100% of their power requirements, one-eighth of operations and maintenance expense excluding amounts charged to operations and maintenance expense for materials, supplies, fuel, and prepayments will be considered a reasonable allowance for cash working capital.
  - (III) Operations and maintenance expense does not include depreciation, other taxes, or federal income taxes, for purposes of subclauses (I), (II), and (V) of this clause.
  - (IV) For all investor-owned electric utilities a reasonable allowance for cash working capital, including a request of zero, will be determined by the use of a lead-lag study. A lead-lag study will be performed in accordance with the following criteria:
    - (-a-) The lead-lag study will use the cash method; all non-cash items, including but not limited to depreciation, amortization, deferred taxes, prepaid items, and return (including interest on long-term debt and dividends on preferred stock), will not be considered.
    - (-b-) Any reasonable sampling method that is shown to be unbiased may be used in performing the lead-lag study.
    - (-c-) The check clear date, or the invoice due date, whichever is later, will be used in calculating the lead-lag days used in the study. In those cases where multiple due dates and payment terms are offered by vendors, the invoice due date is the date corresponding to the terms accepted by the electric utility.
    - (-d-) All funds received by the electric utility except electronic transfers shall be considered available for use no later than the business day following the receipt of the funds in any repository of the electric utility (e.g. lockbox, post office box, branch office). All funds received by electronic transfer will be considered available the day of receipt.
    - (-e-) For electric utilities the balance of cash and working funds included in the working cash allowance calculation shall consist of the average daily bank balance of all non-interest bearing demand deposits and working cash funds.
    - (-f-) The lead on federal income tax expense shall be calculated by measurement of the interval between the mid-point of the annual service period and the actual payment date of the electric utility.
    - (-g-) If the cash working capital calculation results in a negative amount, the negative amount shall be included in rate base.
  - (V) If cash working capital is required to be determined by the use of a lead-lag study under the previous subclause and either the electric utility does not file a lead lag study or the electric utility's lead-lag study is determined to be so flawed as to be unreliable, in the absence of persuasive evidence that suggests a different amount of cash working capital, an amount of cash working capital equal to negative one-eighth of operations and maintenance expense including fuel and purchased power will be presumed to be the reasonable level of cash working capital.

LONE STAR TRANSMISSION, LLC  
CASH WORKING CAPITAL REQUIREMENT  
INTERIM RATE PERIOD  
FOR THE TEST YEAR ENDED MARCH 31, 2013

| Line No. | Description (a)  | Adjusted Test Year Amount (b) | CWC Adjustments (c) | Avg. Daily Expense (d)=(b)+(c)/365 | Revenue Lag Days (e) | Expense Lead Days (f) | Net (Lead)/Lag (g)=(e)+(f) | Working Capital Requirement (h)=(d)*(g) |
|----------|--|-------------------------------|---------------------|------------------------------------|----------------------|-----------------------|----------------------------|---|
| 1        | Operation & Maintenance Expenses                             |                               |                     |                                    |                      |                       |                            |   |
| 2        | Labor  |                               |                     |                                    |                      |                       |                            |   |
| 3        | Payroll  | \$ 2,750,001                  |                     | 7,534                              | 51.79                | (26.64)               | 25.15                      | \$ 189,505                              |
| 4        | Incentive Bonus  | 947,059                       |                     | 2,595                              | 51.79                | (251.50)              | (199.71)                   | (518,184)                               |
| 5        | Non-Labor  |                               |                     |                                    |                      |                       |                            |   |
| 6        | Other Third-Party O&M  | 4,066,715                     | 77,475              | 10,929                             | 51.79                | (26.24)               | 25.55                      | 279,247                                 |
| 7        | Affiliate Charges  | 766,225                       |                     | 2,099                              | 51.79                | (45.13)               | 6.66                       | 13,981                                  |
| 8        | Total O&M  | \$ 8,530,000                  |                     |                                    |                      |                       |                            |   |
| 9        |  |                               |                     |                                    |                      |                       |                            |   |
| 10       | Federal Income Taxes   |                               |                     |                                    |                      |                       |                            |   |
| 11       | Current  | \$ (7,321,213)                | (7,321,213)         | -                                  | 51.79                | (37.75)               | 14.04                      | -                                       |
| 12       | Deferred FIT & ITC   | 9,057,295                     |                     | 24,815                             | -                    | -                     | -                          | -                                       |
| 13       | Total FIT  | \$ 1,736,082                  |                     |                                    |                      |                       |                            |   |
| 14       |  |                               |                     |                                    |                      |                       |                            |   |
| 15       | Taxes Other Than Income Taxes                                |                               |                     |                                    |                      |                       |                            |   |
| 16       | Payroll Taxes  | \$ 323,825                    |                     | 887                                | 51.79                | (19.61)               | 32.18                      | 28,550                                  |
| 17       | State Franchise Taxes  | 128,569                       |                     | 352                                | 51.79                | 46.42                 | 98.21                      | 34,594                                  |
| 18       | Ad Valorem Taxes   | 716,715                       |                     | 1,964                              | 51.79                | (213.50)              | (161.71)                   | (317,534)                               |
| 19       | Total Taxes Other Than Income Taxes                          | \$ 1,169,109                  |                     |                                    |                      |                       |                            |   |
| 20       |  |                               |                     |                                    |                      |                       |                            |   |
| 21       | Depreciation Expense   | \$ 2,410,524                  |                     | 6,604                              | -                    | -                     | -                          | -                                       |
| 22       |  |                               |                     |                                    |                      |                       |                            |   |
| 23       | Return   | \$ 4,521,285                  |                     | 12,387                             | -                    | -                     | -                          | -                                       |
| 24       |  |                               |                     |                                    |                      |                       |                            |   |
| 25       | Subtotal   | \$ 18,367,001                 |                     |                                    |                      |                       |                            | \$ (289,841)                            |
| 26       |  |                               |                     |                                    |                      |                       |                            | (5,883)                                 |
| 27       | Other Working Funds  |                               |                     |                                    |                      |                       |                            |   |
| 28       |  |                               |                     |                                    |                      |                       |                            |   |
| 29       | Total Cash Working Capital Requirement - Interim Rate Period |                               |                     |                                    |                      |                       |                            | \$ (295,724)                            |

LONE STAR TRANSMISSION, LLC  
CASH WORKING CAPITAL REQUIREMENT  
FINAL RATE PERIOD  
FOR THE TEST YEAR ENDED MARCH 31, 2014

| Line No. | Description (a)  | Adjusted Test Year Amount (b) | CWC Adjustments (c) | Avg. Daily Expense (d)=(b)+(c)/365 | Revenue Lag Days (e) | Expense Lead Days (f) | Net (Lead)/Lag (g)=(e)-(f) | Working Capital Requirement (h)=(d)*(g) |
|----------|--|-------------------------------|---------------------|------------------------------------|----------------------|-----------------------|----------------------------|---|
| 1        | Operation & Maintenance Expenses                           |                               |                     |                                    |                      |                       |                            |   |
| 2        | Labor  |                               |                     |                                    |                      |                       |                            |   |
| 3        | Payroll  | \$ 2,858,766                  |                     | 7,832                              | 51.79                | (26.64)               | 25.15                      | \$ 197,000                              |
| 4        | Incentive Bonus  | 1,018,070                     |                     | 2,789                              | 51.79                | (251.50)              | (199.71)                   | (557,038)                               |
| 5        | Non-Labor  |                               |                     |                                    |                      |                       |                            |   |
| 6        | Other Third-Party O&M                                      | 10,784,337                    | 128,777             | 29,193                             | 51.79                | (26.24)               | 25.55                      | 745,889                                 |
| 7        | Affiliate Charges  | 3,786,827                     |                     | 10,375                             | 51.79                | (45.13)               | 6.86                       | 69,097                                  |
| 8        | Total O&M  | \$ 18,448,000                 |                     |                                    |                      |                       |                            |   |
| 9        |  |                               |                     |                                    |                      |                       |                            |   |
| 10       | Federal Income Taxes                                       |                               |                     |                                    |                      |                       |                            |   |
| 11       | Current  | \$ (82,354,380)               | (82,354,380)        | -                                  | 51.79                | (37.75)               | 14.04                      | -                                       |
| 12       | Deferred FIT & ITC   | 105,463,820                   |                     | 288,942                            | -                    | -                     | -                          | -                                       |
| 13       | Total FIT  | \$ 23,109,440                 |                     |                                    |                      |                       |                            |   |
| 14       |  |                               |                     |                                    |                      |                       |                            |   |
| 15       | Taxes Other Than Income Taxes                              |                               |                     |                                    |                      |                       |                            |   |
| 16       | Payroll Taxes  | \$ 329,355                    |                     | 902                                | 51.79                | (19.61)               | 32.18                      | 29,037                                  |
| 17       | State Franchise Taxes                                      | 980,731                       |                     | 2,687                              | 51.79                | 46.42                 | 98.21                      | 263,884                                 |
| 18       | Ad Valorem Taxes   | 12,375,415                    |                     | 33,905                             | 51.79                | (213.50)              | (161.71)                   | (5,482,817)                             |
| 19       | Total Taxes Other Than Income Taxes                        | \$ 13,685,501                 |                     |                                    |                      |                       |                            |   |
| 20       |  |                               |                     |                                    |                      |                       |                            |   |
| 21       | Depreciation Expense                                       | \$ 19,952,796                 |                     | 54,665                             | -                    | -                     | -                          | -                                       |
| 22       |  |                               |                     |                                    |                      |                       |                            |   |
| 23       | Return   | \$ 64,908,724                 |                     | 177,832                            | -                    | -                     | -                          | -                                       |
| 24       |  |                               |                     |                                    |                      |                       |                            |   |
| 25       | Subtotal   | \$ 140,104,460                |                     |                                    |                      |                       |                            | \$ (4,734,948)                          |
| 26       |  |                               |                     |                                    |                      |                       |                            |   |
| 27       | Other Working Funds  |                               |                     |                                    |                      |                       |                            | (5,883)                                 |
| 28       |  |                               |                     |                                    |                      |                       |                            |   |
| 29       | Total Cash Working Capital Requirement - Final Rate Period |                               |                     |                                    |                      |                       |                            | \$ (4,740,830)                          |



**LONE STAR TRANSMISSION  
LEAD/LAG STUDY RESULTS  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line No. | Description (a)                  | Revenue Lag Days* (b) | Expense Lead Days (c) | Reference (d)    |
|----------|----------------------------------|-----------------------|-----------------------|------------------|
| 1        | Operation & Maintenance Expenses |                       |                       |                  |
| 2        | Labor                            |                       |                       |                  |
| 3        | Payroll                          | 51.79                 | (26.64)               | WP / II-B-9 / 2  |
| 4        | Incentive Bonus                  | 51.79                 | (251.50)              | WP / II-B-9 / 3  |
| 5        | Non-Labor                        |                       |                       |                  |
| 6        | Other Third-Party O&M            | 51.79                 | (26.24)               | WP / II-B-9 / 4  |
| 7        | Affiliate Charges                | 51.79                 | (45.13)               | WP / II-B-9 / 5  |
| 8        |                                  |                       |                       |                  |
| 9        | Federal Income Taxes             |                       |                       |                  |
| 10       | Current                          | 51.79                 | (37.75)               | WP / II-B-9 / 6  |
| 11       | Deferred                         | 0.00                  | 0.00                  | N/A              |
| 12       |                                  |                       |                       |                  |
| 13       | Taxes Other than Income Taxes    |                       |                       |                  |
| 14       | Payroll Taxes                    | 51.79                 | (19.61)               | WP / II-B-9 / 7  |
| 15       | State Franchise Taxes            | 51.79                 | 46.42                 | WP / II-B-9 / 8  |
| 16       | Ad Valorem Tax                   | 51.79                 | (213.50)              | WP / II-B-9 / 9  |
| 17       |                                  |                       |                       |                  |
| 18       | Depreciation Expense             | 0.00                  | 0.00                  | N/A              |
| 19       |                                  |                       |                       |                  |
| 20       | Return                           | 0.00                  | 0.00                  | N/A              |
| 21       |                                  |                       |                       |                  |
| 22       | Sub-total                        |                       |                       |                  |
| 23       |                                  |                       |                       |                  |
| 24       | Working Funds and Other          |                       | (5,883)               | WP / II-B-9 / 10 |
| 25       |                                  |                       |                       |                  |
| 26       |                                  |                       |                       |                  |
| 27       | * WP / II-B-9 / 1                |                       |                       |                  |

See Schedule II-B-9 Workpapers and Supporting Documents

**LONE STAR TRANSMISSION  
CALCULATION OF OPERATING REVENUES LAG DAYS  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line No. | Service Period Lag:<br>(a)                          | Days<br>(b) | Reference<br>(c)  |
|----------|---|-------------|-------------------|
| 1        | Average service period                              |             |                   |
| 2        | (365 days/12 months)/2                              | 15.21       |                   |
| 3        |   |             |                   |
| 4        |   |             |                   |
| 5        | Billing Process Lag                                 | 1.58        | WP / II-B-9 / 1-1 |
| 6        |   |             |                   |
| 7        |   |             |                   |
| 8        | Collection Lag                                      | 35.00       | (1)               |
| 9        |   |             |                   |
| 10       | Operating Revenues Lag Days                         | 51.79       |                   |
| 11       |   |             |                   |
| 12       | Source: (1) <u>PUCT Substantive Rule 25-202.pdf</u> |             |                   |

See Schedule II-B-9 Workpapers and Supporting Documents

**LONE STAR TRANSMISSION  
CALCULATION OF PAYROLL LEAD DAYS  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line No. | Payroll Type (a)                    | Gross Payroll (b) | Percent (c)      | Reference (d)          | (Lead)/Lag (e)       | Reference (f)        | Check Float (g)   | Reference (h)                | Total (Lead)/Lag (i)          | Weighted Dollar Days (j)   |
|----------|-------------------------------------|-------------------|------------------|------------------------|----------------------|----------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| 1        | <b>Bi-Weekly</b>                    |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 2        | Direct Deposit                      | \$ 1,634,463      | 100.00%          | (1)                    | (12.95)              | WP / IL-B-9 / 2-1    | 0.00              |                              | (12.95)                       | \$ (21,166,301)            |
| 3        | Paper Checks                        |                   | 0.00%            |                        | (12.95)              | WP / IL-B-9 / 2-1    | N/A               |                              | (12.95)                       | (12.95)                    |
| 4        | Total Bi-Weekly Pay                 | \$ 1,634,463      |                  | Payroll and Taxes.xlsx | (12.95)              |                      |                   |                              | (12.95)                       | \$ (21,166,301)            |
| 5        |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 6        |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 7        | <b>Total</b>                        | \$ 1,634,463      |                  |                        | (12.95)              |                      |                   |                              | (12.95)                       | \$ (21,166,301)            |
| 8        |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 9        |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 10       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 11       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 12       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 13       | <b>Adjustment for Vacation Pay:</b> |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 14       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 15       | <b>Total Payroll</b>                | \$ 1,634,463      | Regular % 92.50% |                        | Regular \$ 1,511,879 | Regular Days (12.95) | Vac Days (185.45) | Regular \$ Days (19,578,828) | Vacation \$ Days (23,958,191) | Total \$ Days (43,538,019) |
| 16       |                                     |                   | Vac % (2) 7.50%  |                        | Vacation \$ 122,585  |                      |                   |                              |                               |                            |
| 17       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 18       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 19       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 20       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 21       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 22       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 23       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 24       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |
| 25       |                                     |                   |                  |                        |                      |                      |                   |                              |                               |                            |

Total (Lead)/Lag Adjusted for Vacation Days = Column (i), Line 16 / Column (a), Line 16

(26.64)

**Sources:**

- (1) Payroll - Direct Deposit Email.pdf
- (2) Vacation Percentage Analysis.xlsx
- (3) Staffing for Lat Lead Study - Lone Star.pdf
- (4) 2011 TimeOffHandbook - nonbargaining draft.doc

**LONE STAR TRANSMISSION  
ANNUAL BONUS  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line<br>No. | Beginning of<br>Period<br>(a) | End of<br>Period<br>(b) | Mid-Point<br>(c) | Payout Date *<br>(d) | (Lead)/Lag<br>Days<br>(e) |
|-------------|-------------------------------|-------------------------|------------------|----------------------|---------------------------|
| 1           | 1/1/2010                      | 12/31/2010              | 7/1/2010         | 3/10/2011            | (251.50)                  |
| 2           |                               |                         |                  |                      |                           |
| 3           |                               |                         |                  |                      |                           |
| 4           |                               |                         |                  |                      |                           |
| 5           |                               |                         |                  |                      |                           |
| 6           |                               |                         |                  |                      |                           |
| 7           |                               |                         |                  |                      |                           |

Sources: 2010 Lone Star Transmission Incentive Program.docx  
Email - Incentive Compensation Plan.pdf  
\* per 05/13/2011 conference call with Mercedes Demick,  
Melissa Miller, Julie Rice, and Richard Ross

See Schedule II-B-9 Workpapers and Supporting Documents

**LONE STAR TRANSMISSION  
OTHER O&M EXPENSES LEAD/LAG DAYS  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line No. | Invoice Reference (a) | Begin Date<br>Midpoint of Service Period<br>or Invoice Date (b) | End Date - Later of Due<br>Date or Clear Date (c) | Amount (d)   | Total (Lead)/Lag<br>Days (e) | Weighted Dollar<br>Days (f) |
|----------|-----------------------|---|---|--------------|------------------------------|-----------------------------|
| 1        | 1900000579            | 4/16/2011   | 5/12/2011   | \$ 1,958.10  | (26.00)                      | \$ (50,910.80)              |
| 2        | 1900000538            | 9/7/2011  | 4/22/2011   | 48.71        | 138.00                       | 6,721.98                    |
| 3        | 1900000611            | 3/31/2011   | 5/29/2011   | 1,265.00     | (59.00)                      | (74,635.00)                 |
| 4        | 1900000661            | 5/1/2011  | 6/10/2011   | 24.33        | (40.00)                      | (973.20)                    |
| 5        | 1900000440            | 2/15/2011   | 3/21/2011   | 4,277.30     | (34.00)                      | (145,428.20)                |
| 6        | 5100000117            | 3/16/2011   | 2/24/2011   | 851.00       | 20.00                        | 17,020.00                   |
| 7        | 5100000195            | 5/4/2011  | 4/28/2011   | 1,920.37     | 6.00                         | 11,522.22                   |
| 8        | 1900000346            | 1/21/2011   | 2/22/2011   | 275.16       | (32.00)                      | (8,805.12)                  |
| 9        | 1900000678            | 6/16/2011   | 6/16/2011   | 20,373.33    | -                            | -                           |
| 10       | 5100000255            | 4/2/2011  | 6/6/2011  | 31.80        | (65.00)                      | (2,067.00)                  |
| 11       | 1900000655            | 5/16/2011   | 5/19/2011   | 36.08        | (3.00)                       | (108.24)                    |
| 12       | 1900000362            | 1/16/2011   | 2/14/2011   | 580.75       | (29.00)                      | (17,131.75)                 |
| 13       | 1900000755            | 5/26/2011   | 7/5/2011  | 2,909.83     | (40.00)                      | (116,393.20)                |
| 14       | 1900000441            | 2/9/2011  | 4/10/2011   | 1,368.13     | (60.00)                      | (82,087.80)                 |
| 15       | 5100000260            | 4/8/2011  | 6/6/2011  | 5,393.00     | (59.00)                      | (318,187.00)                |
| 16       | 1900000351            | 1/13/2011   | 2/25/2011   | 271.17       | (43.00)                      | (11,660.31)                 |
| 17       | 1900000627            | 4/14/2011   | 5/31/2011   | 3,106.50     | (47.00)                      | (146,005.50)                |
| 18       | 1900000446            | 1/10/2011   | 3/24/2011   | 530.56       | (73.00)                      | (38,730.88)                 |
| 19       | 1900000698            | 6/16/2011   | 6/5/2011  | 59.77        | 11.00                        | 657.47                      |
| 20       | 1900000309            | 7/2/2011  | 1/21/2011   | 250.00       | 162.00                       | 40,500.00                   |
| 21       | 1900000663            | 5/5/2011  | 6/16/2011   | 9,904.21     | (42.00)                      | (415,976.82)                |
| 22       | 1900000676            | 4/16/2011   | 6/8/2011  | 281.68       | (53.00)                      | (14,929.04)                 |
| 23       | 1900000320            | 1/16/2011   | 1/27/2011   | 366.94       | (11.00)                      | (4,036.34)                  |
| 24       | 1900000604            | 5/16/2011   | 5/26/2011   | 780.24       | (10.00)                      | (7,802.40)                  |
| 25       | 1900000333            | 12/9/2010   | 2/14/2011   | 1,471.25     | (67.00)                      | (98,573.75)                 |
| 26       | 5100000259            | 4/1/2011  | 6/6/2011  | 1,322.58     | (66.00)                      | (87,290.28)                 |
| 27       | 1900000302            | 12/9/2010   | 1/18/2011   | 11.08        |                              |                             |
| 28       |                       |   |   |              |                              |                             |
| 29       |                       |   |   |              |                              |                             |
| 30       |                       |   |   |              |                              |                             |
| 31       |                       |   |   |              |                              |                             |
| 32       |                       |   |   |              |                              |                             |
| 33       |                       |   |   |              |                              |                             |
| 34       |                       |   |   |              |                              |                             |
|          | Total                 |   |   | \$ 59,678.87 | (26.24)                      | \$ (1,565,753.96)           |

Sources: AP Selections.xlsx  
AP Invoices/

See Schedule II-B-9 Worksheets and Supporting Documents

**LONE STAR TRANSMISSION  
AFFILIATE TRASAXCTIONS  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line<br>No. | Affiliate<br>(a) | (Lead)/Lag Days<br>(b) | Reference<br>(c)  |
|-------------|------------------|------------------------|-------------------|
| 1           | NextEra          | (45.13)                | WP / II-B-9 / 5-1 |
| 2           | FPL              | (45.13)                | WP / II-B-9 / 5-2 |
| 3           |                  |                        |                   |
| 4           | Average          | <u>(45.13)</u>         |                   |

See Schedule II-B-9 Workpapers and Supporting Documents

**LONE STAR TRANSMISSION  
FEDERAL INCOME TAX  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line No. | Payment Date (a) | Mid-Year (b) | (Lead)/Lag (c) | Statutory % of Total Taxes for Year (d) | Weighted Days (e) |
|----------|------------------|--------------|----------------|---|-------------------|
| 1        | 4/16/2012        | 7/2/2012     | 77.00          | 25.00%                                  | 19.25             |
| 2        |                  |              |                |   |                   |
| 3        | 6/15/2012        | 7/2/2012     | 17.00          | 25.00%                                  | 4.25              |
| 4        |                  |              |                |   |                   |
| 5        | 9/17/2012        | 7/2/2012     | (77.00)        | 25.00%                                  | (19.25)           |
| 6        |                  |              |                |   |                   |
| 7        | 12/17/2012       | 7/2/2012     | (168.00)       | 25.00%                                  | (42.00)           |
| 8        |                  |              |                |   |                   |
| 9        | Total            |              |                |   | (37.75)           |
| 10       |                  |              |                |   |                   |
| 11       | Source:          |              |                |   |                   |

Instructions for Form 1120.pdf, page 4, section: Estimated Tax Payments

See Schedule II-B-9 Workpapers and Supporting Documents

**LONE STAR TRANSMISSION  
PAYROLL TAXES  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line<br>No. | Description           | (a) | Amount<br>(b) | (Lead)<br>Lag<br>Days<br>(c) | Weighted<br>Dollar<br>Days<br>(d) | Reference<br>(e)  |
|-------------|-----------------------|-----|---------------|------------------------------|-----------------------------------|-------------------|
| 1           | FICA                  |     | \$ 100,481    | (18.97)                      | \$ (1,906,014)                    | WP / II-B-9 / 7-1 |
| 2           | Federal Unemployment  |     | 1,405         | (27.28)                      | (38,321)                          | WP / II-B-9 / 7-2 |
| 3           |                       |     |               |                              |                                   |                   |
| 4           | State Unemployment    |     | 5,755         | (28.90)                      | (166,298)                         | WP / II-B-9 / 7-3 |
| 5           |                       |     |               |                              |                                   |                   |
| 6           |                       |     | \$ 107,641    | (19.61)                      | \$ (2,110,633)                    |                   |
| 7           | Total Payroll Related |     |               |                              |                                   |                   |

See Schedule II-B-9 Workpapers and Supporting Documents



**LONE STAR TRANSMISSION  
STATE FRANCHISE TAXES  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line No. | Month/<br>Year<br>(a)   | Mid Month<br>(b) | Payment Date<br>(c) | (Lead)/Lag Days<br>(d) |
|----------|---|------------------|---------------------|------------------------|
| 1        | Apr-12  | 15-Apr-12        | 15-May-12           | (30.00)                |
| 2        | May-12  | 15-May-12        | 15-May-12           | 0.00                   |
| 3        | Jun-12  | 15-Jun-12        | 15-May-12           | 31.00                  |
| 4        | Jul-12  | 15-Jul-12        | 15-May-12           | 61.00                  |
| 5        | Aug-12  | 15-Aug-12        | 15-May-12           | 92.00                  |
| 6        | Sep-12  | 15-Sep-12        | 15-May-12           | 123.00                 |
| 7        | Oct-12  | 15-Oct-12        | 15-May-12           | 153.00                 |
| 8        | Nov-12  | 15-Nov-12        | 15-May-12           | 184.00                 |
| 9        | Dec-12  | 15-Dec-12        | 15-May-12           | 214.00                 |
| 10       | Jan-13  | 15-Jan-13        | 15-May-13           | (120.00)               |
| 11       | Feb-13  | 14-Feb-13        | 15-May-13           | (90.00)                |
| 12       | Mar-13  | 15-Mar-13        | 15-May-13           | (61.00)                |
| 13       |   |                  |                     |                        |
| 14       | Average   |                  |                     | 46.42                  |
| 15       |   |                  |                     |                        |
| 16       | Source: <u>CONFIDENTIAL Tx State Franchise Tax Report.pdf</u> |                  |                     |                        |

See Schedule II-B-9 Workpapers and Supporting Documents

**LONE STAR TRANSMISSION  
AD VALOREM TAXES  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line No. | Jurisdiction (a) | Payment Date (b) | Tax Year (c) | Payment (d) | Reference (e) | Mid-Year (f) | (Lead)/Lag (g) | Weighted Dollar Days (h) |
|----------|------------------|------------------|--------------|-------------|---------------|--------------|----------------|--------------------------|
| 1        | Hill county      | 1/31/13          | 2012         | \$ 4,592    | (1)           | 7/1/2012     | (213.50) \$    | (980,392)                |
| 2        | Navarro county   | 1/31/13          | 2012         | 8,812       | (1)           | 7/1/2012     | (213.50)       | (1,881,362)              |
| 3        | Travis county    | 1/31/13          | 2012         | 3,782       | (2)           | 7/1/2012     | (213.50)       | (807,457)                |
| 4        |                  |                  |              |             |               |              |                |                          |
| 5        |                  |                  |              |             |               |              |                |                          |
| 6        |                  |                  |              |             |               |              |                |                          |
| 7        | Total            |                  |              | \$ 17,186   |               |              | (213.50) \$    | (3,669,211)              |

Source: (1) Property Taxes - Hill and Navarro.pdf  
(2) Property Taxes - Travis.pdf

See Schedule II-B-9 Worksheets and Supporting Documents

**LONE STAR TRANSMISSION  
PAYROLL WITHHOLDINGS  
FOR THE TEST YEAR ENDED MARCH 31, 2013  
SPONSOR: J. J. JOYCE**

| Line<br>No. | Description<br>(a)             | Total<br>(b)      | Reference<br>(c)   |
|-------------|--------------------------------|-------------------|--------------------|
| 1           | FICA Taxes                     | \$ (1,404)        | WP / II-B-9 / 10-1 |
| 2           |                                |                   |                    |
| 3           | Federal Income Tax Withholding | <u>(4,478)</u>    | WP / II-B-9 / 10-2 |
| 4           |                                |                   |                    |
| 5           | Total FIT and FICA Withholding | <u>\$ (5,883)</u> |                    |

See Schedule II-B-9 Workpapers and Supporting Documents

**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**

**DANE A. WATSON, PE, CDP**

**ON BEHALF OF**

**LONE STAR TRANSMISSION, LLC**

**January 9, 2012**

**INDEX TO THE DIRECT TESTIMONY OF**

**DANE A. WATSON, WITNESS FOR**

**LONE STAR TRANSMISSION, LLC**

|   |      |
|---|------|
| EXECUTIVE SUMMARY OF DANE A. WATSON .....             | ES-1 |
| I. POSITION AND QUALIFICATIONS .....                  | 1    |
| II. PURPOSE AND SUMMARY OF DIRECT TESTIMONY .....     | 3    |
| III. OVERVIEW OF DEPRECIATION STUDY METHODOLOGY ..... | 7    |
| IV. LONE STAR TRANSMISSION DEPRECIATION STUDY .....   | 16   |
| V. CONCLUSION .....                                   | 19   |

**LIST OF EXHIBITS**

|               |   |
|---------------|---|
| EXHIBIT DAW-1 | Prior testimony before regulatory commissions |
| EXHIBIT DAW-2 | Depreciation Study                            |

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

|                  |                      |
|------------------|----------------------|
| SCHEDULE II-E-1  | Depreciation Expense |
| SCHEDULE III-E-1 | Depreciation Expense |

**EXECUTIVE SUMMARY OF DANE A. WATSON**

I have performed a depreciation study of Lone Star Transmission, LLC's ("Lone Star" or the "Company") assets based on the estimated depreciable plant when the facilities are placed in service. Incorporated in the study are interim depreciation rates for those assets being placed in service in Phase I and final depreciation rates applicable when all assets are placed in service. With respect to Lone Star's Phase I facilities, the results of my depreciation study support an annualized depreciation expense of approximately \$2.41 million. Once the entirety of Lone Star's facilities are complete and placed into service, my depreciation study supports an annualized depreciation expense of \$19.95 million based on the estimated amount of total capital investment.

Detailed information regarding the service life and net salvage characteristics that support my proposed depreciation rates can be found in the depreciation study accompanying my testimony, as well as my workpapers.

**DIRECT TESTIMONY OF DANE A. WATSON**

**I. POSITION AND QUALIFICATIONS**

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

**A.** My name is Dane A. Watson. My business address is 1410 Avenue K, Suite 1105B, Plano, Texas 75074. I am a Partner in Alliance Consulting Group ("Alliance"). Alliance provides consulting and expert services to the utility industry.

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

**A.** I am testifying on behalf of Lone Star.

**Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

**A.** I hold a Bachelor of Science degree in Electrical Engineering from the University of Arkansas at Fayetteville and a Master's Degree in Business Administration from Amberton University.

**Q. DO YOU HOLD ANY SPECIAL CERTIFICATION AS A DEPRECIATION EXPERT?**

**A.** Yes. The Society of Depreciation Professionals ("the Society") has established national standards for depreciation professionals. The Society administers an examination and has certain required qualifications to become certified in this field. I have met all requirements and am a Certified Depreciation Professional.

1   **Q.   PLEASE   DESCRIBE   YOUR   INVOLVEMENT   WITH   ANY**  
2   **PROFESSIONAL SOCIETIES OR COMMITTEES.**

3   A.   I have twice been Chair of the Edison Electric Institute ("EEI") Property  
4   Accounting and Valuation Committee and have been Chairman of EEI's  
5   Depreciation and Economic Issues Subcommittee. I was the Industry Project  
6   Manager for the EEI/AGA effort around the electric and gas industry adoption of  
7   Federal Accounting Standard ("FAS") 143 and testified before the Federal Energy  
8   Regulatory Commission ("FERC") in the hearings leading up to the release of  
9   FERC Order 631. I am a Registered Professional Engineer ("PE") in the State of  
10   Texas and a Certified Depreciation Professional. I am a Senior Member of the  
11   Institute of Electrical and Electronics Engineers. I am also Past President of the  
12   Society.

13  
14   **Q.   PLEASE   OUTLINE   YOUR   EXPERIENCE   IN   THE   FIELD   OF**  
15   **DEPRECIATION.**

16   A.   Since graduating from college in 1985, I have worked in the area of depreciation  
17   and valuation. I founded Alliance in 2004 and am responsible for conducting  
18   depreciation, valuation and certain other accounting-related studies for utilities in  
19   various regulated industries. My duties related to depreciation studies include the  
20   assembly and analysis of historical and simulated data, conducting field reviews,  
21   determining service life and net salvage estimates, calculating annual  
22   depreciation, presenting recommended depreciation rates to utility management  
23   for consideration, and supporting such rates before regulatory bodies.



1 My prior employment from 1985 to 2004 was with Texas Utilities ("TXU").  
2 During my tenure with TXU, I was responsible for, among other things,  
3 conducting valuation and depreciation studies for the domestic TXU companies.  
4 During that time, I also served as Manager of Property Accounting Services and  
5 Records Management in addition to my depreciation responsibilities.  
6

7 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**  
8 **COMMISSIONS?**

9 A. Yes. I have conducted depreciation studies and filed testimony on depreciation  
10 and valuation issues before the Public Utility Commission of Texas  
11 ("Commission") in Docket Nos. 11735, 12160, 15195, 16650, 18490, 20285,  
12 22350, 23640, 24040, 32766, 34040, 35763, 35717, 36633, 38147, 38339, 38480  
13 and 38929. I have appeared before numerous other state and federal agencies in  
14 my 26-year career in performing depreciation studies. Exhibit DAW-1 lists  
15 instances before other regulatory commissions in which I have conducted  
16 depreciation studies, filed written testimony and/or testified.  
17

18 **II. PURPOSE AND SUMMARY OF DIRECT TESTIMONY**

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

21 A. The purpose of my testimony is to:

- 22 • Discuss the recent depreciation study completed for Lone Star  
23 substation, transmission facilities and general plant assets; and

- Support and justify the recommended depreciation rates for Lone Star assets based on the results of the depreciation study.

1  
2

3

4 **Q. DO YOU SPONSOR ANY EXHIBITS IN CONNECTION WITH YOUR**  
5 **TESTIMONY?**

6 A. Yes. I sponsor the exhibits listed in the table of contents.

7

8 **Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR**  
9 **DIRECT SUPERVISION?**

10 A. Yes.

11

12 **Q. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES?**

13 A. Yes. I sponsor or co-sponsor the schedules listed in the table of contents.

14

15 **Q. PLEASE DESCRIBE THE DEPRECIATION STUDY ON WHICH LONE**  
16 **STAR HAS BASED ITS REQUESTED DEPRECIATION RATES IN THIS**  
17 **CASE.**

18 A. Since Lone Star is a new market entrant and is constructing all new transmission  
19 and general plant assets, historical life and net salvage information is not  
20 available. The study approach relies on the specific characteristics of the assets  
21 being constructed. This information is derived both from my experience and the  
22 experience and expectations of Company experts who are overseeing the design  
23 and construction of the assets, as well as the lives and net salvage assigned by  
24 others utilities in Texas.

1   **Q.   WHAT PLANT ASSETS ARE INCLUDED IN YOUR INTERIM**  
2       **DEPRECIATION RATES?**

3   A.   I have calculated the interim depreciation rates for the Phase I assets, as described  
4       in the testimony of Lone Star witness David Turner. In general, these assets  
5       include two substations and general plant assets.

6  
7   **Q.   OF THE TOTAL ANNUAL DEPRECIATION AMOUNT OF \$2.41**  
8       **MILLION REFLECTED IN INTERIM RATES, WHAT AMOUNTS ARE**  
9       **INCLUDED FOR LONE STAR'S SPECIFIC ASSETS?**

10  A.   An annual depreciation provision of \$1.68 million is reflected in interim rates for  
11       substation assets that are a part of Phase I. Intangible assets reflect a depreciation  
12       provision of \$17,000 for Phase I. Regional systems and General plant reflect  
13       depreciation provisions of \$648,000 and \$67,000, respectively for Phase I. The  
14       calculation of the provision for each of these groups is found in Exhibit DAW-2,  
15       Appendices A and B.

16  
17  **Q.   WHAT PLANT ASSETS ARE INCLUDED IN YOUR FINAL**  
18       **DEPRECIATION RATES?**

19  A.   The final depreciation rates include all of the plant assets for Lone Star's  
20       Competitive Renewable Energy Zones ("CREZ") facilities, which are described  
21       in more detail in the testimony of Mr. Turner.

1 **Q. OF THE TOTAL ANNUAL DEPRECIATION AMOUNT OF \$19.95**  
 2 **MILLION REFLECTED IN FINAL RATES, WHAT AMOUNTS ARE**  
 3 **INCLUDED FOR LONE STAR'S TRANSMISSION FACILITIES,**  
 4 **SUBSTATION AND GENERAL PLANT ASSETS?**

5 A. An annual depreciation provision of \$19.02 million is reflected in final rates for  
 6 transmission substation and line assets. Intangible assets reflect a depreciation  
 7 provision of \$213,000. Regional systems and General plant reflect depreciation  
 8 provisions of \$648,000 and \$76,000. The calculation of the provision for each of  
 9 these groups is found in Exhibit DAW-2, Appendices A and B.

10  
 11 **Q. WHAT DEPRECIATION RATES ARE BEING USED TO CALCULATE**  
 12 **DEPRECIATION EXPENSE IN THIS CASE?**

13 A. The following table reflects both the interim and final depreciation rates found in  
 14 Lone Star's Depreciation Study.

| PHASE I |                               | Accrual |
|---------|-------------------------------|---------|
| Acct    |                               | Rate    |
| 301     | Organization                  | 1.85%   |
| 302     | Intangible                    | 1.85%   |
| 350.1   | Fee Land                      | NA      |
| 352     | Structures and Improvements   | 4.61%   |
| 353     | Station Equipment             | 2.96%   |
| 382     | Computer Hardware             | 14.77%  |
| 383     | Computer Software             | 10.00%  |
|         | Telecommunication             |         |
| 384     | Equipment                     | 12.72%  |
| 391     | Office Furniture and Fixtures | 5.15%   |
| 397     | Communication Equipment       | 25.00%  |
| 398     | Miscellaneous Equipment       | 2.50%   |

| Acct  | FINAL (Includes Phase I assets) | Proposed     |
|-------|---------------------------------|--------------|
|       |                                 | Accrual Rate |
| 301   | Organization                    | 1.85%        |
| 302   | Intangible                      | 1.85%        |
| 350.1 | Fee Land                        | NA           |
| 350.2 | Land Rights                     | 1.33%        |
| 352   | Structures and Improvements     | 3.36%        |
| 353   | Station Equipment               | 2.92%        |
| 355   | Transmission Poles              | 2.05%        |
| 356   | Conductor and Other Devices     | 3.10%        |
| 382   | Computer Hardware               | 14.77%       |
| 383   | Computer Software               | 10.00%       |
|       | Telecommunication               |              |
| 384   | Equipment                       | 12.72%       |
| 391   | Office Furniture and Fixtures   | 5.25%        |
| 397   | Communication Equipment         | 25.00%       |
| 398   | Miscellaneous Equipment         | 2.50%        |

### 1      **III. OVERVIEW OF DEPRECIATION STUDY METHODOLOGY**

2      **Q.    WHAT DEFINITION OF DEPRECIATION HAVE YOU USED FOR**  
3      **PURPOSES OF CONDUCTING THE DEPRECIATION STUDY AND**  
4      **PREPARING YOUR TESTIMONY?**

5      **A.**    The term "depreciation," as used herein, is considered in the accounting sense.  
6      That is, a system of accounting that distributes the cost of assets, less net salvage  
7      (if any), over the estimated useful life of the assets in a systematic and rational  
8      manner. Depreciation is a process of allocation, not valuation. Depreciation  
9      expense is systematically allocated to accounting periods over the life of the  
10     properties. The amount allocated to any one accounting period does not  
11     necessarily represent the loss or decrease in value that will occur during that  
12     particular period. Thus, depreciation is considered an expense or cost, rather than

1 a loss or decrease in value. Lone Star will accrue depreciation based on the  
2 original cost of all property included in each depreciable plant account. On  
3 retirement, the full cost of depreciable property, less the net salvage amount, if  
4 any, will be charged to the depreciation reserve.

5

6 **Q. PLEASE DESCRIBE YOUR TYPICAL DEPRECIATION STUDY**  
7 **APPROACH.**

8 A. I conduct a depreciation study in four phases as shown in my Exhibit DAW-2.  
9 The four phases are: Data Collection, Analysis, Evaluation and Calculation.  
10 During the initial phase of the study, I collect historical data, when available, to  
11 be used in the analysis. After the data is assembled, I perform analyses to  
12 determine the life and net salvage percentage for the different property groups  
13 being studied. The information obtained from field personnel, engineers and/or  
14 managerial personnel, combined with the study results, are then evaluated to  
15 determine how the results of the historical asset activity analysis, in conjunction  
16 with the Company's expected future plans, should be applied. Using all of these  
17 resources, I then calculate the depreciation rate for each function.

1 Q. GIVEN THAT THE COMPANY IS A NEW MARKET ENTRANT AND  
 2 DOES NOT YET HAVE HISTORICAL INFORMATION TO ANALYZE,  
 3 WHAT PROCESS HAVE YOU UNDERTAKEN TO VALIDATE THE  
 4 LIFE AND NET SALVAGE RECOMMENDATIONS YOU ARE  
 5 MAKING?

6 A. In order to achieve the most appropriate recommendations given Lone Star's  
 7 unique characteristics, I evaluated the comparable approved life and net salvage  
 8 characteristics for other utilities in Texas and then applied specific information  
 9 from Company experts to modify those indications as appropriate to make the  
 10 most representative service life and net salvage selections.

11  
 12 An example of that process is the life assigned to transmission poles. The range  
 13 of approved lives for transmission poles in Texas is 38 to 70 years with an  
 14 average of 47 years. Typically, transmission poles within this account for various  
 15 Texas electric utilities would be a combination of wood, steel and concrete poles,  
 16 as well as other items such as cross arms, insulators, guys, anchors and grounding  
 17 material. The largest component of the account would typically be the poles. As  
 18 a general rule, wood poles have a shorter life than steel or concrete poles. Since  
 19 Lone Star is primarily installing spun concrete poles, the life expectation for Lone  
 20 Star's poles is on the high end of the life range. Interviews with Lone Star  
 21 engineers familiar with spun concrete poles support a life recommendation of 75  
 22 years - above the top of the range found in Texas. Based on this information, I  
 23 have assigned a life to spun concrete pole investment in Account 355 -

1       Transmission Poles and Fixtures of 75 years. This meets the Company's  
2       expectations and is slightly longer than the general range of approved service  
3       lives in this asset account found in Texas. I then combined this 75 year life for  
4       spun concrete poles with other assets in Account 355 – Poles and Fixtures to  
5       determine a life for the overall account.

6  
7       This approach is justified in this instance because the objective in any  
8       depreciation study is to project the remaining cost (installation, material and  
9       removal cost) to be recovered and the remaining periods in which to recover the  
10      costs. This necessarily requires that the service life and net salvage selections  
11      reflect the best representation of both the Company's expectations and validation  
12      by the experienced lives of other utilities in the area when specific company  
13      experience is not available. In order to understand Lone Star's expectations  
14      regarding asset lives and net salvage, I interviewed engineers working with Lone  
15      Star's assets, from a construction, operations and maintenance perspective to  
16      understand current and future plans, as well as expectations for the specific types  
17      of assets being installed. The interview process provides important information  
18      regarding materials, operation and maintenance, as well as Lone Star's current  
19      expectation regarding the service life of the assets. I considered this information  
20      in conjunction with my general life expectations from studying these types of  
21      assets over many years and as well as the currently approved service lives for  
22      similar assets from other utilities in Texas to develop the most reasonable and  
23      representative expected service lives for Lone Star's assets. The result of all of



1       this analysis is reflected in the service life recommendations set forth in my  
2       attached depreciation study.

3

4       **Q.   CAN YOU PROVIDE AN EXAMPLE OF THE IMPORTANT**  
5       **INFORMATION YOU OBTAINED FROM COMPANY PERSONNEL**  
6       **THROUGH THE INTERVIEW PROCESS?**

7       A.   In addition to the characteristics and life expectations for individual components  
8       within each account, the interview process gave me an understanding of Lone  
9       Star's anticipated "retirement unit," which is the level at which assets are retired  
10      and replaced as capital items. The higher the threshold of the retirement unit, the  
11      longer the life of the investment, since more of the investment will be replaced as  
12      expense instead of capitalized. Conversely, the lower the threshold of the  
13      retirement unit, the shorter the life of the overall investment since more of the  
14      investment will be retired and replaced as capital. For instance, hypothetically  
15      establishing a retirement unit as an entire automobile would produce a longer life  
16      than setting the retirement unit at the engine or transmission level.

17

18      **Q.   IS THE RETIREMENT UNIT LEVEL FOR LONE STAR CONSISTENT**  
19      **WITH OTHER TEXAS UTILITIES?**

20      A.   Yes. The retirement unit level for Lone Star is in line with other utilities in Texas  
21      and across the country. As is the standard practice for other utilities, Lone Star  
22      will separate assets into discrete retirement units based on the activities that will  
23      be performed on those assets. For example, conductor will be a separate

1 retirement unit from insulators since insulators may need to be replaced more  
2 frequently than the conductor being held by the insulators.  
3

4 **Q. WHAT OTHER TEXAS UTILITIES DID YOU RELY ON FOR THE NET**  
5 **SALVAGE ANALYSIS?**

6 A. By researching the publicly available information for Texas utilities, I was able to  
7 tabulate the net salvage by account for nine major electric utilities in Texas. The  
8 utilities for which I found publicly available information are Oncor, CenterPoint,  
9 TNMP, Entergy, SWEPCO, El Paso Electric, SPS, AEP Texas Central and AEP  
10 Texas North. The tabulation can be found in Exhibit DAW-2 Appendix C.  
11

12 **Q. HOW DID YOU SELECT THE TEXAS UTILITIES TO USE IN YOUR**  
13 **ANALYSIS?**

14 A. I identified those utilities which had publicly available information on approved  
15 service lives and net salvage derived from information specific for that company.  
16 In certain instances, information from a specific utility may be less valuable due  
17 to the extreme age of the study in determining the lives and net salvage (e.g.  
18 Entergy with lives and net salvage determined from an early 1990's study).  
19 However, including these older net salvage values adds an additional level of  
20 conservatism to the selection (i.e. many of Entergy's net salvage rates are positive  
21 while all others are not – with the result of bringing the average less negative).  
22 More information on the use of values from other utilities in Texas is included in  
23 Exhibit DAW-2 in the detailed net salvage discussion.

1   **Q.    ARE THESE OTHER TEXAS UTILITIES COMPARABLE TO LONE**  
2   **STAR?**

3   A.   No utility is exactly comparable to another, including Lone Star. Different  
4       geography, mix of assets, age and characteristics of assets, maintenance policies,  
5       among a host of other criteria create differences between Lone Star and any other  
6       company. However, without Company-specific information, the range of lives  
7       and net salvage exhibited by other utilities in Texas is a reasonable starting point,  
8       when coupled with specific expectations of experts constructing the assets, to set  
9       initial depreciation rates for Lone Star.

10

11   **Q.    HAVE YOU EVER CONDUCTED A DEPRECIATION STUDY FOR AN**  
12   **ENTITY WITH NO HISTORICAL DATA?**

13   A.   Yes. In Michigan Docket U-16536, I performed a depreciation study for  
14       Consumers Energy wind assets that were still under construction.

15

16   **Q.    WHAT DID THE REGULATOR CONCLUDE?**

17   A.   The Michigan Commission approved a settlement agreement that included my life  
18       recommendations. Since there was little historical experience with these wind  
19       assets in the industry, I based the service lives on the expectations of company  
20       engineers and available external data.

1    **Q.    HAS THE COMMISSION PREVIOUSLY CONSIDERED A**  
 2       **DEPRECIATION STUDY FOR A NEW MARKET ENTRANT WITH NO**  
 3       **HISTORICAL DATA?**

4    A.    Yes. In Docket Nos. 20248 and 21591, Sharyland Utilities, LP ("Sharyland")  
 5       proposed depreciation rates based on an average of electric utilities across Texas.  
 6       While Sharyland used average depreciation rates for other utilities to set their  
 7       depreciation rates, the use of specific lives and average net salvage from other  
 8       utilities is a more appropriate approach to calculating depreciation rates for Lone  
 9       Star. The use of depreciation rates as a proxy fails to allow for the different  
 10      reserve positions and mix of assets that will vary between utilities. For example,  
 11      averaging existing utility depreciation rates fails to account for the accumulated  
 12      depreciation for those existing utilities, which is an important component of the  
 13      calculation of depreciation rates. By using the basic life and net salvage  
 14      characteristic as I have done, a set of depreciation rates that are more applicable to  
 15      Lone Star's assets is found.

16  
 17   **Q.    WHAT DEPRECIATION SYSTEM DID YOU USE?**

18   A.    The straight-line, Average Life Group ("ALG"), and the remaining-life  
 19       depreciation system was employed to calculate annual and accrued depreciation in  
 20       the study.

1    **Q.    HOW ARE THE DEPRECIATION RATES DETERMINED?**

2    A.    In the ALG system, the annual depreciation expense for each account is computed  
 3        by dividing the original cost of the asset, less allocated depreciation reserve, less  
 4        estimated net salvage, by its respective remaining life. The resulting annual  
 5        accrual amount of depreciable property within an account is divided by the  
 6        original cost of the depreciable property in the account to determine the  
 7        depreciation rate. The calculated remaining lives and annual depreciation accrual  
 8        rates were based on attained ages of plant in service and the estimated service life  
 9        and salvage characteristics of each depreciable group. The comparison of the  
 10       current and recommended annual depreciation rates is shown in my Exhibit  
 11       DAW-2, Appendix A. The remaining life calculations are shown in my Exhibit  
 12       DAW-2, Appendix B.

13  
 14   **Q.    WHAT IS THE SIGNIFICANCE OF AN ASSET'S USEFUL LIFE IN**  
 15   **YOUR DEPRECIATION STUDY?**

16   A.    An asset's useful life is used to determine the remaining life over which the  
 17        remaining cost (original cost plus or minus net salvage, minus accumulated  
 18        depreciation) can be allocated to normalize the asset's cost and spread it ratably  
 19        over future periods.

20  
 21   **Q.    WHAT IS NET SALVAGE?**

22   A.    While discussed more fully in Exhibit DAW-2, net salvage is the difference  
 23        between the gross salvage (what is received in scrap value for the asset when

retired) and the removal cost (cost to remove and dispose of the asset or to retire the asset if retired in place). Salvage and removal cost percentages are normally calculated by dividing the current cost of salvage or removal by the original installed cost of the asset. Since Lone Star does not have historical experience to analyze, I relied on the approved net salvage values for other utilities in Texas for which information was publicly available.

**Q. IS THIS A REASONABLE METHOD FOR DETERMINING LIFE AND NET SALVAGE RATES?**

A. Yes. Absent utility-specific historical information, the combination of the specific expectations of Lone Star's operations experts, an understanding of the characteristics of these assets from years of analysis of similar assets and the expectations of other area utilities is the appropriate approach to setting initial lives, net salvage rates and depreciation rates.

#### **IV. LONE STAR TRANSMISSION DEPRECIATION STUDY**

**Q. WHAT TYPE OF PROPERTY IS INCLUDED IN THE LONE STAR DEPRECIATION STUDY?**

A. Lone Star assets in the depreciation study consist primarily of transmission structures and conductor, substations, communications equipment, energy management systems (both software and hardware), control center equipment and field office equipment. Lone Star's specific plant assets, both Phase I assets included for calculation of interim rates and Phase II assets included for

calculation of final rates, are described in more detail in the testimony of Mr. Turner. The investment in these assets is based on the estimated in-service values for each component.

**Q. DO YOU HAVE ANY GENERAL OBSERVATIONS REGARDING THE LIFE PARAMETERS YOU ARE RECOMMENDING IN THE STUDY?**

A. Yes. The life parameters selected for each component are based on the expectations of the personnel constructing the assets, validated against the approved lives of similar assets in Texas. In some cases, the specific type of assets being constructed by Lone Star point to lives that are higher than seen by other utilities in Texas (e.g., spun concrete poles as the predominant asset in Account 355 – Poles and Fixtures for Lone Star as compared to other utilities having a mix of wood, steel and concrete poles). In other cases, the mix of components in an account indicate shorter lives than that experienced by other Texas utilities. For example, Account 353 – Substation Equipment for Lone Star will not contain autotransformers (which has the tendency to weigh the overall life of the account higher) and will contain more electronic components (which has the tendency to weigh the overall life of the account lower) than the mix of assets in this account for other utilities. Each account is analyzed based on the specific assets contained within the account and individual lives are weighted to determine the overall life for the account.

1    **Q.    DO YOU HAVE ANY GENERAL OBSERVATIONS REGARDING THE**  
 2       **NET SALVAGE PARAMETERS YOU ARE RECOMMENDING IN THE**  
 3       **STUDY?**

4    A.    Yes. At the beginning of the life of the assets for Lone Star, there is no historical  
 5       net salvage information that can be used to set net salvage rates. The general  
 6       expectation (both in Texas and across the industry) is that most asset accounts  
 7       within the transmission function will exhibit negative net salvage. In other words,  
 8       the cost to retire the assets from service (*i.e.* removal cost) will exceed any  
 9       proceeds received from the scrap materials (*i.e.* gross salvage), if any, once the  
 10      asset is retired from service. The average net salvage characteristics of the nine  
 11      large utilities with publicly available information) were calculated. Some Lone  
 12      Star asset accounts may have higher removal costs than other utilities (*i.e.*  
 13      Account 355 – Transmission Poles and Fixtures due to the predominance of heavy  
 14      concrete poles in the account as compared to other utilities). However, given the  
 15      lack of experience, the average net salvage experience of other utilities in Texas  
 16      was used to model net salvage for Lone Star's assets.

17

18   **Q.    WHAT ARE THE PRIMARY FORCES AFFECTING THE**  
 19       **DEPRECIATION EXPENSE RECOMMENDED IN THE STUDY?**

20   A.    Generally, depreciation expense is affected by three separate factors – average  
 21       service life, net salvage and the effect of reserve position. In Lone Star's  
 22       circumstance, there is no existing depreciation reserve so the reserve position is  
 23       not a factor in calculating depreciation rates.



1   **Q.    DOES THE LACK OF A DEPRECIATION RESERVE AFFECT LONE**  
2       **STAR'S DEPRECIATION RATES?**

3    A.   No. The depreciation rates are calculated at the beginning of the lives of the  
4       assets, therefore no depreciation reserve is expected or needed in the calculation.

5

6                                   **V. CONCLUSION**

7   **Q.    MR. WATSON, DO YOU HAVE ANY CONCLUDING REMARKS?**

8    A.   Yes. My depreciation study and analysis fully support setting depreciation rates  
9       at the levels I have indicated in my testimony. The depreciation study for Lone  
10      Star's depreciable property describes the detailed calculations performed and the  
11      resulting rates that are appropriate for Company property. The Company's  
12      depreciation rates should be set at my recommended amounts in order to recover  
13      the Company's total investment in property over the estimated remaining life of  
14      the assets.

15

16   **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17   A.   Yes, it does.

STATE OF TEXAS       §  
                                  §  
COUNTY OF COLLIN   §

**AFFIDAVIT OF DANE A. WATSON**

BEFORE ME, the undersigned authority, on this day personally appeared Dane A.

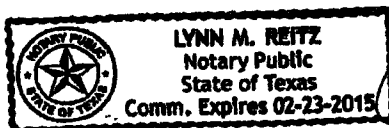
Watson, who, having been placed under oath by me, did depose as follows:

1. "My name is Dane A. Watson. 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 Partner in Alliance Consulting Group.
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.

Dane A. Watson  
Dane A. Watson

SUBSCRIBED AND SWORN TO BEFORE ME by the said Dane A. Watson this  
16th day of December \_\_, 2011.



Lynn M. Reitz  
Notary Public, State of Texas

**Alliance Consulting Recent Engagements**  
**12/17/2011**

Docket No. 40020  
Exhibit DAW-1  
Page 1 of 4

| <b>Asset Location</b> | <b>Commission</b>                       | <b>Docket (If Applicable)</b> | <b>Company</b>                      | <b>Year</b> | <b>Description</b>           |
|-----------------------|---|-------------------------------|-------------------------------------|-------------|------------------------------|
| Michigan              | Michigan Public Service Commission      | 16938                         | Consumers Energy Company            | 2011        | Gas Depreciation Study       |
| Colorado              | Public Utilities Commission of Colorado | 11AL-947E                     | Public Service of Colorado          | 2011        | Electric Depreciation Study  |
| Texas                 | Texas Public Utility Commission         | 39896                         | Entergy Texas                       | 2011        | Electric Depreciation Study  |
| MultiState            | FERC                                    | ER12-212                      | American Transmission Company       | 2011        | Electric Depreciation Study  |
| California            | California Public Utilities Commission  | A1011015                      | Southern California Edison          | 2011        | Electric Depreciation Study  |
| Michigan              | Michigan Public Service Commission      | U-16536                       | Consumers Energy Company            | 2011        | Wind Depreciation Rate Study |
| Texas                 | Public Utility Commission of Texas      | 38929                         | Oncor                               | 2011        | Electric Depreciation Study  |
| Texas                 | Railroad Commission of Texas            | 10038                         | CenterPoint South TX                | 2010        | Gas Depreciation Study       |
| Alaska                | Regulatory Commission of Alaska         | U-10-070                      | Inside Passage Electric Cooperative | 2010        | Electric Depreciation Study  |
| Texas                 | Public Utility Commission of Texas      | 36633                         | City Public Service of San Antonio  | 2010        | Electric Depreciation Study  |
| Texas                 | Texas Railroad Commission               | 10000                         | Atmos Pipeline Texas                | 2010        | Gas Depreciation Study       |
| Multi State – SE US   | FERC                                    | RP10-21-000                   | Florida Gas Transmission            | 2010        | Gas Depreciation Study       |
| Maine/ New Hampshire  | FERC                                    | RP10-896-000                  | Granite State Gas Transmission      | 2010        | Gas Depreciation Study       |
| Texas                 | Public Utility Commission of Texas      | 38480                         | Texas New Mexico Power              | 2010        | Electric Depreciation Study  |

**Alliance Consulting Recent Engagements  
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| <b>Asset Location</b> | <b>Commission</b>                     | <b>Docket (If Applicable)</b> | <b>Company</b>                     | <b>Year</b> | <b>Description</b>                          |
|-----------------------|---------------------------------------|-------------------------------|------------------------------------|-------------|---|
| Texas                 | Public Utility Commission of Texas    | 38339                         | CenterPoint Electric               | 2010        | Electric Depreciation Study                 |
| Texas                 | Texas Railroad Commission             | 10041                         | Atmos Amarillo                     | 2010        | Gas Depreciation Study                      |
| Texas                 | Public Utility Commission of Texas    | 38147                         | Southwestern Public Service        | 2010        | Electric Technical Update                   |
| Alaska                | Regulatory Commission of Alaska       | U-09-015                      | Alaska Electric Light and Power    | 2009-2010   | Electric Depreciation Study                 |
| Alaska                | Regulatory Commission of Alaska       | U-10-043                      | Utility Services of Alaska         | 2009-2010   | Water Depreciation Study                    |
| Michigan              | Michigan Public Service Commission    | U-16055                       | Consumers Energy/DTE Energy        | 2009-2010   | Ludington Pumped Storage Depreciation Study |
| Michigan              | Michigan Public Service Commission    | U-16054                       | Consumers Energy                   | 2009-2010   | Electric Depreciation Study                 |
| Michigan              | Michigan Public Service Commission    | U-15963                       | Michigan Gas Utilities Corporation | 2009        | Gas Depreciation Study                      |
| Michigan              | Michigan Public Service Commission    | U-15989                       | Upper Peninsula Power Company      | 2009        | Electric Depreciation Study                 |
| Texas                 | Railroad Commission of Texas          | 9869                          | Atmos Energy                       | 2009        | Shared Services Depreciation Study          |
| Mississippi           | Mississippi Public Service Commission | 09-UN-334                     | CenterPoint Energy Mississippi     | 2009        | Gas Depreciation Study                      |
| Texas                 | Railroad Commission of Texas          | 9902                          | CenterPoint Energy Houston         | 2009        | Gas Depreciation Study                      |
| Colorado              | Colorado Public Utilities Commission  | 09AL-299E                     | Public Service of Colorado         | 2009        | Electric Depreciation Study                 |

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| <b>Asset Location</b> | <b>Commission</b>                       | <b>Docket (If Applicable)</b> | <b>Company</b>             | <b>Year</b> | <b>Description</b>   |
|-----------------------|---|-------------------------------|----------------------------|-------------|--|
| Louisiana             | Louisiana Public Service Commission     | U-30689                       | Cleco                      | 2008        | Electric Depreciation Study  |
| Texas                 | Public Utility Commission of Texas      | 35763                         | SPS                        | 2008        | Electric Production, Transmission, Distribution and General Plant Depreciation Study |
| Wisconsin             | Wisconsin                               | 05-DU-101                     | WE Energies                | 2008        | Electric, Gas, Steam and Common Depreciation Studies                                 |
| North Dakota          | North Dakota Public Service Commission  | PU-07-776                     | Northern States Power      | 2008        | Net Salvage  |
| New Mexico            | New Mexico Public Regulation Commission | 07-00319-UT                   | SPS                        | 2008        | Testimony – Depreciation   |
| Multiple States       | Railroad Commission of Texas            | 9762                          | Atmos Energy               | 2007-2008   | Shared Services Depreciation Study   |
| Minnesota             | Minnesota Public Utilities Commission   | E015/D-08-422                 | Minnesota Power            | 2007-2008   | Electric Depreciation Study  |
| Texas                 | Public Utility Commission of Texas      | 35717                         | Oncor                      | 2008        | Electric Depreciation Study  |
| Texas                 | Public Utility Commission of Texas      | 34040                         | Oncor                      | 2007        | Electric Depreciation Study  |
| Michigan              | Michigan Public Service Commission      | U-15629                       | Consumers Energy           | 2006-2009   | Gas Depreciation Study   |
| Colorado              | Colorado Public Utilities Commission    | 06-234-EG                     | Public Service of Colorado | 2006        | Electric Depreciation Study  |

**Alliance Consulting Recent Engagements**  
**12/17/2011**

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| <b>Asset Location</b> | <b>Commission</b>                  | <b>Docket (If Applicable)</b> | <b>Company</b>                 | <b>Year</b> | <b>Description</b>   |
|-----------------------|------------------------------------|-------------------------------|--------------------------------|-------------|--|
| Arkansas              | Arkansas Public Service Commission | 06-161-U                      | CenterPoint Energy – Arkla Gas | 2006        | Gas Distribution Depreciation Study and Removal Cost Study                           |
| Texas, New Mexico     | Public Utility Commission of Texas | 32766                         | Xcel Energy                    | 2005-2006   | Electric Production, Transmission, Distribution and General Plant Depreciation Study |
| Texas                 | Railroad Commission of Texas       | 9670/9676                     | Atmos Energy Corp              | 2005-2006   | Gas Distribution Depreciation Study  |

# **LONE STAR TRANSMISSION, LLC**

## **ELECTRIC PLANT**

### **DEPRECIATION RATE STUDY**

#### **AT IN-SERVICE DATE OF TRANSMISSION PLANT**



<http://www.utilityalliance.com>

**LONE STAR TRANSMISSION, LLC**  
**ELECTRIC PLANT**  
**DEPRECIATION RATE STUDY**  
**EXECUTIVE SUMMARY**

Lone Star Transmission, LLC ("LST" or "Company") engaged Alliance Consulting Group to conduct a depreciation study of the Company's utility plant depreciable assets. The scope of the analysis included establishing depreciation expense associated with Phase I plant that forms the basis for a request for interim rates, and establishing depreciation expense for all transmission assets at the time they are placed in service which forms the basis for a request for final rates, which I refer to in this study as Phase 2. LST is a new entrant in the Texas electric market and is constructing approximately a 320 mile Competitive Renewable Energy Zone ("CREZ") facility.

I conducted this study using a traditional depreciation study approach for life and net salvage adjusted to take into account the newness of LST's investment (since its investment is at the beginning of its life). I used the broad group, average life, remaining life depreciation system. This methodology has been adopted by numerous state commissions, including the Public Utility Commission of Texas, and FERC. LST has no existing depreciation rates; therefore, no comparison between existing and proposed depreciation rates is available.

This study recommends an overall annual depreciation expense of \$2.41 million associated with Phase I plant to be included in the Company's interim rate request. This includes depreciation expense of \$17,000 for intangible plant, \$1.68 million for transmission plant, \$648,000 for network plant, and \$67,000 for general plant assets. As described in the testimony of Company witness David Turner, Phase I assets generally include plant associated with the construction and operation of two substations. Once the entire transmission facility has been placed into service, the study recommends an overall depreciation expense of \$19.95 million. This includes depreciation expense of \$213,000 for intangible plant, \$19.02 million for transmission plant, \$648,000 for network plant, and \$76,000 for general plant assets. Appendix A to the study shows the computation of both the interim and final depreciation rates and associated depreciation expense.



**LONE STAR TRANSMISSION LLC  
ELECTRIC PLANT  
DEPRECIATION RATE STUDY  
AT IN-SERVICE DATE OF TRANSMISSION PLANT**

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| <b>STUDY RESULTS .....</b>       | <b>2</b>  |
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**ATTACHMENTS**

- APPENDIX A - Accrual Rate**
- APPENDICES B-1 through B-3 - Calculation of Average Life by Account**
- APPENDIX C - Calculation of Net Salvage Percentages**

### PURPOSE

The purpose of this study is to develop interim and final depreciation and amortization rates for the projected depreciable and amortizable property for Lone Star Transmission, LLC assets. The interim depreciation rates are those associated with Phase I plant, which generally includes two substations and associated equipment. The final depreciation rates are those associated with the entire transmission facility once it is placed into service. The account-based depreciation rates were designed to recover the total undepreciated investment, adjusted for net salvage, over the remaining life of LST's property on a straight-line basis. Non-depreciable property was excluded from this study.

The Public Utility Commission of Texas awarded to LST the right to construct a CREZ line in PUC Docket No. 38230. Consistent with that award, LST is constructing approximately 320 miles of 345 KV transmission line with approximately 2,325 spun concrete poles, 100 steel poles and various other transmission line and substation equipment.