STUDY RESULTS

Depreciation rates and depreciation expense calculations for LST depreciable and amortizable property are shown in Appendix A. The study supports 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. 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. Appendices B-1 through B-3 present the calculation of average life by account. Appendix C shows net salvage parameters for utilities regulated by the Public Utility Commission of Texas whose depreciation parameters are available in the public domain. Because LST is constructing a new transmission facility and has no historical information on which to establish net salvage parameters, the study calculated net salvage parameters by averaging the net salvage for similar types of assets approved by the Public Utility Commission of Texas for other Texas transmission utilities. The resulting averages were applied to LST's assets.

GENERAL DISCUSSION

Definition

The term "depreciation" as used in this study is considered in the accounting sense, that is, a system of accounting that distributes the cost of assets, less net salvage (if any), over the estimated useful life of the assets in a systematic and rational manner. It is a process of allocation, not valuation. This expense is systematically allocated to accounting periods over the life of the properties. The amount allocated to any one accounting period does not necessarily represent the loss or decrease in value that will occur during that particular period. The Company accrues depreciation on the basis of the original cost of all depreciable property included in each functional property group. On retirement the full cost of depreciable property, less the net salvage value, is charged to the depreciation reserve.

Basis of Depreciation Estimates

Annual and accrued depreciation were calculated in this study by the straight- line, remaining-life depreciation system. In this system, the annual depreciation accrual for each group (*i.e.* account) is computed by dividing the original cost of the group less depreciation reserve by the group's respective average service life. In this study, because LST is constructing a new transmission facility, there is no current depreciation reserve. The respective service life for each group is determined by estimating the average service life for each type of asset within the group, and then dollar-weighting the individual lives to determine a group service life. The resulting annual accrual amounts of all depreciable property within each group was divided by the original cost of all depreciable property within the group to determine the depreciation rate for each group. The calculation of the depreciation expense, average service lives and depreciation rates are shown in Appendices A and B.

Actuarial Analysis

Actuarial analysis (retirement rate method) was not available to be used due to the newness of LST's assets and consequently, the lack of historical retirements. Average service lives for each type of asset was based on both Alliance's and LST engineering experts' experience with similar assets, and future expectations for those assets.

Net Salvage Analysis

Since the assets being analyzed are at the beginning of their lives, no traditional net salvage analysis was possible. Instead, the average of the net salvage rates approved by the Public Utility Commission of Texas for the same accounts of other Texas utilities was applied to LST's assets. Appendix C shows net salvage parameters by account used by utilities in Texas. These percentages by account were averaged to estimate LST's net salvage.

Depreciation Calculation Process

Annual depreciation expense amounts for each account were calculated by the straight line, remaining life procedure. Because LST is constructing a new transmission facility, the remaining life analysis is equivalent to the whole life of plant assets in this circumstance. In this calculation, the annual accrual rate is computed by the following equation,

$$AnnualAccrualRate = \frac{(100\% - NetSalvagePercent)}{AverageServiceLife}$$

DETAILED DISCUSSION

Depreciation Study Process

During the initial data collection process, historical data is normally compiled from continuing property records and general ledger systems. However, since LST's assets are new with no history available, we conducted a complete set of interviews, which included the input of LST engineering and operations personnel. I assigned lives to each asset type within each account based on the results of these interviews in conjunction with my own knowledge and experience gained from performing depreciation studies for transmission assets in Texas and the nation. I then used these lives to derive a composite average service life. One of the most important elements of performing a proper depreciation study is to understand how the Company utilizes assets and the environment of those assets. Interviews with engineering and operations personnel are important ways to allow the analyst to obtain information that is beneficial when evaluating the output from the life and net salvage programs in relation to the Company's actual asset utilization and environment. Information that was gleaned in these discussions is found both in the Detailed Discussion of this study and also in workpapers.

Since no operating history is available, net salvage is assigned based on the experience of other Texas utilities as approved by the Public Utility Commission's in each utility's last respective rate case. The listing of utilities used and the calculation of the average net salvage percentage is found in Appendix C.

After assigning lives and net salvage, I calculated the interim and final accrual rates for each plant category. This final report documents my conclusions in recommending these accrual rates. The calculation of depreciation accruals and depreciation rates are found in Exhibit A. Recommendations for the various accounts are contained within the Detailed Discussion of this report.

Depreciation Rate Calculation

Annual depreciation expense amounts for the depreciable accounts of LST were calculated by the straight-line method, average life group ("ALG") procedure, and remaining-life technique. With this approach, remaining lives were calculated according to standard ALG expectancy techniques. For each plant account, the surviving investment, adjusted for estimated net salvage, is divided by the average life to yield the annual depreciation expense. Since these assets are new and have not incurred any depreciation expense, the book reserve is zero and remaining life is equal to average service life. These calculations are shown in Appendix A.

Remaining Life Calculation

At the age of zero, Remaining Life is equal to Average Service Life. The average life of each asset group was calculated based on the expected life for each asset type included in the group and dollar-weighted to determine the average life of the group.

LIFE ESTIMATION

INTANGIBLE PLANT

FERC Account 301 Organization (54.03 years for Phase I; No change for final rates since no new assets are placed in service after Phase I assets)

This account consists of intangible organization costs. The estimated balance in this account is $85,000. These costs are included in the Phase I interim rate calculation and remain unchanged when the entire transmission facility is placed into service. The depreciation rates associated with this account reflect the average service life of the projected assets calculated from the time the assets are placed into service, which is assumed to be the time the entire transmission facility is placed into service. The recommended life for this account of 54.03 years is based on the average life of all tangible assets in-service. The calculation of the average life of all tangible assets used for this account is shown in Appendix B-3.

FERC Account 302 Intangible (54.03 years for Phase I: No change for use with final rates when all assets are placed in service)

This account consists of costs related to the application for a Certificate of Convenience and Necessity. The estimated balance in this account is $13.9 million. A portion of these costs are included in the Phase I interim rate calculation and the entire cost is included in final rates when the entire transmission facility is placed into service. The depreciation rates associated with this account reflect the average service life of the projected assets calculated from the time the assets are placed into service, which is assumed to be the time the entire transmission facility is placed into service. The recommended life for this account is 54.03 years based on the average life of all tangible assets. The calculation of the average life of all tangible assets used for this account is shown in Appendix B-3.

TRANSMISSION PLANT

FERC Account 350.2 Land Rights (No assets in Phase I; 75 years for final rates when all facilities are placed in service)

This account consists of land rights used for transmission line assets. The estimated balance in this account is $115.9 million and is included only in the final depreciation rate calculation since the Land Rights will go into service at the time the entire transmission line goes into service. Although the Company does own land underneath the substations that are part of the Phase I interim rate calculation, that land is held in fee simple, and is therefore non-depreciable. This study recommends a 75 year life based on the life of the longest-lived assets (spun concrete poles) occupying the land rights.

FERC Account 352.0 Structures and Improvements (22.97 years – Phase I; 31.56 years for final rates when all facilities are placed in service)

This account consists of structures and improvements associated with control houses and other miscellaneous structures in transmission substations. The projected balance in this account for Phase I assets is $7.6 million. The projected balance once all transmission facilities are placed in service is $19.8 million. The lives of the assets in this account vary from 7 years (control center leasehold improvement) to 40 years (structures and culverts), with the predominant life for all assets being 40 years. The average life of Phase I assets is different than the average life once all assets are placed into service because there is a smaller percentage of the investment in 40 year assets in the Phase I calculation, which shortens the average life of the assets. Based on the dollar-weighted lives of the individual assets as shown in Appendices B-1 and B-2, this study recommends lives of 22.97 for purposes of interim rates and 31.56 years for purposes of final rates.

FERC Account 353.0 Station Equipment (37.13 years – Phase I; 37.62 years for final rates when all facilities are placed in service)

This account consists of capacitors, shunt reactors, supply breakers, busses, protective relay panels and switches found in transmission substations. The projected balances in this account are $44.8 million for Phase I interim rates, and $131 million once the entire transmission facility is placed into service. The lives of the assets in this account vary from 15 years (remote terminal units or RTUs, surge arresters, and meters) to 50 years (*e.g.*, conduit, cable trays and steel structures) with the predominant life for all assets being 40 years for assets such as capacitors, reactors and breakers). The level of investment in longer-lived versus shorter-lived assets does not change significantly between Phase I assets and completion of the entire transmission facility. Therefore, the average live is close to the same in both phases. Due to the nature of these substations, they do not include transformers. Based on the dollar-weighted lives of the individual assets, this study recommends lives of 37.13 for purposes of interim rates and 37.62 years for purposes of final rates. These calculations are shown in Appendices B-1 and B-2.

FERC Account 355.0 Poles and Fixtures (No facilities in Phase I; 68.90 years for final rates when all facilities are placed in service)

This account includes steel and concrete poles, anchors, anchor rods, other related equipment, and foundations for transmission poles. All Account 355 assets are part of final rates. The projected balance in this account is $235 million. The lives of the assets in this account vary from 50 years (guys and anchors) to 75 years (spun concrete poles and foundations) with the predominant life for all assets being 75 years. Based on the dollar-weighted lives of the individual assets once all facilities are placed in service as shown in Appendix B-2, this study recommends a life of 68.90 years.

FERC Account 356.0 OH Conductors and Devices (No facilities in Phase I; 42.31 years for final rates when all facilities are placed in service)

This account includes overhead conductors, insulators and devices for transmission plant. All Account 356 assets are part of final rates. The projected balance in this account is $263 million. The lives of the assets in this account vary from 30 years (*e.g.*, dampers, spacers and insulators) to 50 years (*e.g.*, conductor and fiber optic cable) with the predominant life for all assets being 50 years. Based on the dollar-weighted lives of the individual assets once all facilities are placed in service as shown in Appendix B-2, this study recommends a life of 42.31 years.

FERC Account 382.0 Computer Hardware (6.77 years for Phases 1; No change for final rates since no new assets are placed in service after Phase I)

This account includes all computer hardware associated with regional transmission and operations plant. These assets will reside in the Primary and Back-up Control Centers. All assets in this account are part of Phase I with no additional investment added in final rates. The projected account balance is $3.1 million for this account with the investment unchanged between Phase I and final rates. The lives of the assets in this account vary from 3 to 4 years for computers and telecom equipment to miscellaneous items with 15 years. The predominant lives are 4 to 5 years. Based on the dollar-weighted lives of the individual assets in Phase I as shown in Appendix B-1, this study recommends a life of 6.77 years.

FERC Account 383.0 Computer Software (10 years for Phases 1; No change for final rates since no new assets are placed in service after Phase I)

This account includes all computer software associated with primary and backup Energy Management Systems or EMS at regional transmission centers. The current account balance is $623,000 for this account with the investment unchanged between Phase I and final rates. Although upgrades to the software are expected every few years,

the Company anticipates that future upgrades will be expensed. Therefore, a 10 year life is recommended for the software.

FERC Account 384.0 Telecommunications (7.86 years Phase I ; No change for final rates since no new assets are placed in service after Phase I)

This account includes all communication equipment associated with regional transmission and operations plant. The current account balance is $1 million for this account with the investment unchanged between Phase I and final rates. The lives of the assets in this account vary from 3 years for computers to network equipment with 10 years. The predominant life is 4 years. Based on the dollar-weighted lives of the individual assets in Phase I as shown in Appendix B-1, this study recommends a life of 7.86 years.

GENERAL PLANT

FERC Account 391.0 Office Furniture and Equipment (19.42 years Phase I; 19.03 years for use in final rates when all facilities are placed in service)

This account includes the cost of office furniture and equipment (including laptops) used for utility service. There is approximately $281,000 in this account in Phase I and $345,000 in final rates when all assets are placed in service. Based on a normal industry expectation for the life of furniture of 20 years and a laptop life of 3 years, this study recommends a life of 19.42 and 19.03 for Phase I and final rates, respectively.

FERC Account 397.0 Other Communication Equipment (4 years for Phase1 ; No change for final rates when all assets are placed in service)

This account consists of other communication equipment used in the field offices. There is approximately $210,000 in this account in Phase I and $229,000 in this account in final rates. Based on the expectation of a 4 year life for communication equipment, this study recommends a life of 4 years for this account.

FERC Account 398.0 Miscellaneous Equipment (40 years for Phase I ; No change for final rates since no new assets are placed in service after Phase I

This account consists of miscellaneous owner provided equipment used in general utility service. There is approximately $16,000 in this account. This study recommends a life of 40 years.

SALVAGE ESTIMATION

When a capital asset is retired, physically removed from service and finally disposed of, terminal retirement is said to have occurred. The residual value of a terminal retirement is called gross salvage. Net salvage is the difference between the gross salvage amount (what the asset can be sold for) and the removal cost (the cost to remove and dispose of the asset). Salvage and removal cost percentages are calculated by dividing the current cost of salvage or removal by the original installed cost of the asset. Some plant assets can experience significant negative removal cost percentages due to the timing of the original addition versus the retirement.

At the beginning of the life of the assets for Lone Star, there is no historical net salvage information that can be used to model net salvage rates. The general expectation (both in Texas and across the industry) is that most asset accounts within the transmission function will exhibit negative net salvage, with regional operations and general plant having a zero percent net salvage. In other words, for the negative net salvage, the cost to remove the assets from service (*i.e.* removal cost) will exceed any proceeds received from the scrap materials (*i.e.* gross salvage), if any, once the asset is removed from service.

Because the LST transmission facilities have no historical net salvage information, the study looked to similarly situated utilities as a model for the expected net salvage associated with the LST assets. The study looked at the net salvage characteristics most recently approved by the Public Utility Commission of Texas of the nine largest Texas utilities with publicly available information, and then performed a simple average. Some Lone Star asset accounts may have a higher level of effort required to remove the assets than other utilities (*i.e.* Account 355 – Transmission Poles and Fixtures due to the predominance of heavy concrete poles in the account as compared to other utilities), and some of the net salvage rates included in the calculation may understate removal cost given the age of the respective studies. However, given the lack of historical experience, the average net salvage is a reasonable basis on which to model net salvage for Lone Star's assets.

Salvage Characteristics

Transmission and General Plant, FERC Accounts 350.1-398.0

The net salvage percentage applied to LST's transmission assets is calculated using the average of the nine utilities in Texas as shown in Appendix C. The same net salvage rates are used for both interim Phase I calculations and the final calculations when all facilities are placed in service. A brief discussion of study recommendations for each account follows below.

TRANSMISSION PLANT

FERC Account 350.2 Land Rights (0% Net Salvage)

This account includes any salvage and removal cost of land rights used for transmission function assets. Land rights are not expected to have any salvage or removal cost. This study recommends a 0 percent net salvage.

FERC Account 352.0 Structures and Improvements (-6% Net Salvage)

This account includes any salvage and removal cost of structures and improvements in connection with control houses and other miscellaneous structures associated with transmission substations. As shown in Appendix C, the range of net salvage percentages from other Texas utilities is from negative 33 percent to a positive 5 percent (for Entergy from a study in the 1990s). The average of the eight Texas utilities (with one not reporting a net salvage percentage for this account) is negative 6 percent. This study recommends the average negative 6 percent net salvage for this account.

FERC Account 353.0 Station Equipment (-10% Net Salvage)

This account includes any salvage and removal cost of capacitors, shunt reactors, supply breakers, steel structures, protective relay panels and switches for transmission plant. As shown in Appendix C, the range of net salvage percentages from other Texas utilities is from negative 25 percent (AEP North) to a positive 2 percent (AEP Central). The average of the nine Texas utilities is negative 10 percent. This study recommends the average negative 10 percent net salvage for this account.

FERC Account 355.0 Poles and Fixtures (-41% Net Salvage)

This account includes any salvage and removal cost of steel and concrete poles, anchors, anchor rods, other related equipment, and foundations for transmission plant. As shown in Appendix C, the range of net salvage percentages is from negative 100 percent to a positive 25 percent (for Entergy from a study in the 1990s with all except Entergy being negative). The average of the nine Texas utilities is negative 41percent. This study recommends the average negative 41 percent net salvage for this account.

FERC Account 356.0 OH Conductors and Devices (-31% Net Salvage)

This account includes any salvage and removal cost of overhead conductors, insulators and devices for transmission plant. As shown in Appendix C, the range of net salvage percentages from other Texas utilities is from negative 74 percent to a positive 20 percent (for Entergy from a study in the 1990s with all except Entergy being negative or zero). The average of the nine Texas utilities is negative 31 percent. This study recommends the average negative 31 percent net salvage for this account.

FERC Account 382.0 Computer Hardware (0% Net Salvage)

This account includes any salvage and removal cost of computer hardware associated with regional transmission and operations plant. Computer software is not expected to have any removal cost or salvage at the end of its life. This study recommends a 0 percent net salvage.

FERC Account 383.0 Computer Software (0% Net Salvage)

This account includes any salvage and removal cost of computer software associated with regional transmission and operations plant. Computer software is not expected to have any removal cost or salvage at the end of its life. This study recommends a 0 percent net salvage.

FERC Account 384.0 Telecommunications (0% Net Salvage)

This account includes any salvage and removal cost of communication equipment associated with regional transmission and operations plant. Communications equipment is not expected to have any removal cost or salvage at the end of its life. This study recommends a 0 percent net salvage.

GENERAL PLANT

FERC Account 391.0 Office Furniture and Fixtures (0% Net Salvage)

This account includes any salvage and removal cost of office furniture and equipment used for utility service. Office Furniture and Fixtures are not expected to have any removal cost or salvage at the end of its life. This study recommends a 0 percent net salvage.

FERC Account 397.0 Other Communication Equipment (0% Net Salvage)

This account includes any salvage and removal cost of other communication equipment used in the field offices. Communication equipment is not expected to have any removal cost or salvage at the end of its life. This study recommends a 0 percent net salvage.

FERC Account 398.0 Miscellaneous Equipment (0% Net Salvage)

This account includes any salvage and removal cost of miscellaneous equipment used in general utility service. It is not expected that the assets in this account will have any removal cost or salvage at the end of its life. This study recommends a 0 percent net salvage.

APPENDIX A

Accrual Rate

Lone Star Transmission, LLC
Computation of Proposed Depreciation Accrual Rate

Acct	PHASE 1	Total Project Cost	Accumulated Depreciation	Average Life	Net Salvage %	Proposed Annual Accrual	Proposed Accrual Rate
301	Organization	85,443.13		54.03	0%	1,580.70	1.85%
302	Intangible	857,253.65		54.03	0%	15,859.19	1.85%
350.1	Fee Land	948,300.67		0		NA	NA
352	Structures and Improvements	7,599,868.91		22.97	-6%	350,353.96	4.61%
353	Station Equipment	44,848,159.15		37.13	-10%	1,327,505.51	2.96%
382	Computer Hardware	3,082,037.04		6.77	0%	455,216.87	14.77%
383	Computer Software	622,618.35		10.00	0%	62,261.84	10.00%
384	Telecommunication Equipment	1,025,695.26		7.86	0%	130,468.44	12.72%
391	Office Furniture and Fixtures	281,165.34		19.42	0%	14,480.02	5.15%
397	Communication Equipment	209,602.65		4.00	0%	52,400.66	25.00%
398	Miscellaneous Equipment	15,878.99		40.00	0%	396.97	2.50%
Total		59,576,023.14				2,410,524.15	

Acct	FINAL (Includes Phase 1 assets	Total Project Cost	Accumulated Depreciation	Average Life	Net Salvage %	Proposed Annual Accrual	Proposed Accrual Rate
301	Organization	85,443.13	0.00	54.03	0%	1,580.70	1.85%
302	Intangible	11,425,109.64	0.00	54.03	0%	211,364.53	1.85%
350.1	Fee Land	2,489,015.39	0.00	NA		NA	NA
350.2	Land Rights	115,877,701.01	0.00	75.00	0%	1,541,173.42	1.33%
352	Structures and Improvements	19,830,900.22	0.00	31.56	-6%	666,318.25	3.36%
353	Station Equipment	131,276,063.21	0.00	37.62	-10%	3,833,261.05	2.92%
355	Transmission Poles	235,247,816.63	0.00	68.90	-41%	4,822,580.24	2.05%
356	Conductor and Other Devices	262,987,800.74	0.00	42.31	-31%	8,152,621.82	3.10%
382	Computer Hardware	3,082,037.04	0.00	6.77	0%	455,216.87	14.77%
383	Computer Software	622,618.35	0.00	10.00	0%	62,261.84	10.00%
384	Telecommunication Equipment	1,025,695.26	0.00	7.86	0%	130,468.44	12.72%
391	Office Furniture and Fixtures	344,990.00	0.00	19.03	0%	18,111.98	5.25%
397	Communication Equipment	229,757.80	0.00	4.00	0%	57,439.45	25.00%
398	Miscellaneous Equipment	15,878.99	0.00	40.00	0%	396.97	2.50%
Total		784,540,827.41				19,952,795.55	

APPENDICES B-1 THROUGH B-3

Calculation of Average Life by Account

Lone Star Transmission, LLC
Calculation of Average Life by Account
Phase 1

Appendix B-1

Facilities	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
Substation - Navarro	350.1	Land	597,920	NA		
Substation - Sam Switch	350.1	Land	350,381	NA		
	350.1 Total		**948,301**			
Back up Control Center	352	Furniture	236,597	20	4,731,939	
Back up Control Center	352	General Contractor	1,068,656	7	7,480,591	
Field Office Hillsboro	352	Structures and improvements	111,153	7	778,070	
Primary Control Center	352	Furniture	611,341	20	12,226,821	
Primary Control Center	352	General Contractor	2,227,822	7	15,594,755	
Substation - Navarro	352	Supply Control House	2,056,480	40	82,259,211	
Substation - Sam Switch	352	Supply Control House	1,287,820	40	51,512,789	
	352 Total		**7,599,869**		**174,584,176**	**22.97**
Capital Spares - Substations	353	Station Equipment	307,522	40	12,300,872	
Substation - Navarro	353	Anchor Bolts	79,608	40	3,184,305	
Substation - Navarro	353	Bare Conductor	294,338	30	8,830,145	
Substation - Navarro	353	Cable Tray	23,183	50	1,159,156	
Substation - Navarro	353	Cable Trench	232,745	50	11,637,238	
Substation - Navarro	353	CCVTs	750,733	40	30,029,310	
Substation - Navarro	353	Control Cable	1,532,501	40	61,300,027	
Substation - Navarro	353	Fencing	161,540	25	4,038,498	
Substation - Navarro	353	Fiber Optics	14,844	40	593,766	
Substation - Navarro	353	Junction Boxes	18,212	50	910,616	
Substation - Navarro	353	Power Cable	170,306	40	6,812,239	
Substation - Navarro	353	Protective Relay Panels	3,260,709	20	65,214,187	
Substation - Navarro	353	RTU	165,461	15	2,481,913	
Substation - Navarro	353	Supply Breakers (HV & LV)	8,285,576	40	331,423,054	
Substation - Navarro	353	Supply Buss Work & Steel Struc	5,010,342	50	250,517,125	
Substation - Navarro	353	Supply Insulators	841,199	30	25,235,960	
Substation - Navarro	353	Supply SSVT's	2,097,755	40	83,910,215	
Substation - Navarro	353	Supply Switches	3,258,842	30	97,765,259	
Substation - Navarro	353	Surge Arrestors	711,374	15	10,670,609	

Lone Star Transmission, LLC
Calculation of Average Life by Account
Phase 1

Appendix B-1

Facilities	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
Substation - Navarro	353	Wave Traps/Tuners	408,563	40	16,342,526	
Substation - Navarro	353	Yard Conduit	62,146	50	3,107,299	
Substation - Sam Switch	353	CCVTs	473,103	40	18,924,133	
Substation - Sam Switch	353	Anchor Bolts	36,522	40	1,460,887	
Substation - Sam Switch	353	Bare Conductor	157,228	30	4,716,845	
Substation - Sam Switch	353	Cable Tray	22,970	50	1,148,516	
Substation - Sam Switch	353	Cable Trench	199,502	50	9,975,111	
Substation - Sam Switch	353	Control Cable	626,304	40	25,052,159	
Substation - Sam Switch	353	Fiber Optics	81,774	40	3,270,943	
Substation - Sam Switch	353	Junction Boxes	16,835	50	841,729	
Substation - Sam Switch	353	Power Cable	88,934	40	3,557,379	
Substation - Sam Switch	353	Protective Relay Panels	2,264,162	20	45,283,231	
Substation - Sam Switch	353	RTU	163,944	15	2,459,165	
Substation - Sam Switch	353	Supply Breakers (HV & LV)	5,417,389	40	216,695,560	
Substation - Sam Switch	353	Supply Buss Work & Steel Struc	2,734,049	50	136,702,434	
Substation - Sam Switch	353	Supply Fencing, Lighting	103,817	25	2,595,428	
Substation - Sam Switch	353	Supply Insulators	395,532	30	11,865,959	
Substation - Sam Switch	353	Supply SSVT's	1,704,926	40	68,197,029	
Substation - Sam Switch	353	Supply Switches	1,533,414	30	46,002,431	
Substation - Sam Switch	353	Surge Arrestors	448,538	15	6,728,063	
Substation - Sam Switch	353	Wave Traps/Tuners	235,178	40	9,407,138	
Substation - Sam Switch	353	Weld Fittings	410,622	50	20,531,078	
Substation - Sam Switch	353	Yard Conduit	45,917	50	2,295,833	
	353 Total		**44,848,159**		**1,665,175,369**	**37.13**
RTMOP	382	Miscellaneous	357,277	15	5,359,159	
RTMOP	382	Telecomm and IM	84,159	4	336,635	
RTMOP	382	Computer Hardware	908,733	3	2,726,200	
RTMOP	382	Computer Hardware	1,033,192	3	3,099,577	
RTMOP	382	Miscellaneous	595,462	15	8,931,931	
RTMOP	382	Telecomm and IM	103,213	4	412,854	
	382 Total		**3,082,037**		**20,866,355**	**6.77**

Lone Star Transmission, LLC
Calculation of Average Life by Account
Phase 1

Appendix B-1

Facilities	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
RTMOP	383	Computer Software	159,078	10	1,590,781	
RTMOP	383	Computer Software	463,540	10	4,635,403	
	383 Total		**622,618**		**6,226,184**	**10.00**
RTMOP	384	Circuit build-out	238,185	10	2,381,848	
RTMOP	384	Network Equipment	31,758	4	127,032	
RTMOP	384	Firewall Equipment	34,934	4	139,735	
RTMOP	384	Wiring	79,395	10	793,949	
RTMOP	384	Racks	25,406	10	254,064	
RTMOP	384	Servers	76,219	3	228,657	
RTMOP	384	Circuit build-out	238,185	10	2,381,848	
RTMOP	384	Network Equipment	31,758	4	127,032	
RTMOP	384	Firewall Equipment	34,934	4	139,735	
RTMOP	384	Wiring	79,395	10	793,949	
RTMOP	384	Racks	25,406	10	254,064	
RTMOP	384	Servers	76,219	3	228,657	
RTMOP	384	Communication Equipment - control :	26,063	4	104,250	
RTMOP	384	Communication Equipment - control :	27,839	4	111,355	
	384 Total		**1,025,695**		**8,066,177**	**7.86**
GP	391	Office furniture and equipment	220,825	20	4,416,504	
GP	391	Laptops	9,527	3	28,582	
GP	391	Office furniture and equipment	50,813	20	1,016,255	
	391 Total		**281,165**		**5,461,341**	**19.42**
GP	397	Phone Equipment	95,274	4	381,096	
GP	397	Phone Equipment	19,055	4	76,219	
GP	397	Telecomm and IM	95,274	4	381,096	
	397 Total		**209,603**		**838,411**	**4.00**
GP	398	Owner Provided Equipment	7,939	40	317,577	
GP	398	Owner Provided Equipment	7,939	40	317,577	
	398 Total		**15,879**		**635,154**	**40.00**
	Total		**58,633,326**			

Lone Star Transmission, LLC
Calculation of Average Life by Account
Phase 1

Appendix B-1

Facilities	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
	301	Organization	85,443			
	302	Franchises and Consents	857,254			
	Total	Interim	59,576,023			
		Check	59,576,023			
		Difference	0			

Lone Star Transmission, LLC
Calculation of Average Life by Account
Final Rates (Includes Assets from Phase 1)

Appendix B-2

Facility	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
Kopperl	350.1	Land	366,985	NA NA		
Romney	350.1	Land	374,146	NA NA		
Substation- W. Schackelford	350.1	Land	799,584	NA NA		
Navarro	350.1	Land	597,920	NA NA		
Sam Switch	350.1	Land	350,381	NA NA		
	350.1 Total		**2,489,015**		**0**	
Tline- Central A to Central C	350.2	ROW	17,582,130	75	1,318,659,744	
Tline- Central C to Sam Switch	350.2	Tline - Central C to Sam Switch	83,273,557	75	6,245,516,775	
Tline- Sam Switch to Navarro	350.2	ROW	15,022,014	75	1,126,651,057	
	350.2 Total		**115,877,701**		**8,690,827,576**	**75.00**
Kopperl	352	Supply Control House - Kopperl	1,619,657	40	64,786,264	
Romney	352	Supply Control House - Romney	1,550,919	40	62,036,768	
Field Office Abilene	352	Structures and improvements	117,572	7	823,002	
Substation- W. Schackelford	352	Supply Control House	4,620,467	40	184,818,696	
Tline- Central A to Central C	352	Barbed Wire Fence	115,480	25	2,887,003	
Tline- Central A to Central C	352	Cattle Guard	32,056	25	801,393	
Tline- Central A to Central C	352	Culverts	1,147,551	40	45,902,031	
Tline- Central A to Central C	352	Gates	592,238	25	14,805,938	
Tline - Central C to Sam Switc	352	Cattle guards	35,836	25	895,891	
Tline - Central C to Sam Switc	352	Culvert	731,473	40	29,258,905	
Tline - Central C to Sam Switc	352	Fencing	557,688	25	13,942,196	
Tline - Central C to Sam Switc	352	Gates (including bracing)	639,521	25	15,988,027	
Tline- Sam Switch to Navarro	352	Cattle guards	8,583	25	214,567	
Tline- Sam Switch to Navarro	352	Culvert	175,215	40	7,008,607	
Tline- Sam Switch to Navarro	352	Fencing	133,587	25	3,339,681	
Tline- Sam Switch to Navarro	352	Gates (including bracing)	153,190	25	3,829,750	
Back Up Control Center	352	Furniture	236,597	20	4,731,939	
Back Up Control Center	352	General Contractor	1,068,656	7	7,480,591	
Field Office Hillsboro	352	Structures and improvements	111,153	7	778,070	
Primary Contorl Center	352	Furniture	611,341	20	12,226,821	
Primary Contorl Center	352	General Contractor	2,227,822	7	15,594,755	

Lone Star Transmission, LLC
Calculation of Average Life by Account
Final Rates (Includes Assets from Phase 1)

Appendix B-2

Facility	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
Navarro	352	Supply Control House	2,056,480	40	82,259,211	
Sam Switch	352	Supply Control House	1,287,820	40	51,512,789	
	352 Total		**19,830,900**		**625,922,894**	**31.56**
Kopperl	353	Aluminum Bus & Fittings	225,590	40	9,023,599	
Kopperl	353	Anchor Bolts	38,237	40	1,529,491	
Kopperl	353	Bare Conductor	91,143	30	2,734,279	
Kopperl	353	Cable Tray	20,706	50	1,035,292	
Kopperl	353	Cable Trench	161,834	50	8,091,708	
Kopperl	353	Capacitors	7,670,254	40	306,810,144	
Kopperl	353	CCVTs	332,782	40	13,311,263	
Kopperl	353	Control Cable	543,928	40	21,757,124	
Kopperl	353	Copper & Fiber Cables	299,345	40	11,973,814	
Kopperl	353	Current Transformers System	461,237	40	18,449,500	
Kopperl	353	Fiber Optic Signal Columns	203,031	40	8,121,240	
Kopperl	353	Fiber Optics	88,151	40	3,526,023	
Kopperl	353	Junction Boxes	11,478	50	573,881	
Kopperl	353	Manufacturer of Bypass Switch	1,498,795	40	59,951,788	
Kopperl	353	Manufacturer of Insulators	882,207	30	26,466,216	
Kopperl	353	Manufacturer of the Control and Pro	1,028,828	20	20,576,562	
Kopperl	353	Metal Oxide Varistors	1,877,481	40	75,099,253	
Kopperl	353	Meter	382,528	15	5,737,917	
Kopperl	353	Platform Steel	966,465	50	48,323,253	
Kopperl	353	Power Cable	102,004	40	4,080,144	
Kopperl	353	Protective Relay Panels	1,017,948	20	20,358,967	
Kopperl	353	Reactors	650,183	40	26,007,300	
Kopperl	353	RTU	201,514	15	3,022,711	
Kopperl	353	Supply Buss Work/Steel Structu	2,028,396	50	101,419,786	
Kopperl	353	Supply Fencing, Lighting - Kop	209,340	25	5,233,496	
Kopperl	353	Supply Insulators - Kopperl	263,950	30	7,918,511	
Kopperl	353	Supply SSVT's	885,576	40	35,423,026	
Kopperl	353	Supply Switches - Kopperl	803,484	30	24,104,527	

Lone Star Transmission, LLC
Calculation of Average Life by Account
Final Rates (Includes Assets from Phase 1)

Appendix B-2

Facility	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
Kopperl	353	Surge Arrestors	315,043	15	4,725,639	
Kopperl	353	Wave Traps/Tuners	322,251	40	12,890,021	
Kopperl	353	Weld Fittings	341,841	50	17,092,026	
Kopperl	353	Yard Conduit	37,937	50	1,896,850	
Romney	353	Aluminum Bus & Fittings	190,773	40	7,630,923	
Romney	353	Anchor Bolts	52,855	40	2,114,189	
Romney	353	Bare Conductor	157,038	30	4,711,151	
Romney	353	Cable Tray	16,603	50	830,160	
Romney	353	Cable Trench	229,956	50	11,497,808	
Romney	353	CCVTs	266,741	40	10,669,637	
Romney	353	Control Cable	734,237	40	29,369,472	
Romney	353	Copper & Fiber Cables	253,145	40	10,125,811	
Romney	353	Fiber Optics	68,951	40	2,758,030	
Romney	353	Junction Boxes	9,314	50	465,689	
Romney	353	Manufacturer of Bypass Switch	1,267,475	30	38,024,253	
Romney	353	Manufacturer of Capacitors	6,647,580	40	265,903,190	
Romney	353	Manufacturer of Fiber Optic Signal Cc	171,696	40	6,867,831	
Romney	353	Manufacturer of Insulators	746,050	30	22,381,497	
Romney	353	Manufacturer of Metal Oxide Varisto	1,587,716	40	63,508,654	
Romney	353	Manufacturer of Reactors	549,835	40	21,993,409	
Romney	353	Manufacturer of the Control and Pro	870,042	20	17,400,836	
Romney	353	Manufacturer of the Current Transfo	390,051	40	15,602,058	
Romney	353	Manufacturer of the Platform Steel	817,304	50	40,865,184	
Romney	353	Meter	306,615	15	4,599,224	
Romney	353	Power Cable	83,652	40	3,346,083	
Romney	353	Protective Relay Panels	1,130,462	20	22,609,231	
Romney	353	RTU	161,524	15	2,422,853	
Romney	353	Spares - Capacitors	912,414	40	36,496,563	
Romney	353	Supply Breakers	1,810,211	40	72,408,432	
Romney	353	Supply Buss Work/Steel Structu	2,243,355	50	112,167,764	
Romney	353	Supply Fencing, Lighting - Rom	201,204	25	5,030,094	

Lone Star Transmission, LLC
Calculation of Average Life by Account
Final Rates (Includes Assets from Phase 1)

Appendix B-2

Facility	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
Romney	353	Supply Insulators - Romney	522,472	30	15,674,158	
Romney	353	Supply Shunt Reactor-Romney	6,268,488	40	250,739,510	
Romney	353	Supply SSVT's	809,209	40	32,368,374	
Romney	353	Supply Switches - Romney	976,428	30	29,292,855	
Romney	353	Surge Arrestors	252,522	15	3,787,833	
Romney	353	Wave Traps/Tuners	258,300	40	10,331,990	
Romney	353	Weld Fittings	462,850	50	23,142,501	
Romney	353	Yard Conduit	46,341	50	2,317,055	
Capital Spares	353	Breakers-Capital Spares	775,129	40	31,005,152	
Capital Spares	353	Shunt Reactor Components-Cap S	28,269	40	1,130,774	
Capital Spares	353	SSTVT's-Capital Spares	263,098	40	10,523,907	
Capital Spares	353	Switches-Capital Spares	79,585	30	2,387,553	
Substation- W. Schackelford	353	Supply Shunt Reactor	2,549,621	40	101,984,854	
Substation- W. Schackelford	353	CCVTs	627,125	40	25,084,992	
Substation- W. Schackelford	353	Anchor Bolts	128,313	40	5,132,533	
Substation- W. Schackelford	353	Bare Conductor	330,299	30	9,908,972	
Substation- W. Schackelford	353	Cable Tray	44,634	50	2,231,723	
Substation- W. Schackelford	353	Cable Trench	454,171	50	22,708,535	
Substation- W. Schackelford	353	Control Cable	1,485,084	40	59,403,345	
Substation- W. Schackelford	353	Fiber Optics	34,562	40	1,382,490	
Substation- W. Schackelford	353	Junction Boxes	32,212	50	1,610,620	
Substation- W. Schackelford	353	Power Cable	95,451	40	3,818,035	
Substation- W. Schackelford	353	Protective Relay Panels	3,639,490	20	72,789,791	
Substation- W. Schackelford	353	RTU	190,118	15	2,851,767	
Substation- W. Schackelford	353	Supply Breakers (HV & LV)	7,578,596	40	303,143,826	
Substation- W. Schackelford	353	Supply Buss Work & Steel Struc	5,225,695	50	261,284,757	
Substation- W. Schackelford	353	Supply Fencing, Lighting	176,845	25	4,421,127	
Substation- W. Schackelford	353	Supply Insulators	680,808	30	20,424,250	
Substation- W. Schackelford	353	Supply SSVT's	1,665,754	40	66,630,158	
Substation- W. Schackelford	353	Supply Switches	2,861,803	30	85,854,103	
Substation- W. Schackelford	353	Surge Arrestors	743,066	15	11,145,992	

Lone Star Transmission, LLC
Calculation of Average Life by Account
Final Rates (Includes Assets from Phase 1)

Appendix B-2

Facility	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
Substation- W. Schackelford	353	Wave Traps/Tuners	538,915	40	21,556,589	
Substation- W. Schackelford	353	Weld Fittings	681,403	50	34,070,138	
Substation- W. Schackelford	353	Yard Conduit	80,965	50	4,048,239	
Capital Spares- Substations	353	Station Equipment	307,522	40	12,300,872	
Navarro	353	Anchor Bolts	79,608	40	3,184,305	
Navarro	353	Bare Conductor	294,338	30	8,830,145	
Navarro	353	Cable Tray	23,183	50	1,159,156	
Navarro	353	Cable Trench	232,745	50	11,637,238	
Navarro	353	CCVTs	750,733	40	30,029,310	
Navarro	353	Control Cable	1,532,501	40	61,300,027	
Navarro	353	Fencing	161,540	25	4,038,498	
Navarro	353	Fiber Optics	14,844	40	593,766	
Navarro	353	Junction Boxes	18,212	50	910,616	
Navarro	353	Power Cable	170,306	40	6,812,239	
Navarro	353	Protective Relay Panels	3,260,709	20	65,214,187	
Navarro	353	RTU	165,461	15	2,481,913	
Navarro	353	Supply Breakers (HV & LV)	8,285,576	40	331,423,054	
Navarro	353	Supply Buss Work & Steel Struc	5,010,342	50	250,517,125	
Navarro	353	Supply Insulators	841,199	30	25,235,960	
Navarro	353	Supply SSVT's	2,097,755	40	83,910,215	
Navarro	353	Supply Switches	3,258,842	30	97,765,259	
Navarro	353	Surge Arrestors	711,374	15	10,670,609	
Navarro	353	Wave Traps/Tuners	408,563	40	16,342,526	
Navarro	353	Yard Conduit	62,146	50	3,107,299	
Sam Switch	353	CCVTs	473,103	40	18,924,133	
Sam Switch	353	Anchor Bolts	36,522	40	1,460,887	
Sam Switch	353	Bare Conductor	157,228	30	4,716,845	
Sam Switch	353	Cable Tray	22,970	50	1,148,516	
Sam Switch	353	Cable Trench	199,502	50	9,975,111	
Sam Switch	353	Control Cable	626,304	40	25,052,159	
Sam Switch	353	Fiber Optics	81,774	40	3,270,943	

Lone Star Transmission, LLC
Calculation of Average Life by Account
Final Rates (Includes Assets from Phase 1)

Appendix B-2

Facility	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
Sam Switch	353	Junction Boxes	16,835	50	841,729	
Sam Switch	353	Power Cable	88,934	40	3,557,379	
Sam Switch	353	Protective Relay Panels	2,264,162	20	45,283,231	
Sam Switch	353	RTU	163,944	15	2,459,165	
Sam Switch	353	Supply Breakers (HV & LV)	5,417,389	40	216,695,560	
Sam Switch	353	Supply Buss Work & Steel Struc	2,734,049	50	136,702,434	
Sam Switch	353	Supply Fencing, Lighting	103,817	25	2,595,428	
Sam Switch	353	Supply Insulators	395,532	30	11,865,959	
Sam Switch	353	Supply SSVT's	1,704,926	40	68,197,029	
Sam Switch	353	Supply Switches	1,533,414	30	46,002,431	
Sam Switch	353	Surge Arrestors	448,538	15	6,728,063	
Sam Switch	353	Wave Traps/Tuners	235,178	40	9,407,138	
Sam Switch	353	Weld Fittings	410,622	50	20,531,078	
Sam Switch	353	Yard Conduit	45,917	50	2,295,833	
	353 Total		**131,276,063**		**4,938,429,241**	**37.62**
Capital Spares- T Line	355	Poles and fixtures	228,635	75	17,147,633	
Tline- Central A to Central C	355	Anchor Rods	4,695,201	50	234,760,067	
Tline- Central A to Central C	355	Concrete Foundations	2,428,644	75	182,148,290	
Tline- Central A to Central C	355	Concrete Poles	47,242,229	75	3,543,167,167	
Tline- Central A to Central C	355	Guy wire	3,866,406	50	193,320,317	
Tline- Central A to Central C	355	Steel Poles	13,771,317	60	826,279,034	
Tline - Central C to Sam Switc	355	Concrete Foundations	6,728,863	75	504,664,736	
Tline - Central C to Sam Switc	355	Concrete Poles	84,268,775	75	6,320,158,145	
Tline - Central C to Sam Switc	355	Guy anchors	7,230,304	50	361,515,207	
Tline - Central C to Sam Switc	355	Guying	8,372,288	50	418,614,394	
Tline - Central C to Sam Switc	355	Steel Poles	31,121,221	60	1,867,273,282	
Tline- Sam Switch to Navarro	355	Concrete Foundations	1,306,727	75	98,004,509	
Tline- Sam Switch to Navarro	355	Concrete Poles	14,963,455	75	1,122,259,114	
Tline- Sam Switch to Navarro	355	Guy anchors	1,477,644	50	73,882,199	
Tline- Sam Switch to Navarro	355	Guying	828,378	50	41,418,902	
Tline- Sam Switch to Navarro	355	Steel Poles	6,717,728	60	403,063,705	

Lone Star Transmission, LLC
Calculation of Average Life by Account
Final Rates (Includes Assets from Phase 1)

Appendix B-2

Facility	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
	355 Total		**235,247,817**		**16,207,676,700**	**68.90**
Capital Spares- T Line	356	Capital Spares (Cond.,Ins.,OPGW)	859,891	50	42,994,554	
Tline- Central A to Central C	356	Dampers	1,817,061	30	54,511,829	
Tline- Central A to Central C	356	Fiber Splice Kit	440,281	40	17,611,251	
Tline- Central A to Central C	356	Insulator Assemblies	42,131,203	30	1,263,936,084	
Tline- Central A to Central C	356	Spacers	3,656,049	30	109,681,465	
Tline- Central A to Central C	356	Splices	189,341	50	9,467,041	
Tline- Central A to Central C	356	Supply Conductor	49,760,160	50	2,488,007,992	
Tline- Central A to Central C	356	Supply OHGW	619,599	50	30,979,937	
Tline- Central A to Central C	356	Supply OPGW	1,629,994	50	81,499,713	
Tline - Central C to Sam Switc	356	Davit arms	7,120,396	50	356,019,808	
Tline - Central C to Sam Switc	356	Hardware: dampeners, spacers, mark	6,559,242	30	196,777,260	
Tline - Central C to Sam Switc	356	Insulators	40,463,745	30	1,213,912,353	
Tline - Central C to Sam Switc	356	Pole grounding and ground rods	1,065,101	50	53,255,039	
Tline - Central C to Sam Switc	356	Splicing	1,571,424	50	78,571,193	
Tline - Central C to Sam Switc	356	Supply Conductor	81,288,179	50	4,064,408,932	
Tline - Central C to Sam Switc	356	Supply OHGW	1,010,458	50	50,522,904	
Tline - Central C to Sam Switc	356	Supply OPGW	2,587,628	50	129,381,406	
Tline- Sam Switch to Navarro	356	Davit arms	1,481,038	50	74,051,880	
Tline- Sam Switch to Navarro	356	Hardware: dampeners, spacers, mark	913,662	30	27,409,859	
Tline- Sam Switch to Navarro	356	Insulators	5,370,991	30	161,129,718	
Tline- Sam Switch to Navarro	356	Pole grounding and ground rods	282,389	50	14,119,451	
Tline- Sam Switch to Navarro	356	Splicing	407,685	50	20,384,239	
Tline- Sam Switch to Navarro	356	Supply Conductor	10,805,630	50	540,281,520	
Tline- Sam Switch to Navarro	356	Supply OHGW	268,659	50	13,432,973	
Tline- Sam Switch to Navarro	356	Supply OPGW	687,996	50	34,399,782	
	356 Total		**262,987,801**		**11,126,748,178**	**42.31**
RTMOP	382	Miscellaneous	357,277	15	5,359,159	
RTMOP	382	Telecomm and IM	84,159	4	336,635	
RTMOP	382	Computer Hardware	908,733	3	2,726,200	
RTMOP	382	Computer Hardware	1,033,192	3	3,099,577	

Lone Star Transmission, LLC
Calculation of Average Life by Account
Final Rates (Includes Assets from Phase 1)

Appendix B-2

Facility	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
RTMOP	382	Miscellaneous	595,462	15	8,931,931	
RTMOP	382	Telecomm and IM	103,213	4	412,854	
	382 Total		**3,082,037**		**20,866,355**	**6.77**
RTMOP	383	Computer Software	159,078	10	1,590,781	
RTMOP	383	Computer Software	463,540	10	4,635,403	
	383 Total		**622,618**		**6,226,184**	**10.00**
RTMOP	384	Circuit build-out	238,185	10	2,381,848	
RTMOP	384	Network Equipment	31,758	4	127,032	
RTMOP	384	Firewall Equipment	34,934	4	139,735	
RTMOP	384	Wiring	79,395	10	793,949	
RTMOP	384	Racks	25,406	10	254,064	
RTMOP	384	Servers	76,219	3	228,657	
RTMOP	384	Circuit build-out	238,185	10	2,381,848	
RTMOP	384	Network Equipment	31,758	4	127,032	
RTMOP	384	Firewall Equipment	34,934	4	139,735	
RTMOP	384	Wiring	79,395	10	793,949	
RTMOP	384	Racks	25,406	10	254,064	
RTMOP	384	Servers	76,219	3	228,657	
RTMOP	384	Communication Equipment - control	26,063	4	104,250	
RTMOP	384	Communication Equipment - control	27,839	4	111,355	
	384 Total		**1,025,695**		**8,066,177**	**7.86**
GP	391	Office furniture and equipment	220,825	20	4,416,504	
GP	391	Laptops	9,527	3	28,582	
GP	391	Office furniture and equipment	50,813	20	1,016,255	
GP	391	Laptops	10,078	3	30,233	
GP	391	Office furniture and equipment	53,747	20	1,074,942	
	391 Total		**344,990**		**6,566,515**	**19.03**
Field Office Abilene	397	Phone Equipment	95,274	4	381,096	
Back Up Control Center	397	Phone Equipment	19,055	4	76,219	
Field Office Hillsboro	397	Telecomm and IM	95,274	4	381,096	
Primary Contorl Center	397	Telecomm and IM	20,155	4	80,621	

Lone Star Transmission, LLC
Calculation of Average Life by Account
Final Rates (Includes Assets from Phase 1)

Appendix B-2

Facility	Acct	Description	Plant Total	Useful Life	$ x Useful Life	Average Service Life
	397 Total		**229,758**		**919,031**	**4.00**
Back Up Control Center	398	Owner Provided Equipment	7,939	40	317,577	
Primary Contorl Center	398	Owner Provided Equipment	7,939	40	317,577	
	398 Total		**15,879**		**635,154**	**40.00**
			773,030,275			
	301	Organization	**85,443**			
	302	Franchises and Consents	**11,425,110**			
	Total	Final	**784,540,827**			
		Check Total	**784,540,827**			
		Difference	**0**			

Appendix B-3

Lone Star Transmission, LLC
Calculation of Average Life of Tangible Assets
For Use in Amortization of Accounts 301 and 302

Acct	Description	Total Project Cost	Average Life	$ x Avg Life	Average Life
350.2 Total	Land Rights	115,877,701	75.00	8,690,827,576	
352 Total	Structures and Improvements	19,830,900	31.56	625,921,506	
353 Total	Station Equipment	131,276,063	37.62	4,938,428,774	
355 Total	Transmission Poles	235,247,817	68.90	16,207,676,700	
356 Total	Conductor and Other Devices	262,987,801	42.31	11,126,748,179	
382 Total	Computer Hardware	3,082,037	6.77	20,866,355	
383 Total	Computer Software	622,618	10.00	6,226,184	
384 Total	Telecommunication Equipment	1,025,695	4.58	4,695,694	
391 Total	Office Furniture and Fixtures	344,990	20.00	6,899,800	
397 Total	Communication Equipment	229,758	4.00	919,031	
398 Total	Miscellaneous Equipment	15,879	40.00	635,160	
Total*		770,541,259		41,629,844,957	54.03

* Excludes Intangibles and Land

APPENDIX C

Calculation of Net Salvage Percentages

Lone Star Transmission, LLC
Calculation of Net Salvage Percentages
Used in Phase 1 and Phase 2

Appendix C

Acct	Description	Oncor		CenterPoint		TNMP			Entergy			SWEPCO		El PASO		SW Public Service		AEP Central		AEP North		Sum of All NS	Average
		Life	NS	Life	NS	Life		NS	Life		NS	Life	NS	Life	NS	Life	NS	Life	NS	Life	NS		
350	Land and Land Rights	100	R3	0%	65	R1	0%	65	SQ	0%	65	R3	0%	70	R5	0%	70	R4	0%	70	R4	0%	75	R5.0	0%	75	R3.0	0%	0%	0%
352	Structures and Improvements	48	S6	-33%	60	R4	0%				45	R3	5%	60	S5	0%	56	S3	0%	55	R5	-20%	55	L1.0	0%	50	L4.0	0%	-48%	-6%
353	Station Equipment	46	L0.5	-15%	47	R1	-5%	45	R2.5	-5%	45	S1	-5%	60	R2.5	-17%	45	R3	-5%	55	R3	-5%	62	L0.5	2%	54	R0.5	-25%	-80%	-10%
355	Poles and Fixtures	50	R2	-100%	40	R0.5	-35%	40	R3	-30%	50	R2	25%	50	S1	-67%	40	S4	-20%	38	R4	-20%	70	R1.0	-27%	46	R4.5	-57%	-331%	-41%
356	Overhead Conductor	50	R2	-65%	50	R2	-74%	50	R3	-30%	60	R3	20%	60	S1.5	-52%	50	R5	0%	44	R2.5	-10%	75	R3.0	-10%	50	S6	-28%	-249%	-31%
	Docket	38929		38339		38480			37744			37364		37690		38147		33309		33310			

Entergy parameters in settlement agreement kept rates from old study in 1990s

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

ALDO E. PORTALES

ON BEHALF OF

LONE STAR TRANSMISSION, LLC

January 9, 2012

INDEX TO THE DIRECT TESTIMONY OF

ALDO E. PORTALES, WITNESS FOR

LONE STAR TRANSMISSION, LLC

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

SCHEDULE II-C-2.1	Weighted Average Cost of Capital
SCHEDULE II-C-2.4	Weighted Average Cost of Long-Term Debt
SCHEDULE II-C-2.6 (Interim Only)	Security Issuance Restrictions
SCHEDULE II-C-2.10	Rating Agency Reports

EXECUTIVE SUMMARY OF ALDO E. PORTALES

My testimony supports the cost of debt and capital structure that are used in calculating Lone Star Transmission, LLC's ("Lone Star" or the "Company") overall rate of return for purposes of Lone Star's interim and final rates. I detail the competitive solicitation process that resulted in Lone Star's recently executed debt financing for the construction period (the "Construction Bank Loan"), which forms the basis for Lone Star's cost of debt for interim rate purposes. Lone Star's solicitation and negotiation process resulted in a Construction Bank Loan on favorable rates and terms for Lone Star. I also discuss Lone Star's plans to re-finance its debt in early 2013, which necessitates a different proposed cost of debt for final rates than that used for interim rates. Lone Star's long-term cost of debt for final rates is based on indicative rate proposals from qualified and experienced lenders that provided proposals based upon their expectations of the markets at the time Lone Star expects to re-finance its debt.

My testimony supports Lone Star's requested capital structure of 48% debt and 52% equity, which forms the basis for the attractive pricing received in the Construction Bank Loan, and provides sufficient equity to enable Lone Star to continue to access the capital markets in times of economic uncertainty.

Finally, I address the affiliate charges for the NextEra Energy, Inc. ("NextEra Energy") Treasury organization (the "Treasury Department") that are included in Lone Star's rates and demonstrate that these amounts are reasonable for rate setting purposes. Utilizing the Treasury Department affords Lone Star access to experienced financial professionals who have extensive experience negotiating financing for NextEra Energy companies on favorable rates and terms.

DIRECT TESTIMONY OF ALDO E. PORTALES

I. POSITION AND QUALIFICATIONS

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

A. My name is Aldo Portales. My business address is 700 Universe Blvd., Juno Beach, Florida 33408. I am Assistant Treasurer for Lone Star, and work in the NextEra Energy Treasury Department. NextEra Energy is the ultimate parent company of Lone Star. I am directly employed by NextEra Energy Resources, LLC, working as a shared services employee on behalf of Lone Star, consistent with the Lone Star Code of Conduct as approved by the Public Utility Commission of Texas ("Commission") in Docket No. 36890.

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

A. I am testifying on behalf of Lone Star.

Q. WHAT IS YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND?

A. I joined the NextEra Energy family of companies in 1994 and have held several positions throughout the organization, ranging from managing the financial valuation group to, most recently, working as an executive director in the business development area. My responsibilities with respect to the Company include managing project financings and advising on financial market conditions. I received a B.B.A. in Finance from the University of Miami and an M.B.A. from the Ross School of Business at the University of Michigan.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY WITH ANY REGULATORY COMMISSIONS?

A. Yes. I provided pre-filed direct testimony as part of Lone Star's application for a Certificate of Convenience and Necessity in Commission Docket No. 38230 ("CCN Docket"), as well as in Commission Docket No. 39545 as part of Lone Star's *Notice of Corporate Reorganization* ("NOCR Docket").

II. PURPOSE OF DIRECT TESTIMONY

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

A. I sponsor Lone Star's proposed capital structure and cost of debt that are used by Lone Star witness Richard Cribbs in calculating the Company's overall rate of return. Lone Star witness Dr. William Avera will discuss Lone Star's proposed rate of return on common equity and provide additional support for the reasonableness of the Company's requested capital structure. In addition, I describe the affiliate costs included in this filing for finance services provided to Lone Star by NextEra Energy's Treasury Department.

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

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

III. LONG-TERM COST OF DEBT

Q. WHAT LONG-TERM COST OF DEBT IS LONE STAR REQUESTING IN THIS CASE?

A. Lone Star is requesting a long-term cost of debt of 4.794% for interim rates and 6.106% for final rates.

Q. WHAT IS THE BASIS FOR THE LONG-TERM COST OF DEBT USED BY LONE STAR IN THIS FILING FOR INTERIM RATES?

A. Lone Star's long-term cost of debt for interim rates is based on debt financing arrangements for the construction period that Lone Star has recently negotiated and executed with an international consortium of lenders. Lone Star's long-term cost of debt for final rates is based on the expected interest rate for a long-term debt issuance planned for early 2013.

Q. WHY IS IT REASONABLE TO BASE LONE STAR'S REQUESTED LONG-TERM COST OF DEBT FOR INTERIM RATES ON THE CONSTRUCTION BANK LOAN?

A. It is reasonable to base Lone Star's requested long-term cost of debt for interim rates on the Construction Bank Loan because: (i) it is currently the only outstanding source of debt for the Lone Star Competitive Renewable Energy Zones ("CREZ") project and associated facilities (the "Project"); and (ii) it is the product of an extensive bid solicitation and thorough negotiation process that was recently conducted with outside lenders.

Prior to executing the Construction Bank Loan on November 18, 2011, Lone Star utilized corporate funds from NextEra Energy Capital Holdings, Inc. ("NextEra Energy Capital Holdings") to fund the development and construction phases of the Project. Upon executing the Construction Bank Loan, Lone Star began funding a portion of its construction and development costs with proceeds from that facility, with the remainder funded by equity contributions from its parent, Lone Star Transmission Capital, LLC, and ultimately NextEra Energy Capital Holdings. Lone Star intends to access the capital markets to re-finance the Project soon after the Project has achieved commercial operation, but for purposes and the duration of the interim rates, the costs pursuant to the Construction Bank Loan reflect the appropriate cost of debt.

Q. PLEASE BRIEFLY DESCRIBE THE BID SOLICITATION AND NEGOTIATION PROCESS.

A. Lone Star requested proposals from a group of qualified institutions in July 2011. Based on responses to that request for proposals ("RFP"), Lone Star began negotiating the applicable terms and pricing with a select group of institutions that presented the most attractive terms.

Q. PLEASE BRIEFLY DESCRIBE THE RESULT OF THE BID SOLICITATION AND NEGOTIATION PROCESS.

A. As a result of the bid solicitation and negotiation process, Lone Star negotiated and executed the Construction Bank Loan with an international group of lenders

(the "Lenders"). The negotiation process ultimately resulted in the Construction Bank Loan, which closed on November 18, 2011, and has a stated 5-year maturity date of November 18, 2016. Generally, the interest on the Construction Bank Loan is based upon the London Inter-Bank Offer Rate ("LIBOR") plus a 1.50% margin. LIBOR is the rate of interest (reset each business day) at which banks are willing to lend funds to one another in marketable size, and as such, is driven by factors outside the Company's control such as overall economic conditions and the monetary policies of the U.S. Federal Reserve. In addition, a commitment fee of 0.75% per annum is payable based upon the average undrawn portion of the total Construction Bank Loan commitments. Such commitment fees are standard in financings which are not fully funded at financial close, such as the Construction Bank Loan. Finally, there are various other costs related to the consummation of the Construction Bank Loan, including upfront fees as well as legal and consultant fees, among others.

Q. ARE THE COSTS AND TERMS OF THE CONSTRUCTION BANK LOAN COMMERCIALLY REASONABLE?

A. Yes, they are. In fact, many terms are more favorable than those generally available in the market. For instance, Lone Star was successful in negotiating the grant of only a limited security interest, and did not have to provide mortgages on each of the easements for the transmission line right-of-way. By doing so, some financing costs related to filing and perfecting the security interests for those mortgages were avoided. Also, Lone Star was able to negotiate more flexibility

in its construction program than is typical, thereby reducing costs. With regards to the pricing of the facility, the margin over LIBOR for the Construction Bank Loan (1.50%) is reasonable given the start-up nature and credit profile of the Company as well as the inherent construction risk of the Project. In fact, through the negotiation process, Lone Star was able to secure pricing for the Construction Bank Loan which was in-line with the lowest priced proposal received from any of the potential lenders as part of its RFP process.

Q. GENERALLY DESCRIBE HOW LONE STAR CALCULATED ITS WEIGHTED AVERAGE COST OF LONG-TERM DEBT FOR INTERIM RATES.

A. For the interim rate period, Lone Star performed an effective interest rate calculation based upon various inputs including projected borrowings, interest expenses (including commitment fees), as well as the upfront fees and other issuance costs previously noted which were related to the Construction Bank Loan. To calculate the interest expense in each period, Lone Star utilized the interpolated 17-month LIBOR swap rate which was effective on the closing date for the Construction Bank Loan plus the 1.50% margin previously noted.[1] This swap rate represents the rate at which Lone Star could have swapped its floating rate debt to fixed rate debt (by paying the swap rate in each period instead of the applicable LIBOR rate). Because it is based upon current market trades, it is also the best estimate of expected LIBOR rates over the period the Construction Bank

[1] Board of Governors of the U.S. Federal Reserve System, "Selected Interest Rates (Daily) – Historical Data" (Nov. 2011) – Interpolated 1 and 2 year swap rates.

Loan is expected to remain outstanding (through April 2013), and thus the most appropriate rate to use for purposes of calculating long-term debt costs in interim rates.

Q. WHY IS LONE STAR PROPOSING A DIFFERENT LONG-TERM COST OF DEBT FOR FINAL RATES?

A. As discussed above, Lone Star expects to access the capital markets to obtain long-term debt financing when the Project is completed and placed in service, which is when Lone Star proposes that final rates take effect. It is reasonable to use the long-term debt rate that Lone Star expects to apply prospectively because this debt rate will be most reflective of Lone Star's ongoing cost of debt during the time when final rates are in effect.

Q. WHY DID LONE STAR ENTER INTO THE CONSTRUCTION BANK LOAN INSTEAD OF PROCEEDING DIRECTLY TO A LONG-TERM FINANCING?

A. Lone Star entered into the Construction Bank Loan because it could do so on more favorable terms and at better pricing than it would have achieved had it attempted to secure long-term financing during the construction phase of the Project. Generally speaking, investors in long-term bond or note issuances (such as asset managers and insurance companies) do not take construction risk, and if they do, there is typically a significant premium to compensate the investor for the increased risk. By executing the relatively short-term Construction Bank Loan,

Lone Star was able to obtain financing at favorable terms and conditions during the construction phase, while still allowing it the flexibility to pursue longer-term financing following commercial operation of the Project. All else equal, the long-term financing expected to be executed following commercial operation should be more favorable than if a long-term financing had been issued during the construction phase.

Q. WHY DOES LONE STAR PLAN TO RE-FINANCE THROUGH A LONG-TERM DEBT ISSUANCE IN EARLY 2013?

A. There are a few primary reasons why Lone Star plans to re-finance in early 2013. First, the Construction Bank Loan is not intended to be used as a long-term source of debt funding for Lone Star. Similar to other utilities, Lone Star plans to issue long-term debt with a maturity date that more closely ties with the life of its assets, which in this case is a long-lived transmission line. Second, long-term treasury rates (alongside an entity's credit spread, the main component of a long-term issuance rate) are currently near all-time lows.[2] While rates could certainly rise between now and early 2013 (they are currently expected to do so), they are still expected to be near all-time lows at that time. Lone Star believes it would be beneficial to lock in those long-term rates through the issuance of long-term debt as soon as practicable, which in this case is shortly after the Project goes into service and final rates are in place.

[2] Censky, Annalyn. "Treasury Yields Near All-Time Lows." *CNNMoney* (Aug. 10, 2011). <http://money.cnn.com/2011/08/10/markets/bondcenter/treasuries/index.htm>

Q. HOW WAS THE LONG-TERM COST OF DEBT FOR FINAL RATES DEVELOPED?

A. To develop the long-term cost of debt for final rates, Lone Star requested that a group of experienced capital market participants – including the Lenders for the Construction Bank Loan – provide recommendations and indicative proposals of the pricing they expect for a Lone Star long-term debt issuance in early 2013. These recommendations primarily consisted of private placements of senior secured notes. The proposals also provided estimates of forward treasury rates as well as Lone Star's credit spread to arrive at an interest rate. In addition, each proposal included an estimate of placement fees and other issuance costs based upon what is currently standard in the market. Lone Star then took the proposal that provided the most attractive pricing (in terms of credit spreads) and added a consensus forecast of the long-term treasury rate coinciding with the expected issuance date and the period the long-term debt financing is expected to be outstanding in order to arrive at the relevant expected coupon rate.[3] Finally, Lone Star divided the total annual interest expense (including amortization of issuance costs) by net proceeds in order to arrive at an "all-in" long-term cost of debt for final rates.

[3] Refer to WP/II-C-2.4 – FINAL; average of three rate forecasts from Blue Chip Financial Forecasts, Value Line Investment Survey, and IHS Global Insight.

Q. DO THE INDICATIVE PROPOSALS FOR LONG-TERM DEBT AND CONSENSUS FORECASTS OF TREASURY RATES PROVIDE A REASONABLE BASIS FOR ESTABLISHING LONE STAR'S FINAL RATES?

A. Yes. Each of the lenders that provided an indicative proposal is a seasoned participant in the capital markets, and thus, can provide a relatively accurate forecast of Lone Star's credit spread based upon their prior experience as well as a proxy group of similar issuances. Furthermore, Lone Star has calculated the 30-year Treasury rate using the average of three rate forecasts from Blue Chip Financial Forecasts, Value Line Investment Survey, and IHS Global Insight. These indicative proposals and consensus forecasts afford a reasonable basis for establishing Lone Star's cost of debt for final rates.

Q. HAS LONE STAR INCLUDED ANY SHORT-TERM DEBT IN ITS REQUESTED COST OF DEBT?

A. No. Including short-term debt in Lone Star's request would be inappropriate because transmission facilities are long-lived assets. As reflected in the Company's requested long-term cost of debt for final rates, Lone Star anticipates entering into a long-term debt issuance shortly after the Project is placed in service.

IV. CAPITAL STRUCTURE

Q. WHAT CAPITAL STRUCTURE IS LONE STAR REQUESTING IN THIS CASE?

A. Lone Star is requesting a capital structure of 48% long-term debt and 52% common equity for both the interim and final rate periods. I note, however, that prior to executing the Construction Bank Loan, Lone Star had a 50/50 capital structure.[4]

Q. WHAT IS THE BASIS FOR LONE STAR'S REQUESTED 48% DEBT AND 52% EQUITY CAPITAL STRUCTURE?

A. Lone Star's requested 48% debt and 52% equity capital structure is consistent with Lone Star's goal to maintain a capital structure that will support strong continued access to the capital markets for needed system investment on a long-term basis, even during market disruptions such as those that have occurred in recent years. Other things being equal, higher levels of common equity generally equate to a stronger balance sheet, which can assist in attracting capital from potential lenders and investors on attractive terms that ultimately benefit the ratepayers through lower rates.

Potential turmoil in the capital markets coupled with increased risks and uncertainty for the industry also warrant a strong balance sheet (*i.e.*, more common equity and less debt). In sum, Lone Star's requested capital structure of

[4] This capital structure was used to calculate Allowance for Funds Used During Construction up to the date of the Construction Bank Loan execution.

48% debt and 52% equity will help the Company maintain a strong balance sheet, which will benefit Lone Star's operations and customers, and may facilitate future investment in Texas. Dr. Avera further confirms that Lone Star's requested capital structure is reasonable for the reasons stated in his testimony.

Q. DOES LONE STAR HAVE ADDITIONAL REASONS FOR PROPOSING A 48% DEBT AND 52% EQUITY CAPITAL STRUCTURE IN THIS CASE?

A. Yes. Lone Star's requested capital structure is consistent with the covenants of the Construction Bank Loan I mentioned earlier. Specifically, the Lenders will only allow Lone Star to utilize the Construction Bank Loan to finance 48% of Lone Star's Project costs under these favorable terms, with the other 52% to be funded with equity from Lone Star Transmission Capital, LLC, and ultimately the parent, NextEra Energy Capital Holdings.

Q. IF A DIFFERENT CAPITAL STRUCTURE IS APPROVED FOR LONE STAR, HOW WILL IT AFFECT LONE STAR'S LONG-TERM COST OF DEBT?

A. With respect to the interim rate period, if Lone Star's proposed capital structure is not approved, Lone Star would need to pursue financing through alternative means, recognizing that any incremental financing would be subordinate in nature (consistent with the security issuance restrictions outlined in Schedule II-C-2.6), and would likely have considerably less favorable pricing and terms. With