Q. HAS WETT COMPARED THE LEVEL OF ITS PROPOSED OPERATIONS EXPENDITURES TO OTHER UTILITIES IN TEXAS?

A. Yes. WETT has benchmarked its proposed operations expenses to a state-wide average of 2011 FERC Form 1 filing operations expenses for AEP Texas Central Company, Southwestern Electric Power Company, Entergy Texas, Inc., CenterPoint Energy Houston Electric, LLC, Oncor Electric Delivery Company LLC, and Southwestern Public Service Company. WETT's per-circuit-mile operation cost is $1,906 ($953,035/500 circuit miles). This is slightly more than 60 percent of the state-wide average of $3,114 per circuit mile for the six Texas utilities listed above.

X. ADMINISTRATIVE AND GENERAL EXPENSES

Q. DOES WETT REQUEST RECOVERY OF ITS DAY-TO-DAY A&G EXPENSES INCURRED IN CONNECTION WITH THIS PROCEEDING?

A. Yes. WETT is requesting that its A&G expenses be included in rates. A&G expenses include WETT's payroll, employee benefits, office space rental costs, taxes, and other operating expenses associated with maintaining its Austin office. As reflected in Schedule II-D-2.1 WETT's expenditures from the historical year were $5,033,383.[4] After adjusting these figures for known and measurable changes and allocating certain A&G costs among WETT's three projects, WETT calculated its annual A&G expense for Phase I, $4,909,048, which it requests in this proceeding. Phase II's annual A&G expense (which includes CCN1 and CCN2 as well as CCN3) is $7,618,912. These are further discussed in the direct testimony of Dr. Fairchild.

[4] Although all of WETT's initial costs were capitalized, WETT reviewed its books and identified costs incurred during the historical year which would have been considered A&G expenses had WETT had any facilities in service. Based on these known expenses, WETT calculated A&G expenses for the historical year.

WETT will incur these expenses in order to provide general management, accounting, personnel, and engineering services in order to efficiently run and maintain its transmission system.

Q. WETT HAS SAID ITS ADJUSTMENTS TO ITS HISTORICAL A&G EXPENSES KNOWN AND MEASURABLE. HOW WERE THOSE EXPENSES CALCULATED?

A. WETT must incur certain administrative expenses to operate as a company, as reflected in the expenses incurred during the historical year. WETT has properly adjusted these figures to reflect changes of which WETT is reasonably certain will occur when rates are in effect. For example, WETT removed from its A&G expenses historical figures related to one-time expenses which it does not expect will recur. I believe WETT has calculated reasonably certain A&G expenses representative of the ongoing expenses WETT can expect to incur during the period its rates are in effect.

Q. ARE WETT'S A&G EXPENSES REASONABLE?

A. Yes. These recurring costs are necessary because they are incurred in the operation of WETT's business and needed for WETT to operate as a TSP. They are reasonable because they are based on the reasonable salaries of WETT's relatively small number of employees who perform work necessary to support utility service. A&G expenses were developed based upon historical year levels for those operations, adjusted for known and measurable changes. WETT's A&G expenses are comparatively low because they reflect WETT's lean staffing plan. Operating in a lean manner reduces payroll, rent, and other associated expenses.

Q. IS WETT REQUESTING ALL ITS A&G EXPENSES BE INCLUDED IN BASE RATES AT THIS TIME?

A. No. At this time, WETT is requesting only A&G expenses associated with Phase I. However, in this proceeding, WETT asks that the Commission approve increases in its revenue requirement reflecting the additional A&G expenses associated with Phase II, which will become effective when those facilities are capable of providing service. This addition is reflected in WETT's explanation of its revenue requirement.

XI. WETT'S AFFILIATE SERVICES AND COSTS

Q. DOES WETT RECEIVE SERVICES FROM AFFILIATES?

A. Yes. WETT's owners, Brookfield and Isolux Concesiones, have substantial experience in construction and management of transmission lines and other large facilities. WETT has received the benefit of this expertise by receiving affiliate services from affiliated entities within both the Brookfield and Grupo Isolux organizations in a variety of areas, including finance, human resources, project management, transmission planning, engineering, procurement, and construction.

Q. HOW HAS WETT ORGANIZED THE SERVICES IT RECEIVES FROM ITS AFFILIATES FOR PRESENTATION TO THE COMMISSION IN THIS FILING?

A. Generally, WETT has affiliate relationships and costs in two classes: corporate support services and construction support services.

Corporate support services are provided at cost by both Brookfield and Isolux Concesiones under Affiliate Services Agreements ("ASAs"), and include such

traditional "back-office" affiliate support services as finance, budgeting, legal, and human resources, typical of what other utilities in Texas do. I sponsor the invoices accounting for these non-EPC affiliate costs, which are capitalized through the date the facilities are completed. Summaries of these invoices are attached to my testimony as Exhibit WM-6.

Construction support services include all labor and materials associated with the construction of the CREZ Projects assigned to WETT by the Commission. WETT entered into a comprehensive EPC Contract with I-USA, under which I-USA and its contractors are designing, engineering, manufacturing, supplying, installing, procuring, shipping, constructing, interconnecting, documenting, testing, and commissioning all of WETT's transmission lines and switching stations on a turnkey basis. These services are not typical of the on-going, back-office support other Texas utilities might receive from affiliates; these are one-time services provided to WETT by I-USA at a competitive, market-based price (cost plus a 4% fee) under the EPC Contract and a Consultant Service Agreement ("CSA"), which was a precursor to the EPC Contract. The price for these construction support services is (1) low for the industry, as discussed by Booz & Company's Thomas Flaherty, and (2) not higher than what I-USA would charge a third party for the same services.

The corporate support services and construction support services WETT receives from its affiliates are discussed in more detail in the direct testimonies of Mr. Pullin, Mr. Perlman, and Mr. Flaherty. WETT's management of the CREZ Projects is also discussed by Mr. Ballard. I sponsor WETT's affiliate costs associated with

corporate support services, and Mr. Ballard sponsors I-USA's invoices to WETT associated with construction support services.

A. CORPORATE SUPPORT SERVICES

Q. ARE THE AFFILIATE SERVICES AGREEMENTS NECESSARY IN ORDER FOR WETT TO PRUDENTLY MANAGE AND TIMELY COMPLETE ITS CREZ TRANSMISSION PROJECT?

A. Yes, they are. WETT utilizes its affiliates' corporate support services to effectively manage and efficiently operate its business so that it can accomplish its goal of constructing and later operating its CREZ transmission facilities. WETT's management has the option of employing qualified affiliate services or using qualified third parties as support for certain aspects of its operations. In other words, WETT is not "captive" to its parents for affiliate support services: it retains the right to obtain such services from other sources when needed or more efficient.

Q. ARE THE FEES CHARGED BY AFFILIATES FOR CORPORATE SUPPORT SERVICES REASONABLE AND NECESSARY FOR EACH ITEM OR CLASS OF ITEMS?

A. Yes. The affiliate corporate support services provided to WETT under the ASAs are provided at fully-loaded cost with no profit margin. These costs are calculated by WETT's parent companies using processes consistent with those used in the industry, as discussed in the direct testimonies of Mr. Pullin and Mr. Flaherty. The costs incurred under these agreements have been provided to Dr. Fairchild and Mr. Hevert and are included as recoverable costs as part of WETT's revenue requirement. Additionally, as I said, I sponsor the invoices documenting these costs,

which are enclosed as Ex. WM-6.

B. CONSTRUCTION SUPPORT SERVICES

Q. WHO SUPPORTS WETT'S AFFILIATE CONSTRUCTION SUPPORT SERVICES COSTS?

A. Below, I discuss the relevant affiliate contract and the negotiation process by which it was formed. However, the associated costs are explained and supported in the direct testimony of Mr. Ballard.

Q. YOU HAVE PREVIOUSLY MENTIONED DOCKET NO. 35665, THE TSP-SELECTION DOCKET. WOULD YOU PLEASE DESCRIBE THE SIGNIFICANCE OF THAT DOCKET TO THIS APPLICATION?

A. In Docket No. 35665, WETT indicated that it intended to use Isolux Ingeniería, S.A. ("Isolux Ingeniería") for the engineering, procurement, and construction of any transmission lines and stations awarded to WETT.[5] In fact, Isolux Ingeniería's worldwide experience in constructing transmission infrastructure projects, was a primary consideration for the selection of WETT.[6] After the Commission issued its order awarding the CREZ transmission lines, WETT promptly filed its Code of Conduct and also became

[5] *See, e.g., Commission Staff's Petition for Selection of Entities Responsible for Transmission Improvements Necessary to Deliver Renewable Energy from Competitive Renewable Energy Zones*, Docket No. 35665, Buckman Responsive Testimony at 4-5; Trefois Responsive Testimony at 4, 6-9, 12-13.

[6] "When I compared [what] . . . WETT has in parts of the world, they have significantly more – at least Isolux has significantly more transmission experience." Tr. at 132-22 (Jan. 14, 2009 Open Meeting, Chmn. Smitherman); "WETT has vast international experience and . . . among the new entrants was, frankly, one of the more impressive proposals, albeit ambitious in their original submission." "WETT has more financial resources . . . in addition to much more experience in transmission, and they bring a new set of experiences. . . ." Tr. at 40, 65 (Jan. 29, 2009 Open Meeting, Comm'r Anderson).

a member of ERCOT. After its Code of Conduct was approved by the Commission,[7] WETT requested a limited waiver of its Code of Conduct in order to retain I-USA (which is a subsidiary of Isolux Ingeniería) to perform the engineering, procurement, and construction of the transmission lines and switching stations. After the PUC granted that waiver in November of 2010, WETT began negotiations in earnest with I-USA on the terms of the EPC Contract.[8]

Q. PLEASE BRIEFLY DESCRIBE THE EPC AGREEMENT BETWEEN WETT AND I-USA.

A. The EPC Contract between WETT and I-USA is a comprehensive contract that covers designing, engineering, manufacturing, supplying, installing, procuring, shipping, constructing, interconnecting, documenting, testing, and commissioning all of WETT's transmission lines and switching stations on a turnkey basis. This agreement obligates I-USA to perform or contract for all EPC functions according to the prices set forth in Attachment C-1 of the agreement. Subsequent to executing the EPC Contract, WETT and I-USA have amended the contract and added an additional switching station, the Faraday Station, and certain stretches of monopoles to the scope of work. Any additional modifications are considered according to the provisions of the EPC Contract. The EPC Contract contains detailed pricing, construction schedules and milestones, and a process for adjusting costs or effecting a change order (such as adding the switching station and monopoles). For example, WETT is

[7] *Application of Wind Energy Transmission Texas, LLC for Approval of its Code of Conduct and Organizational Structure*, Docket No. 36856, Order (July 14, 2009).

[8] *Application of Wind Energy Transmission Texas, LLC for a Limited Waiver with Respect to its Code of Conduct*, Docket No. 38568, Order (November 23, 2010).

currently evaluating an EPC Contract amendment which would modify the project cost and construction schedule to optimize coordination of completion dates with I-USA's subcontractors and other CREZ providers.

I discuss the EPC Contract in more detail later in my testimony.

Q. WERE WETT'S NEGOTIATIONS WITH I-USA DONE ON AN ARM'S-LENGTH BASIS?

A. Yes, they were. I was personally involved in and oversaw these negotiations on behalf of WETT. During those negotiations, WETT and I-USA were represented by separate outside counsel. Furthermore, before the EPC Contract was executed, it was reviewed by an independent third party, SAIC. Subsequently, Booz & Company has also thoroughly reviewed the EPC Contract.

SAIC, formerly R.W. Beck, has extensive engineering and contract management experience in the electric utility industry. SAIC was hired by WETT to review and comment on the terms of the EPC Contract in particular from an engineering and construction standpoint, to provide third-party perspective and assist with contract negotiations, and thereafter to help monitor and ensure compliance with the EPC Contract and good utility practices. Thus, SAIC has served as WETT's independent evaluator and advisor, and continues to do so on an ongoing basis. The use of a third party to help WETT monitor EPC progress is consistent with WETT's lean staffing model, and is an action WETT would have undertaken whether or not the EPC contractor was an affiliate.

Booz & Company (a world-known management consulting firm) was hired to review all of WETT's affiliate transactions. WETT's EPC Contract with I-USA was

part of that review. Booz & Company provided retrospective analysis of the terms of the EPC Contract, including provisions for pricing of EPC services and cost control, and confirmed that they were reasonable and prudent.

Hiring such highly qualified third parties to perform these independent oversight functions is common in large infrastructure projects, regardless of whether affiliates are involved. Such third party oversight would be equally appropriate had WETT contracted with a non-affiliate, and was particularly useful for WETT given its lean staffing model.

The roles of Booz & Company and SAIC in overseeing the EPC Contract are discussed in more detail in the testimonies of Mr. Flaherty and Mr. Pullin. A copy of the EPC Contract is attached, confidentially, to the direct testimony of Mr. Pullin. Mr. Flaherty and Mr. Pullin co-sponsor this Exhibit.

Q. WOULD YOU PLEASE DESCRIBE WETT'S OWNERSHIP STRUCTURE AND THE IMPORTANCE OF THAT STRUCTURE TO THE NEGOTIATIONS OF THE EPC AGREEMENT?

A. WETT Holdings (which owns WETT) is owned equally by subsidiaries of Brookfield and Isolux Concesiones. The Board of Managers of WETT Holdings is comprised of three members each from Brookfield and Isolux Concesiones. This equal ownership and management of WETT Holdings serves to temper any potential overreaching by any affiliate. Because WETT was intentionally structured so that neither parent would have a controlling interest, transactions with affiliates of either parent are subject to the oversight of the unaffiliated parent, which has an interest in ensuring all work is well managed and done at a price no higher than what the

affiliate would charge another affiliate or a third party, as explained in the testimony of Mr. Pullin. Having two parent companies with equal ownership thus acts as a significant check against the potential for self-dealing in affiliate transactions, including the negotiation of the EPC Agreement, and ensures that transactions are truly negotiated and entered into at arm's length. Because each parent has an equal number of members on WETT's Board of Managers, effectively the WETT Board can only operate by consensus of both owners.

The internal corporate structure of Grupo Isolux also serves as a check against the potential for self-dealing involving I-USA. As shown in Exhibit WM-4, Isolux Concesiones owns Iccenlux Corp., which is the direct owner of 50% of WETT Holdings and which providers managers to WETT Holdings' Board of Managers. I-USA is found in a separate, distinct chain of ownership within Grupo Isolux; its parent is Isolux Ingeniería. The WETT Holdings Board has no managers employed by or directly supervised by I-USA or Isolux Ingeniería.

Q. WOULD YOU PLEASE DISCUSS THE MORE IMPORTANT ASPECTS OF THE EPC AGREEMENT BETWEEN WETT AND I-USA?

A. As I stated earlier, the EPC Contract was the result of extensive arm's-length negotiations with I-USA. At a very high level, it calls for I-USA to be the general contractor and perform or contract for all EPC functions necessary to complete WETT's CREZ lines on a cost-plus basis. I-USA's fee will be 4% of the cost to build the lines. Mr. Flaherty and Mr. Pullin testify that this 4% fee is no higher than the industry average charged in typical EPC contracts, and is also less than what I-USA would charge in a similar contract with an affiliated or unaffiliated utility. The EPC

Contract also includes robust administrative mechanisms, contractual protections such as price caps, and controls that as a whole represent an integrated, balanced package for risk mitigation and cost control, including processes for establishing phase budgets, capping maximum amounts, making completion guarantees, establishing change order procedures, and setting how actual costs will be paid by WETT. EPC Contract terms are analyzed in the direct testimonies of Mr. Flaherty and Mr. Pullin. Based upon EPC Contract requirements, WETT has developed and implemented formal processes and procedures to guide and support the management and execution of the project. These processes are further discussed by Mr. Ballard and Mr. Pullin.

Q. IS THE AGREEMENT BETWEEN WETT AND I-USA CONSISTENT WITH WETT'S PROPOSAL IN DOCKET NO. 35665?

A. Yes. One key element of WETT's proposal in Docket No. 35665 was that it would rely on the expertise of its parent companies in constructing the project. The EPC Contract implements WETT's plan to relay on its affiliates' construction experience that was presented in that docket and as approved in the waiver of WETT's Code of Conduct.

XII. WETT'S PROPOSED PROCEDURAL APPROACH

Q. WHAT APPROACH DOES WETT ASK THE COMMISSION TO TAKE IN ESTABLISHING WETT'S RATES?

A. WETT's CREZ transmission projects are divided into three groups—CCN1, CCN2, and CCN3—corresponding to the groups of projects approved in WETT's three CCN proceedings before the Commission. WETT is requesting that the

Commission approve two rates, one to be effective when WETT's Phase I facilities (CCN1 and CCN2) are capable of providing service, and one for its Phase II facilities (CCN3), to be effective when the Phase II facilities are capable of providing service. WETT expects that its Phase I facilities will be completed and capable of providing service at the end of this case. In addition, WETT requests that the Commission approve certain modifications to interim TCOS procedures to include Phase II facilities in rates using those procedures when they are completed and ready for service. This process is similar to the agreement among parties approved by the Commission in the Lone Star rate case.[9]

Q. PLEASE EXPLAIN THE RATES REQUESTED IN THIS CASE.

A. In this application, WETT proposes to establish rates for its initial Phase I CREZ transmission projects, to establish rates which will include the additional maintenance and A&G expenses associated with its Phase II CREZ projects, and to establish a process for including Phase II expenses and investment in rates when those facilities are completed. Under WETT's preferred approach, WETT's proposed Phase I rates are based on invested capital and project balances plus expenses associated with Phase I assets for a historical year ended June 30, 2012, adjusted for known and measurable changes. WETT also proposes to phase in rates for certain known and measurable Phase II expenses when those facilities are completed and capable of providing service.[10] Accordingly, under WETT's preferred approach,

[9] See *Application of Lone Star Transmission LLC to Establish Interim and Final Rates and Tariffs*, Docket No. 40020, Supplemental Preliminary Order at 1-7 (July 9, 2012).

[10] PURA § 36.053(d) establishes that CREZ facilities are "used and useful" for purposes of § 36.051 "regardless of the extent of the utility's actual use of the facilities." The Commission has interpreted this to mean that

rates will not be implemented for any asset until after it is completed. If WETT's proposed Phase I rate approach is denied, and to the extent it is necessary, WETT requests that its Phase I investment be adjusted in this case for appropriate post-test year adjustments to its rate base.[11]

WETT's preferred approach is consistent with the process employed in the Lone Star Transmission, LLC ("Lone Star") rate case, Docket No. 40020,[12] and allows WETT's investment and expenses to be included in rates in a reasonable manner to reduce the impact of regulatory lag.[13] Because WETT is a new entrant and has not yet had a rate case, it cannot take advantage of existing mechanisms which reduce regulatory lag—such as the interim TCOS process laid out in P.U.C. SUBST R. 25.192(h)—and thus could not incorporate its facilities into rate base until a rate case has occurred. As a new entrant, WETT could lose millions of unrecoverable dollars to regulatory lag if it is not permitted to follow a process similar to that permitted in the Lone Star case.

Q. PLEASE EXPLAIN WETT'S REQUEST FOR SUBSEQUENT RATE PROCEDURES IN INTERIM TCOS PROCEEDINGS FOR PHASE II FACILITIES.

A. WETT proposes to establish a process through this case for including Phase II

CREZ facilities are used and useful when they are constructed and capable of providing service: "the Commission may not find that CREZ facilities are not used and useful when such facilities have been constructed and are capable of being put into service but cannot be placed into service because necessary interconnecting facilities have not been completed." Docket No. 40020, Supplemental Preliminary Order at 11.

[11] P.U.C. SUBST. R. § 25.231(c)(2)(F).

[12] *See supra* n.3.

[13] "Regulatory lag" is the time between when a facility is completed and when its cost is recovered in rates either by including such costs in rate base or as an expense item.

expenses and investment in rates when those facilities are completed. Following this rate case, WETT proposes to incorporate additional capital investment in Phase I facilities and capital investment in its Phase II facilities through the Interim TCOS update process allowed by P.U.C. SUBST. R. 25.192(h). Typically, interim TCOS updates include only plant in service, not any additional capital investment in plant prior to its being put in service. However, WETT requests that additional capital investment expended for its Phase II facilities be allowed in one interim TCOS proceeding to be filed shortly before those facilities are completed.

As I said, WETT believes its preferred process mirrors what the Commission recently approved for another new entrant. To the extent necessary, WETT requests a "'good cause' exception" for (that is, a finding that conditions warrant) the use of such a process under P.U.C. SUBST. R. 25.3(b). If such exception is denied, WETT requests that its Phase II construction work in progress ("CWIP") balance as of June 30, 2012—which totals $69,417,188, as reflected in Schedule II-B-4, be included in rate base at this time.[14] As discussed in the direct testimony of Mr. Perlman, WETT believes the standard for recovery of CWIP related to CREZ facilities warrants the inclusion of CWIP in this case. However, WETT is requesting the inclusion of Phase II CWIP at this time only if its preferred TCOS procedure described above is not adopted.

[14] PURA §§ 36.054 and 35.004(d). The inclusion of Phase II CWIP in rate base would make WETT's total rate base $252,653,123. Its revenue requirements would be $38,251,264 when Phase I is capable of providing service and $41,378,891 when Phase II is capable of providing service.

Applicable legal and regulatory standards and policies are discussed in greater detail in Mr. Perlman's testimony.[15]

Q. WHAT REVENUE REQUIREMENT IS WETT PROPOSING TO USE TO CALCULATE ITS RATES?

As discussed in greater detail in Dr. Fairchild's testimony, under its preferred approach, WETT is presently asking to establish rates with a revenue requirement of $31,194,856, based on $183,153,520 in Phase I rate base as of June 30, 2012, a request for a 10.9% return on equity ("ROE"), a 5.624% cost of debt, a capital structure of 60% debt/40% equity, a rate of return of 7.73%, and annual expenses of $1,738,295 for operations and maintenance ("O&M")[16] and $4,909,048 for A&G.

WETT intends to incorporate its additional investment in plant through interim TCOS filings. However, because the operating expenses associated with Phase II are known and measurable now, WETT asks that two revenue requirements be approved in this proceeding, with the second revenue requirements reflecting the increased operating expenses associated with Phase II to be effective when those facilities are capable of providing service. Operations expenses are requested in full in rates when Phase I becomes capable of being energized since those expenses are incurred regardless of the amount of plant put in service, while maintenance and A&G expenses are phased in proportionately as the phase with which they are

[15] For example, Mr. Perlman addresses that WETT's investment is booked as construction work in progress ("CWIP") during the construction period. Accordingly, in the event the Commission finds that WETT must meet CWIP standards in order to include its Phase I investment in rate base at this time, or should WETT's alternative approach be adopted, Mr. Perlman addresses how CWIP standards apply to CREZ investment.

[16] I discuss operations expenses in my testimony. Maintenance is further discussed in the direct testimony of Mr. Ballard.

associated becomes capable of being energized. The Phase II revenue requirement WETT is requesting approval for in this case, under its preferred approach, is $34,322,483. The Phase II revenue requirement will also be adjusted through interim TCOS proceedings to incorporate WETT's additional capital investment according to the process laid out above.

Q. IS WETT PROPOSING TO USE A PROJECTED OR FUTURE TEST YEAR TO CALCULATE ITS RATES?

A. No. WETT is using data from a historical year ended June 30, 2012, with adjustments for known and measurable changes. However, for any expenses not determined to be known and measurable, WETT requests deferred accounting, as explained in the direct testimony of Mr. Perlman.

Q. PLEASE EXPLAIN WHY THE COMMISSION SHOULD GRANT WETT'S REQUEST TO DEFER ITS EXPENSES IN THE EVENT THE COMMISSION DOES NOT CONSIDER THOSE EXPENSES TO MEET THE KNOWN AND MEASURABLE STANDARD.

A. There are many reasons why the Commission should grant WETT's request to defer its expenses (e.g. operating, maintenance, administrative & general) in the event the PUC does not consider those expenses to be known and measurable adjustments to the Company's test year. First, authorizing WETT to defer such expenses furthers the goal of PURA of encouraging development of renewable energy resources in Texas. When selecting the transmission providers to construct and operate the CREZ transmission lines in Docket No. 35665, the Commission recognized that the new entrant TSPs, including WETT, would face unique challenges when entering the

electric utility industry in Texas. One of those challenges is the fact that WETT has no existing utility operations and, thus, some of its expenses would not be captured in an historical test year. Furthermore, there should not be any dispute that WETT would expect to incur such expenses in the course of owning and operating its transmission lines. Secondly, it would have a significant and adverse impact on its earnings if WETT were unable to recover its expenses. In this regard, if WETT were unable to either recover its expenses in rates or be able to account for them using deferred accounting (with the opportunity to recover the expenses in a subsequent rate proceeding), it would be unable to earn a reasonable return on its investment because WETT's shareholders would be absorbing the cost of such necessary expenses in order to provide utility service. Mr. Perlman addresses this issue in more detail in his testimony.

Q. ARE THE EXPENSES WETT IS PROPOSING TO DEFER APPROPRIATE FOR RECOVERY IN RATES?

A. Yes, they are. The expenses at issue are those that WETT would incur as a result of owning and operating its transmission lines. The deferral request is made in an abundance of caution in the event the Commission does not consider such expenses to be known and measurable. Because these are ordinary and necessary expenses of the type that would otherwise be appropriate for recovery in rates, I believe they should be afforded deferred accounting treatment. The expenses would include those related to operations & maintenance and administrative & general items. These expenses may include internal costs, as well as costs incurred by WETT for using third-party contractors for various O&M and A&G functions, including

restoration and routine maintenance functions.

Q. WHAT IS THE DEFERRAL PERIOD WETT IS PROPOSING?

A. WETT is proposing to defer its O&M and A&G expenses that are not included in rates effective the first day when WETT's rates take effect. Additionally, WETT will accrue the carrying costs of such expenses at its overall authorized rate of return set by the Commission in this proceeding.

Q. IF WETT IS NOT OPERATING TRANSMISSION FACILITIES, HOW CAN IT USE A HISTORICAL YEAR?

A. WETT has been in existence for several years, and has been working to construct the facilities assigned to it by the Commission in 2009 and provide service to the public. Thus, it has a data from a historical year ended June 30, 2012, that establishes the operating costs it incurred to perform company functions during that time. By adjusting those historical costs for known and measurable changes which will take place once WETT begins to operate facilities the Commission can set rates that will be representative of WETT's operating costs during the periods its rates will be in effect.

XIII. SUMMARY AND CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony can be summarized as follows:

- WETT requests that the Commission set two rates, one to become effective when WETT's Phase I facilities are capable of providing service, and the other when its Phase II facilities are capable of providing service. These initial rates will be set using actual Phase I capital costs as of June 30, 2012, though under WETT's preferred approach the actual charging of rates set will not take place until related facilities are capable of providing service. In the alternative, WETT requests inclusion in its rate base of post-test year known

and measurable adjustments incorporating appropriate costs for Phase I. Under this preferred approach, WETT requests recovery of $183,153,520 in rate base, the amount accrued for Phase I facilities and attendant operations facilities as of June 30, 2012.

- WETT also requests leave to include in its initial TCOS update filing the additional capital investment made through the date the TCOS update is filed. Those rates would become effective when Phase II is completed and capable of providing service. In the alternative, WETT requests the inclusion of its Phase II CWIP balance as of June 30, 2012, in rate base at this time. Under this alternative approach, WETT requests recovery of $252,653,123 in rate base, the amount accrued for all facilities as of June 30, 2012..

- Under either of the approaches described above, WETT requests that its expenses be based upon a historical year, adjusted for known and measurable changes such as executed contracts for certain operations and maintenance ("O&M") functions and end-of-historical-year staffing levels, including:

  - Operations expenses, including those adjusted for known and measurable changes, to be implemented in full in rates when Phase I becomes capable of providing service; and

  - Maintenance and A&G expenses, including those adjusted for known and measurable changes, to be phased in proportionately as the Phase with which they are associated becomes capable of providing service.

  - Thus, in addition to the Phase I revenue requirement of $31,194,856 to set WETT's initial rates, WETT is also requesting approval of rates that are based on a revenue requirement of $34,322,483 (which reflects the additional maintenance and A&G expenses related to Phase II) to be effective when Phase II facilities are capable of providing service.

  - For those of WETT's expenses which are not incorporated as known and measurable changes, WETT requests deferred accounting to allow WETT to recover them in a later proceeding;

- After analysis by a third party, WETT determined that it will be best able to meet applicable compliance guidelines if it operates its own control centers. Thus, WETT chose to construct its own, self-run operations control centers in rented space at an estimated capital investment of $5 million; its O&M expenses include the ongoing costs of operating these centers.

WETT requests an ROE of 10.9% using a capital structure of 60% debt / 40% equity, and a cost of debt of 5.624%, resulting in a rate of return of 7.73%.

- WETT's use of affiliates for key services was reasonable and prudent, and resulted in costs no higher than would have been incurred had unrelated third parties been used for those services:
    - WETT notified the Commission during its deliberations in Docket No. 35665 that WETT would partner with an Isolux Ingeniería affiliate to construct the CREZ transmission lines awarded to WETT prior to the Commission selecting WETT as one of the CREZ TSPs.
    - In furtherance of that goal, WETT obtained Commission approval of a waiver of its Code of Conduct allowing WETT to enter into an EPC contract with I-USA.
    - WETT engaged in arm's-length negotiations with I-USA for the terms and conditions that resulted in the EPC Contract, the terms of which have been found reasonable and prudent by two independent consulting firms in the electric utility industry. I personally participated in the negotiation of the EPC Contract and also believe its terms to be reasonable and prudent.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. However, I reserve the right to make changes or corrections as necessary.

STATE OF TEXAS §
§
COUNTY OF Travis §

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

My name is Wayne Morton. I am of legal age and a resident of the State of Texas. The foregoing direct testimony and the attached exhibits offered by me are true and correct, and the opinions stated therein are accurate, true and correct.

Wayne Morton

SUBSCRIBED AND SWORN TO BEFORE ME by the said Wayne Morton this 16th day of August, 2012.

MARY E. MUIR
NOTARY PUBLIC STATE OF TEXAS
COMMISSION EXPIRES:
11-21-2015

Notary Public, State of Texas

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L. Wayne Morton, P.E.

200 Stirrup Drive
Dripping Springs, TX 78620
512-614-4126
lwaynemorton@gmail.com

Summary: Over twenty five years of management and technical experience in wholesale market assessment, project management, risk analysis, and business development. Detailed knowledge base of wholesale market operations, including generation and transmission infrastructure.

Experience and Accomplishments

2010 to Present **Wind Energy Transmission Texas, Austin, Texas**

General Manager

- Senior company executive directly responsible for all commercial, financial, regulatory and administrative aspects of the organization.
- Successfully negotiated $550 million EPC contract for transmission system construction.
- Successfully completed $500 million project debt financing.

2005 to 2010 Panda Power Funds; Panda Energy, Dallas, Texas

Vice President, Market Planning and Transmission

- Responsible for all Panda US transmission interconnection and access processes of conventional and renewable resource development, working with dozens of utilities across the US.
- Led teams for review of over half a dozen acquisition targets including due diligence and financial analysis.
- Lead in site selection for new development. Evaluate wholesale market structure and protocols, as well as transmission capability.
- Lead project developer for a 100 million gallon per year ethanol plant and a 750 MW CC power plant. Managed permitting, contracting, and engineering of the projects.
- Asset Director for an ethanol project under construction upon financing, responsible for lender arrangements and P&L. Directed creation of budget reporting to lenders and owner committee.
- Led development of financial proformas for screening potential projects and acquisitions.

2004 to 2005 **PA Consulting Group, Boulder, Colorado**

Principal Consultant

- Provided power industry consulting services to independent power, financing institutions, and utilities regarding utility operations, transmission utilization, and industry contract management.

1999 to 2004 **Panda Energy International, Inc., Dallas, Texas**

Senior Director of Transmission and Services

- Negotiated and successfully executed Interconnection Agreements for five merchant power plants, involving TXU Electric (Oncor), LCRA, CSW/AEP, Arizona Public Service, and Entergy. Currently involved in the interconnection process of six other merchant projects under development involving Oncor, BPA, PG&E, and PJM.
- Responsible for Panda consideration of and representation at RTO proceedings, federal and state commissions.
- Directed business consulting activities for Panda.

- Successfully directed power market assessments for two $300 million project financings and one $1.2 billion project financing, the latter involving the two largest IPP projects in the U.S.

1996 to 1998 Texas-New Mexico Power Company, Fort Worth, Texas

Manager of Power Planning

- Expert witness on demand and supply-side resource use and transmission access cost adjustments by TNMP in its filing for Transition to Competition and Authority to Change Rates (PUCT Docket No. 17355).
- Managed TNMP use of the Texas transmission system under PUCT jurisdiction, and use of the WSCC transmission system under FERC jurisdiction.
- Managed TNMP purchased power contracts with annual payments totaling more than $180 million.
- Contract administrator and negotiator for the economy service TNMP industrial customers.
- Represented TNMP in ERCOT related activities regarding rule changes affecting transmission access and retail deregulation.

1994 to 1996 Electronic Data Systems - Utilities Division, Atlanta, Georgia

Senior Consultant - Generation and Transmission Analysis Group

- PROMOD IV® primary contact for over ten client utilities within NYPP, SERC, SPP, and ERCOT.
- Provided expert consulting in transmission, resource, and market analysis.
- Conducted extensive training in the use of PROMOD IV for general and congestion management analysis.
- Key role in multiple product enhancements for use in evaluating the emerging wholesale power market, including load-flow analysis.

1985 to 1994 Texas Utilities Electric Company, Dallas, Texas

1989 to 1994 Staff Engineer / Senior Engineer - Generation Planning

- Directed the development and analysis of the 1994 TU Electric Integrated Resource Plan (IRP) filed with the Public Utility Commission of Texas.
- Directed development and analysis of compliance strategy for Clean Air Act Amendment (CAAA) Title IV. Results presented to senior management and resulted in $4 million sale of SO2 credits.
- Developed financial proforma to determine the system financial revenue requirements of supply-side generation alternatives.
- Represented the company at ERCOT generator-related task force proceedings.

1985-1989 Associate Engineer / Engineer / Staff Engineer - Transmission Planning

- Key participant in the development of the annual transmission plan of transmission expansion and retrofit through the use of load-flow programs.
- Represented TU Electric in ERCOT Load-Flow Task Force activities.
- Directed modeling and development of: transformer thermal loading guidelines, accurate modeling of the system load diversification, high-voltage switch application guidelines, and creation of a system-wide substation load database.

Education

B.S. Electrical Engineering from Texas Tech University - 1984

Memberships

Registered Professional Engineer, Texas #66830

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ERCOT
THE TEXAS CONNECTION

January 5, 2011

Mr. Ken Donohoo
Director, System Planning
Oncor Electric Delivery
2233-B Mountain Creek PKWY
Dallas, TX 75211-6716

Mr. Wayne Morton
General Manager
Wind Energy Transmission Texas, LLC
210 Barton Springs Road, Suite 150
Austin, TX 78704-1212

RE: Lamesa Area Upgrades Project

Dear Mr. Donohoo and Mr. Morton:

As a result of the ERCOT Independent Review pursuant to the Regional Planning Group Charter and Procedures, the Electric Reliability Council of Texas (ERCOT) staff endorses the following Tier 2 transmission project:

- Add a second circuit to be operated at 138 kV to the Lamesa – Ackerly Vealmoor line
- Construct a new substation, Faraday Switch, with a 345/138 kV autotransformer, to be located approximately 13 miles from Willow Valley near the intersection of the Longdraw – Grelton 345 kV line and Willow Valley – Lamesa 138 kV line
- Rebuild Faraday Switch – Muleshue – Gail – Willow Valley 138 kV line such that the line rating is approximately 394 MVA using double circuit structures with one circuit in place

Additional details on this project are included in Attachment A to this letter.

This project was supported throughout the ERCOT planning process, which included participation of all market segments through the ERCOT Regional Planning Group. The project was found to have system-wide benefits to the ERCOT Region due to a reduction in system production costs. ERCOT staff looks forward to the successful completion of the work and is ready to assist you with any planning and operations related activities.

Should you have any questions please call me at any time.

Austin
7620 Metro Center Drive
Austin, Texas 78744
Tel. 512.225.7000 | Fax 512.225.7020

Taylor
2705 West Lake Drive
Taylor, Texas 76574
Tel. 512.248.3000 | Fax 512.248.3095

Sincerely,

Kent Saathoff

Kent Saathoff
Vice President, System Planning and Operations
Electric Reliability Council of Texas

cc: Barry T. Smitherman, Chairman, Public Utility Commission of Texas
Kenneth W. Anderson, Commissioner, Public Utility Commission of Texas
Donna L. Nelson, Commissioner, Public Utility Commission of Texas
Jess Totten, PUCT
Brian Almon, PUCT
Trip Doggett, ERCOT
Dan Woodfin, ERCOT
Jeff Billo, ERCOT
Paul Steckley, WETT

ERCOT Independent Review - Lamesa Area Upgrades

Version 1.0

Document Revisions

Date	Version	Description	Author(s)
11/10/2010	1.0	Final draft	Virat Kapur

Table of Contents

Lamesa Area Upgrades

1. Introduction

In the 4th Quarter of 2007, Oncor Electric Delivery submitted a proposal to the Regional Planning Group (RPG) offering a solution to alleviate foreseeable congestion in the Lamesa region. This congestion was attributed to:

- 583 MW of proposed future generation comprised of Coyote Run, Airtricity Lamesa Wind Project and Bull Creek Wind Plant, all with signed interconnection agreements (IAs) to be interconnected on the Lamesa – China Grove 138 kV line. These units were originally scheduled to come online between 3rd Quarter of 2007 and 1st Quarter of 2009. Of these units, only Bull Creek, a 180 MW plant connected to the Willow Valley substation is in service. The other two plants have subsequently cancelled their IAs.

- Gunsight Mountain Wind Plant with signed IA to be interconnected at the Ackerly Vealmoor – Getty Vealmoor 138 kV line in December 2012.

The ERCOT analysis of the Oncor Electric Delivery's RPG request did not show enough economic benefits to justify the cost of upgrades in the pre-CREZ transmission scenario. ERCOT concluded that the project should be deferred until CREZ transmission plans were finalized.

Oncor Electric Delivery, subsequently, performed a second study and submitted a Tier 1 RPG project with CREZ integration in the 4th Quarter of 2008. The objective behind this second study was to determine if the proposed Lamesa area upgrades were compatible with the proposed CREZ area facilities and whether the integration of the two proposals would function efficiently.

ERCOT's review found Oncor Electric Delivery's second proposal to be an effective congestion mitigation solution in the Lamesa region. Upon further analysis, however, it was revealed that further optimization of the transmission project was possible, such that comparable production cost savings could be obtained by employing just a subset of the original upgrades submitted by Oncor Electric Delivery, at a lower initial capital-cost investment. This was due to the fact that Oncor Electric Delivery's project set was designed to accommodate approximately 1100 MW of total generation in the area, however, only a portion of that generation has been constructed.

This report provides a stepwise analysis of Oncor Electric Delivery's transmission proposal and a proposed variation of the same project to relieve congestion in the Lamesa region.

2. Model Set up and Associated Congestion

Analysis of Oncor Electric Delivery's proposal was performed in UPLAN. This study was performed for the year 2014, as all CREZ facilities are expected to come into service by the end of the year 2013. A Benchmark Case was created from the 2009 Five-Year Transmission Plan case for the year 2014. It formed the foundation for an Upgraded Case with Oncor Electric Delivery's proposed transmission upgrades modeled into it. A third, Optimization Case, was created that utilized a subset of the upgrades employed in the Upgraded case.

Modeling of the Benchmark Case, the Upgraded case and the Optimization Case is described below, along with their respective impact on congestion in the Lamesa region.

2.1. Benchmark Case

Model Description –

The following transmission modifications were added to the 2009 Five-Year Transmission Plan case for the year 2014 to create the benchmark case:

- Removed Bluff Creek Switch (#1309) – China Grove Switch (#1318) 138 kV line upgrade such that its Rate B is 186 MVA from a higher rating of 326 MVA. This upgrade was part of the 2009 Five-Year Transmission Plan, but was not necessary at this time with the alternative set of upgrades proposed in this project.

- Rebuilt Lamesa (#1164) – Sparenburg (#1364) – Ackerly Lyntegar (#1363) – Ackerly (#1362) – Ackerly Vealmoor (#1356) 69 kV line, approximately 21.5 miles, using 959.6 kcmil ACSS/TW conductors such that Rate A/B/C is 197 MVA. Reconstruction of this line was already identified as a reliability project and was therefore included in the benchmark case.

Congestion Observed –

Table 1 lists the transmission elements overloaded, the contingencies resulting in the overloaded elements, and the corresponding annual percentage (of hours) of congestion in the Benchmark case.

Benchmark Case		
Transmission Overload	**Contingency**	**Annual Percentage Congestion (% Hrs)**
Ackerly Vealmoor (#1355 – #1356) 69/138-kV Autotransformer	Gunsight Wind Generator (#1360) – Getty Vealmoor Tap (#1395) 138 kV line	11.26
Bluff Creek Switch (#1309) – China Grove Switch (#1318) 138 kV line	Sun Switch (#1064) – Gold Switch (#1067) 138 kV line	4.98

Table 1: Congestion observed in the Benchmark case

2.2. Upgraded Case

Model Description –

The following transmission upgrades, proposed by Oncor Electric Delivery, highlighted in Figure 1, were added to the Benchmark Case to create the Upgraded Case:

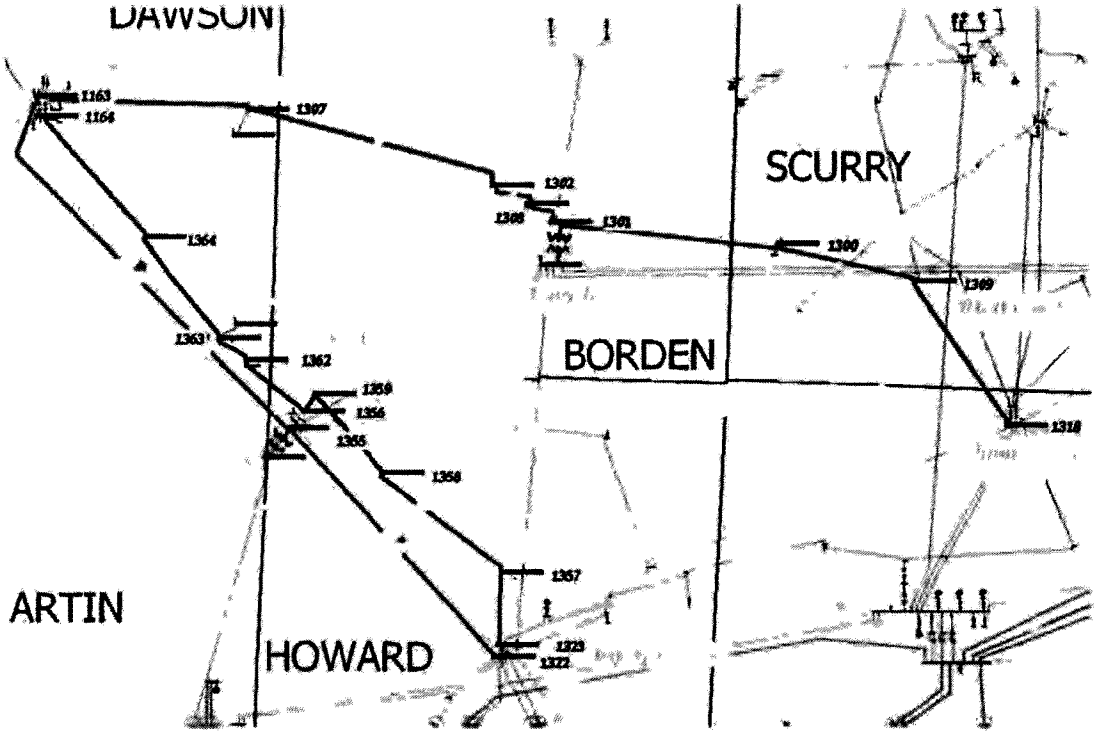


Figure I: Upgraded Case – Oncor Electric Delivery's RPG Project with CREZ Integration

- The 42.8 mile 138 kV line section, from Lamesa to Ackerly to Big Spring was rebuilt at 138 kV with double circuit structures using 959.6 kcmil ACSS/TW conductors, one operating at 69 kV and the other operating at 138 kV. The two circuits were constructed such that,

    - Ackerly Vealmoor (#1356) – Chevron Ackerly (#1359) – Knott (#1358) – Big Spring C.R.M.W.D. (#1357) – Big Spring (#1323), approximately 21.3 miles, 69 kV line operates at Rate A/B/C is 197 MVA.

    - Lamesa (#1163) – Ackerly Vealmoor (#1355) – Big Spring (#1322), approximately 42.8 miles, 138 kV line operates at Rate A/B/C is 394 MVA.

    Note: The Lamesa (#1164) – Sparenburg (#1364) – Ackerly Lyntegar (#1363) – Ackerly (#1362) – Ackerly Vealmoor (#1356) 69 kV line upgrade was already modeled into the benchmark case.

    Contingencies that correspond to this newly constructed double circuit were incorporated into the case accordingly.

- Rebuilt the Lamesa (#1163) – Key Lyntegar Coop (#1307) – Gail Lyntegar Coop (#1308) – Willow Valley Switching Station (#1301) – Exxon Sharon Ridge (#1300) – Bluff Creek (#1309) – China Grove (#1318) 138 kV line, (approximately 64.9 miles) with double circuit structures (with one circuit in place) using 959.6 kcmil ACSS/TW conductor, such that Rate A/B/C = 394 MVA.

- Added two 138 kV/345 kV, 600 MVA auto-transformers at the following interconnection points:
  - At Willow Valley from Longdraw.
  - At Ackerly Vealmoor (where line from Longdraw to Grelton crosses the rebuilt Lamesa – Big Spring line).

  The two auto-transformers represent the points of integration of Oncor Electric Delivery's proposed transmission upgrades with CREZ transmission system which was originally designed to accommodate approximately 1100 MW of wind generation capacity in the area.

Congestion Observed –

No significant congestion was identified in the Lamesa region with the aforementioned transmission upgrades proposed in the Upgraded case.

2.3. Optimization Case

Model Description –

The following transmission upgrades were added to the Benchmark Case. It should be noted that transmission upgrades included in the Optimization Case, highlighted in Figure II, are a subset of those presented in the Upgraded Case.

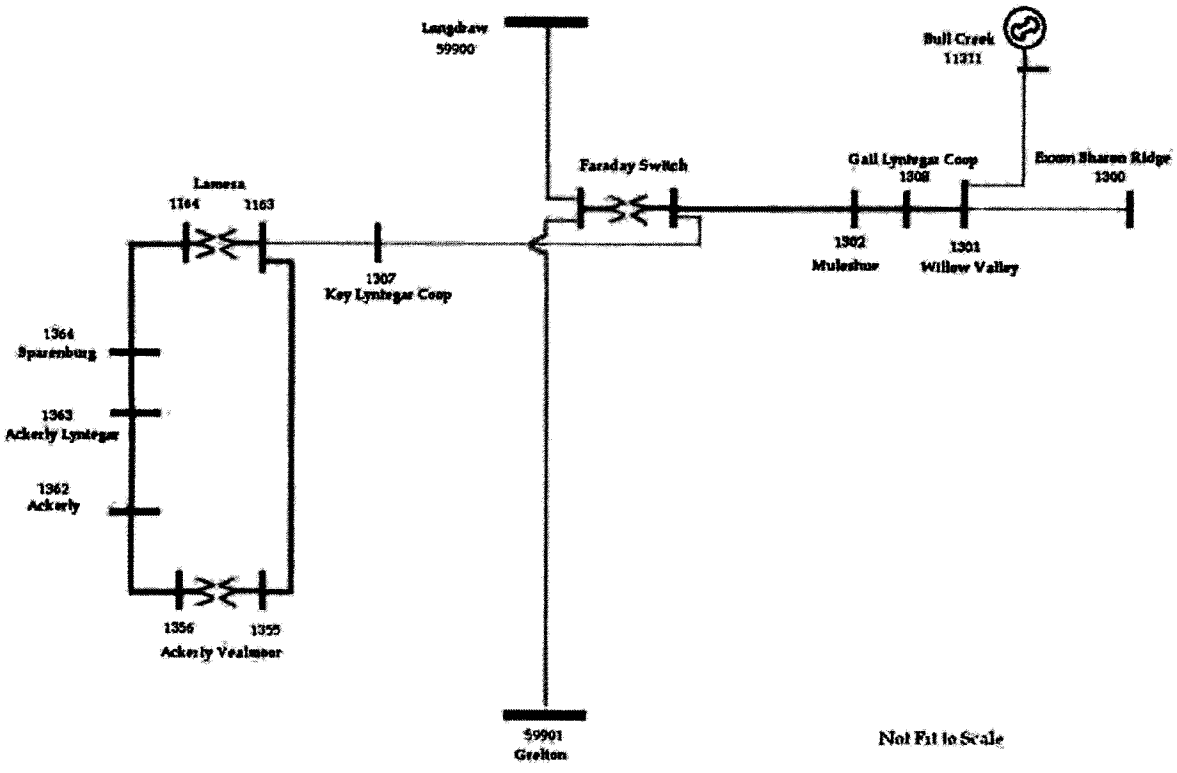


Figure II: Optimization Case – One-Line Diagram of Optimization Case

- The 21.5 mile 138 kV line section, from Lamesa to Ackerly Vealmoor was rebuilt at 138 kV with double circuit structures using 959.6 kcmil ACSS/TW conductors, one operating at 69 kV and the other operating at 138 kV. The two circuits are constructed such that,

    - The second circuit from Lamesa (#1163) to Ackerly Vealmoor (#1355), 138 kV line operates at Rate A/B/C equal to 394 MVA.

    Note: The Lamesa (#1164) – Sparenburg (#1364) – Ackerly Lyntegar (#1363) – Ackerly (#1362) – Ackerly Vealmoor (#1356) 69 kV line upgrade was already modeled into the benchmark case.

    Contingencies that correspond to this newly constructed double circuit were incorporated into the case accordingly.

- A new substation, labeled Faraday Switch, approximately 13 miles from Willow Valley (#1301) where Longdraw – Grelton 345 kV line and Willow Valley (#1301) – Lamesa (#1163) 138 kV line intersect was created. A 138 kV/345 kV, 600 MVA, auto-transformer was installed at Faraday Switch, including two line bays and one transformer bay on both the 138 kV and 345 kV sides respectively. The 345 kV and 138 kV buses are based on a ring bus configuration.

- Rebuilt Faraday Switch – Muleshue (#1302) – Gail (#1308) – Willow Valley (#1301) 138 kV line , approximately 13 miles, such that Rate A/B/C = 394 MVA.

Congestion Observed –

No significant congestion was identified in the Lamesa region with the aforementioned transmission upgrades proposed in the Optimization case.

3. Economic Analysis

A Transmission project is considered economic from a societal perspective if the production cost savings exceeds the first year annual revenue requirement of the project. The annual revenue requirement of the project is estimated as one sixth of the capital cost.

Table II summarizes capital costs for the Upgraded Case and the Optimization Case. It subsequently estimates their respective First Year Annual Revenue Requirement.

Transmission Projects	Capital Cost Estimate (M$)
Upgraded Case – Oncor Electric Delivery's submittal: *RPG project with CREZ integration*	107.07
ARR (M$) = (Capital Cost Estimate)/6	**17.85**
Optimization Case – Variation to Oncor Electric Delivery's proposal	38.44
ARR (M$) = (Capital Cost Estimate)/6	**6.41**

Table II: First Year Annual Revenue Requirement Estimate for the Proposed Transmission Projects

Production cost analysis was run in UPLAN for each case for the year 2014. Table III summarizes the annual production cost savings due to the proposed transmission projects.

Transmission Projects	Production Costs Savings (M$)
Upgraded Case – Oncor Electric Delivery's submittal: *RPG project with CREZ integration*	12.52
Optimization Case – Variation of Oncor Electric Delivery's proposal	12.07

Table III: Production Cost Savings for the Proposed Transmission Projects

The production cost savings for the Upgraded Case are slightly higher than that of the Optimization Case. However, based on the aforementioned criteria to test the economic viability of a transmission project, it was observed that the production cost savings generated from the Upgraded Case were not sufficient to meet its annual revenue requirement due to the magnitude of initial capital cost investment for the set of projects that were included in this case, while the savings for the Optimization Case exceeded the annual revenue requirement. Thus, the Upgraded Case did not pass the economic criteria where as the Optimization Case was economically justified.

4. Sensitivity Study

A similar analysis was performed to examine if the proposed upgrades were still economically viable with CREZ-level wind generation added to the UPLAN Optimization case. A revised UPLAN Optimization case was created to reflect these changes. This case was created by adding wind generation plants to the model in each of the CREZ zones such that each CREZ zone had at least the amount of wind generation capacity that was analyzed in Scenario 2 of the ERCOT CREZ Transmission Optimization Study. This case had a total of 18,873 MW of wind generation capacity including approximately 180 MW added at Long Draw. A revised benchmark case was also created as a reference in order to estimate the production cost savings generated through the Optimization Case. As in the preceding section, production cost analysis was run in UPLAN for the year 2014. Table IV summarizes the annual production cost savings in the revised Optimization case with CREZ-level wind generation:

Transmission Projects	Capital Cost Estimate (M$)	Production Costs Savings (M$)
Revised Optimization Case – CREZ Generation added to the Optimization Case	38.44	
ARR (M$) = (Capital Cost Estimate)/6	**6.41**	
Revised Optimization Case – CREZ Generation added to the Optimization Case		8.03

Table IV: Production Cost Savings for the Proposed Transmission Projects with CREZ-Level Wind Generation Included in the Case

The annual production cost savings generated from the revised Optimization case with CREZ-level wind generation exceeded its Estimated First Year Annual Revenue Requirement (ARR). Therefore the proposed Lamesa area upgrades in the Optimization case were economically viable in both the base scenario and the scenario with CREZ-level wind generation included.

5. Summary

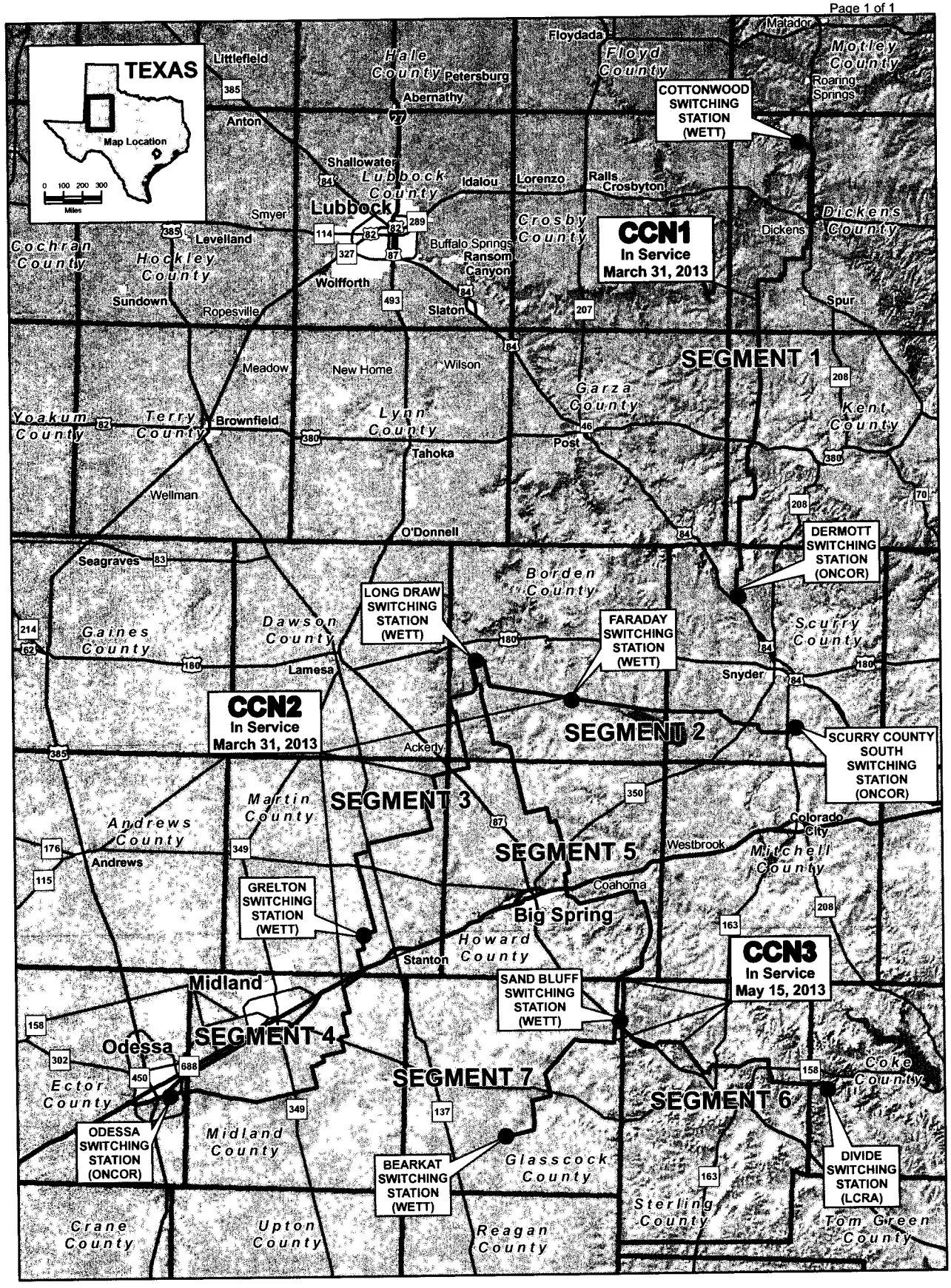
ERCOT reviewed Oncor Electric Delivery's proposal for relieving congestion in the Lamesa area. While the proposed set of projects was not economically justified (because it was designed for 1100 MW of wind generation in the area and only 180 MW of that has been realized), a subset of the projects (more closely matching what is needed for only 180 MW of generation) met the economic criteria, both under standard planning assumptions and with CREZ-level wind generation included.

ERCOT therefore recommends the following project set:

- Add a second circuit to be operated at 138 kV to the newly rebuilt Lamesa – Ackerly Vealmoor line
- Construct a new substation, Faraday Switch, approximately 13 miles from Willow Valley where the Longdraw – Grelton 345 kV line and Willow Valley – Lamesa 138 kV line intersect with a 138 kV/345 kV, 600 MVA, auto-transformer
- Rebuild Faraday Switch – Muleshue – Gail – Willow Valley 138 kV line such that Rate A/B/C is approximately 394 MVA using double circuit structures with one circuit in place.

6. Designated Providers of Transmission Facilities

In accordance with the ERCOT Regional Planning Group Charter and Procedures, ERCOT staff is to designate transmission providers for projects reviewed by the RPG. These providers can agree to provide or delegate the new facilities or inform ERCOT they do not elect to provide them. For the project scope recommended in this report, Oncor Electric Delivery and Wind Energy Transmission Texas are the designated providers for this project.



Legend

- Switching Station
- CCN1 Route
- CCN2 Route
- CCN3 Route
- Interstate
- U.S. Highway
- State Highway
- City / Town
- County Boundary

Mileage

Segment 1 - 76.2 miles	Segment 5 - 73.2 miles
Segment 2 - 50.4 miles	Segment 6 - 37.4 miles
Segment 3 - 57.5 miles	Segment 7 - 29.1 miles
Segment 4 - 50.7 miles	**Total - 374.5 miles**

N

0 5 10 15 20 25
Miles

State Plane Coordinate System
North American Datum 1983
Texas North Central
Linear Unit: Foot US

WETT — WIND ENERGY TRANSMISSION TEXAS, LLC

COMPETITIVE RENEWABLE ENERGY ZONES PROGRAM

PROJECT STUDY AREA

Prepared by R Clark 07-27-2012

\WETT\Segments 1-7\Maps\Seg 1-7 Project Study Area 072712.mxd

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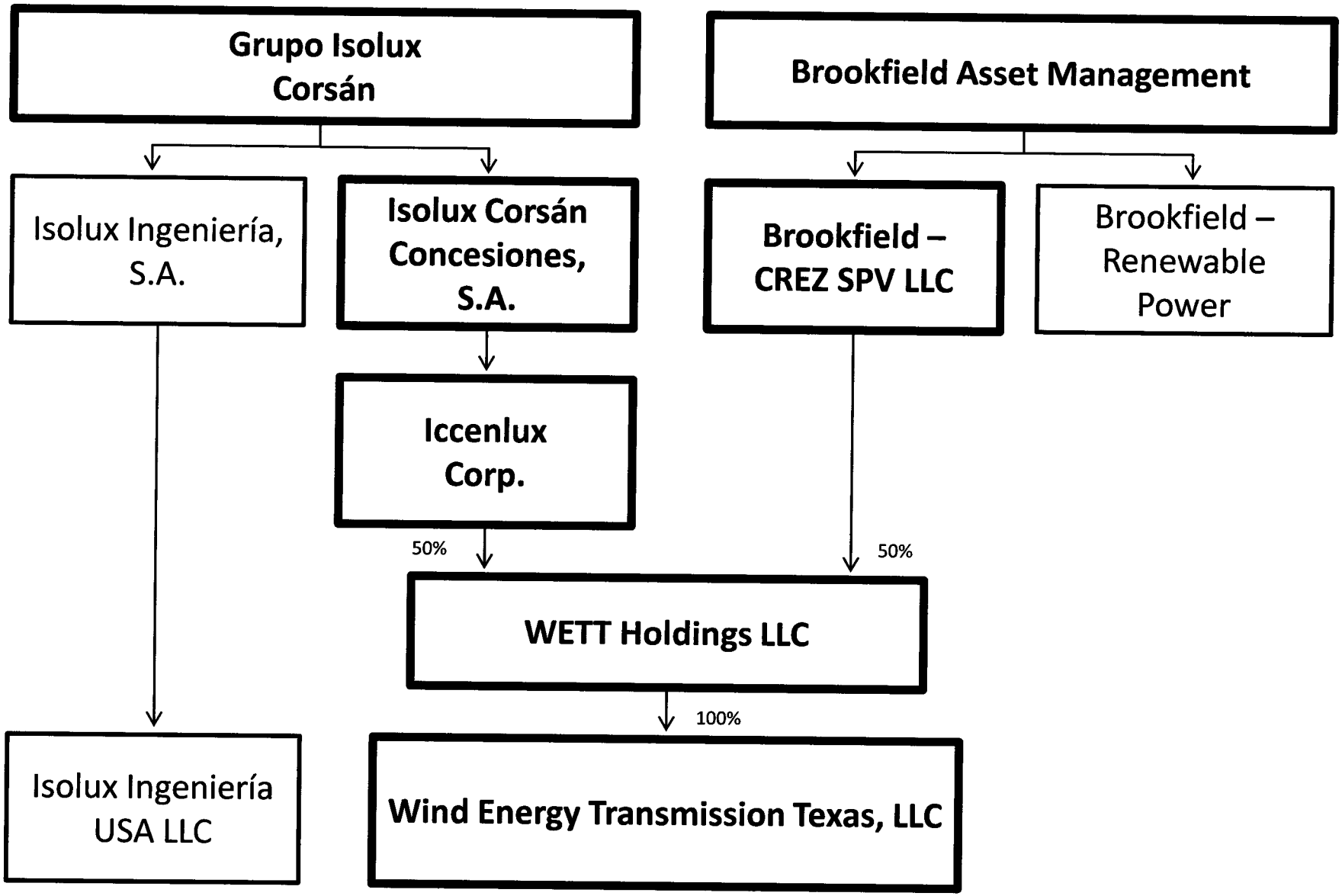
WETT 2011 Organization Chart



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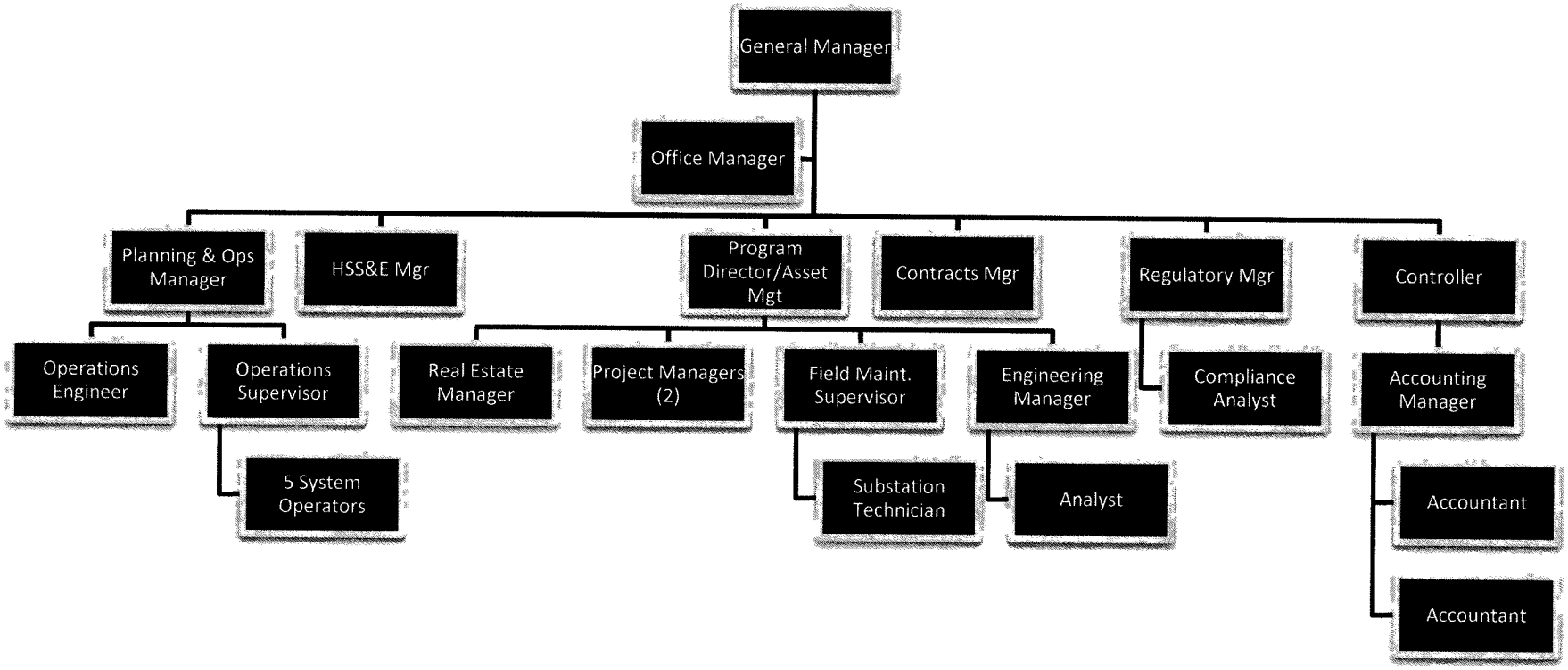
General Manager
Office Manager
Planning & Ops Manager
HSS&E Mgr
Program Director/Asset Mgt
Contracts Mgr
Regulatory Mgr
Controller
Operations Engineer
Operations Supervisor
Real Estate Manager
Project Managers (2)
Field Maint. Supervisor
Engineering Manager
Compliance Analyst
Accounting Manager
5 System Operators
Substation Technician
Analyst
Accountant
Accountant

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NON-EPC AFFILIATE EXPENSE SUMMARY

Aggregate Cost - Labor		2008	2009	2010	2011	2012	TOTAL
Affiliate Service	**Corporate Expense**						
Human Resources	HR and recruiting	$0	$810	$0	$0	$0	**$810**
Project Management	Finance, accounting, start-up support, communications, etc.	$0	$201,181	$214,369	$134,160	$46,390	**$596,100**
Advisory Services	Board Member	$70,662	$278,969	$287,101	$296,225	$134,022	**$1,066,979**
Financing	Refinancing Assistance	$0	$1,918	$25,782	$28,755	$0	**$56,454**
Regulatory Affairs	Regulatory Proceeding Assistance	$0	$14,393	$3,638	$0	$0	**$18,031**
	LABOR SUB TOTAL	**$70,662**	**$497,271**	**$530,889**	**$459,140**	**$180,412**	**$1,738,374**
Aggregate Cost - Expenses							
Affiliate Service	**Corporate Expense**						
Human Resources	HR and recruiting	$0	$0	$0	$0	$0	**$0**
Project Management	Finance, accounting, start-up support, communications, etc.	$0	$97,311	$82,080	$100,583	$20,921	**$300,896**
Advisory Services	Board Member	$111,541	$105,314	$2,423	$19,995	$14,629	**$253,903**
Financing	Refinancing Assistance	$0	$0	$16,199	$7,008	$0	**$23,207**
Regulatory Affairs	Regulatory Proceeding Assistance	$0	$38,891	$0	$0	$0	**$38,891**
	EXPENSE SUB TOTAL	**$111,541**	**$241,516**	**$100,702**	**$127,586**	**$35,550**	**$616,896**
	ISOLUX TOTALS	**$182,203**	**$738,787**	**$631,592**	**$586,726**	**$215,962**	**$2,355,270**

Aggregate Cost - Labor		2008	2009	2010	2011	2012	TOTAL
Affiliate Service	**Corporate Expense**						
Human Resources	HR and recruiting	$0	$0	$0	$4,176	$0	$4,176
Project Management	Finance, accounting, start-up support, communications, etc.	$0	$258,262	$103,991	$39,119	$0	$401,371
Advisory Services	Board Member	$44,470	$200,244	$300,000	$300,000	$167,013	$1,011,727
Financing	Refinancing Assistance	$0	$0	$38,064	$130,337	$0	$168,401
Regulatory Affairs	Regulatory Proceeding Assistance	$0	$0	$11,725	$0	$0	$11,725
	LABOR SUB TOTAL	**$44,470**	**$458,506**	**$453,779**	**$473,631**	**$167,013**	**$1,597,399**
Aggregate Cost - Expenses							
Affiliate Service	**Corporate Expense**						
Human Resources	HR and recruiting	$0	$0	$5,975	$288	$0	$6,263
Project Management	Finance, accounting, start-up support, communications, etc.	$0	$62,292	$38,915	$29,537	$0	$130,744
Advisory Services	Board Member	$0	$0	$65,148	$62,287	$50,771	$178,205
Financing	Refinancing Assistance	$0	$0	$0	$10,039	$0	$10,039
Regulatory Affairs	Regulatory Proceeding Assistance	$0	$0	$4,442	$0	$0	$4,442
	EXPENSE SUB TOTAL	**$0**	**$62,292**	**$114,479**	**$102,150**	**$50,771**	**$329,693**
	BROOKFIELD TOTALS	**$44,470**	**$520,798**	**$568,258**	**$575,782**	**$217,784**	**$1,927,092**

TOTAL NON-EPC AFFILIATE EXPENSE **$4,282,362**

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PUC DOCKET NO. 40606

APPLICATION OF WIND ENERGY TRANSMISSION TEXAS, LLC FOR AUTHORITY TO ESTABLISH INITIAL RATES AND TARIFFS	§ § § § §	BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS

DIRECT TESTIMONY OF

BRADLEY A. BALLARD, P.E., P.M.P.

ON BEHALF OF

WIND ENERGY TRANSMISSION TEXAS, LLC

AUGUST 2012

TABLE OF CONTENTS TO THE DIRECT TESTIMONY OF BRADLEY A. BALLARD, WITNESS FOR WIND ENERGY TRANSMISSION TEXAS, LLC

LIST OF EXHIBITS

EXECUTIVE SUMMARY

In my testimony I: (1) provide an overview of Wind Energy Transmission Texas, LLC's ("WETT") projects and associated costs; (2) explain how WETT manages the engineering, procurement, and construction ("EPC") of its physical plant; (3) describe WETT's non-affiliate contracts with third-party vendors; (4) present WETT's land acquisition costs; and (5) present WETT's maintenance expenses.

DIRECT TESTIMONY OF BRADLEY A. BALLARD

I. INTRODUCTION

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

A. My name is Bradley A. Ballard, P.E., PMP. I am employed by Wind Energy Transmission Texas, LLC ("WETT") as the Asset Management Director. My business address is 210 Barton Springs Road, Suite 150, Austin, TX 78704.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS THE ASSET MANAGEMENT DIRECTOR FOR WETT.

A. I am responsible for directing activities associated with land acquisition, licensing, project development, design, and construction of WETT's Competitive Renewable Energy Zones ("CREZ") projects. I am responsible for budgets and schedules associated with this infrastructure development. I support WETT's operational development, assist with Public Utility Commission of Texas ("PUC" or "Commission") reporting, oversee establishment of maintenance and asset management strategy models, and coordinate interconnection study requests. I also assist with financial, real estate, survey, environmental, and capital project EPC support and regularly report to the WETT Board of Managers and its General Manager, Wayne Morton. Additionally, I routinely interface with various utilities which may interconnect with WETT's system.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I hold a B.S. in Mechanical Engineering and an M.S. in Civil Engineering from The University of Texas at Austin. I am also a registered professional engineer in the State of Texas as well as a certified Project Management Professional. I spent two years