

**WIND ENERGY TRANSMISSION TEXAS, LLC
OTHER O&M EXPENSES LEAD/LAG DAYS
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE**

Line No.	Invoice Number (a)	Begin Date		End Date - Later of Due Date or Clear Date (c)	Amount (d)	Total (Lead)/Lag		Weighted Dollar	
		Midpoint of Service Period or Invoice Date (b)	Period or Invoice Date (b)			Days (e)	Days (f)		
92	808922	11/17/2011	11/17/2011	11/21/2011	489.24	(4.00)	(1,956.96)		
93	01J0122301088	10/16/2011	10/16/2011	11/22/2011	113.83	(37.00)	(4,211.71)		
94	35752	11/2/2011	11/2/2011	11/25/2011	3,508.75	(23.00)	(80,701.25)		
95	39164	11/9/2011	11/9/2011	12/9/2011	249.45	(30.00)	(7,483.50)		
96	DA-111011	11/3/2011	11/3/2011	11/22/2011	377.95	(19.00)	(7,181.05)		
97	136905.1	11/14/2011	11/14/2011	12/14/2011	17.58	(30.00)	(527.40)		
98	WM-111511	11/8/2011	11/8/2011	11/21/2011	1,146.09	(13.00)	(14,899.17)		
99	MM-111811	11/17/2011	11/17/2011	12/5/2011	153.42	(18.00)	(2,761.56)		
100	137150.1	11/18/2011	11/18/2011	12/16/2011	43.29	(28.00)	(1,212.12)		
101	41568679	1/3/2012	1/3/2012	12/19/2011	12,178.13	15.00	182,671.95		
102	4543249	12/5/2011	12/5/2011	12/19/2011	1,318.51	(14.00)	(18,459.14)		
103	HW-112111	11/16/2011	11/16/2011	12/6/2011	208.12	(20.00)	(4,162.40)		
104	35940	11/17/2011	11/17/2011	12/5/2011	3,272.50	(18.00)	(58,905.00)		
105	JY-112211	11/11/2011	11/11/2011	12/27/2011	1,528.60	(46.00)	(70,315.60)		
106	114-150-CU-Dec. 2011	12/16/2011	12/16/2011	12/1/2011	10,863.52	15.00	162,952.80		
107	36031	11/24/2011	11/24/2011	12/12/2011	3,831.50	(18.00)	(68,967.00)		
108	27865175	11/15/2011	11/15/2011	12/23/2011	3,450.51	(38.00)	(131,119.38)		
109	WM-120111	11/30/2011	11/30/2011	12/16/2011	20.00	(16.00)	(320.00)		
110	2011-0419	11/16/2011	11/16/2011	12/29/2011	5,000.00	(43.00)	(215,000.00)		
111	MM120211	12/1/2011	12/1/2011	12/13/2011	114.36	(12.00)	(1,372.32)		
112	821279	10/18/2011	10/18/2011	12/16/2011	898.73	(59.00)	(53,025.07)		
113	WM120211	12/2/2011	12/2/2011	12/16/2011	530.19	(14.00)	(7,422.66)		
114	DA-113011	11/29/2011	11/29/2011	12/13/2011	495.01	(14.00)	(6,930.14)		

**WIND ENERGY TRANSMISSION TEXAS, LLC
OTHER O&M EXPENSES LEAD/LAG DAYS
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE**

Line No.	Invoice Number	Begin Date		End Date - Later of Due Date or Clear Date	Amount	Total (Lead)/Lag		Weighted Dollar	
		Midpoint of Service Period or Invoice Date	(b)			Days	(e)	Days	(f)
115	WM_121211	12/10/2011		12/16/2011	829.72		(6.00)		(4,978.32)
116	137740.1	12/9/2011		1/6/2012	236.80		(28.00)		(6,630.40)
117	WM121211	12/11/2011		12/16/2011	1,341.04		(15.00)		(20,115.60)
118	JG-121311	12/8/2011		12/19/2011	577.68		(11.00)		(6,354.48)
119	2311	12/14/2011		12/29/2011	135.31		(15.00)		(2,029.65)
120	CE-121511	10/17/2011		12/27/2011	80.60		(71.00)		(5,722.60)
121	DA-120511	12/14/2011		12/23/2011	600.93		(9.00)		(5,408.37)
122	26335005	1/16/2012		12/30/2011	15,542.21		17.00		264,217.57
123	138441	12/16/2011		1/13/2012	308.69		(28.00)		(8,643.32)
124	138441.2	12/16/2011		1/13/2012	38.97		(28.00)		(1,091.16)
125	BB-121511	12/3/2011		1/5/2012	1,181.15		(33.00)		(38,977.95)
126	404801	12/15/2011		1/13/2012	84.48		(29.00)		(2,449.92)
127	137853	12/6/2011		1/5/2012	43.29		(30.00)		(1,298.70)
128	WM122111	12/21/2011		1/30/2012	376.66		(40.00)		(15,066.40)
129	138441.1	12/21/2011		1/20/2012	319.47		(30.00)		(9,584.10)
130	HW-122111	12/18/2011		12/28/2011	859.74		(10.00)		(8,597.40)
131	WM-122111	12/21/2011		12/28/2011	3,126.89		(7.00)		(21,888.23)
132	36335	12/20/2011		1/23/2012	1,662.50		(34.00)		(56,525.00)
133	2011 W2 & 1099	12/30/2011		1/18/2012	152.31		(19.00)		(2,893.89)
134	123635	1/16/2012		1/31/2012	87.30		(15.00)		(1,309.50)
135	36354	12/8/2011		1/23/2012	719.84		(46.00)		(33,112.64)
136	19193	1/16/2012		2/13/2012	8,665.00		(28.00)		(242,620.00)
137	16803225	1/8/2012		1/12/2012	10,141.21		(4.00)		(40,564.84)

**WIND ENERGY TRANSMISSION TEXAS, LLC
OTHER O&M EXPENSES LEAD/LAG DAYS
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE**

Line No.	Invoice Number	Begin Date		End Date - Later of Due Date or Clear Date	Amount	Total (Lead)/Lag		Weighted Dollar Days
		Midpoint of Service Period or Invoice Date	(b)			(c)	(d)	
138	DA-011612	1/11/2012	(a)	1/19/2012	755.80	(8.00)	(f)	(6,046.40)
139	JH011712	12/27/2011		1/27/2012	50.00	(31.00)		(1,550.00)
140	CW23243	1/17/2012		1/31/2012	2,754.83	(14.00)		(38,567.62)
141	MM011912	1/18/2012		2/21/2012	17.00	(34.00)		(578.00)
142	HW-012312	1/14/2012		2/23/2012	1,191.27	(40.00)		(47,650.80)
143	BB-012311	1/14/2012		1/31/2012	915.91	(17.00)		(15,570.47)
144	C0026729014	11/16/2011		2/10/2012	16,471.72	(86.00)		(1,416,567.92)
145	CE020612	7/26/2012		2/21/2012	315.99	156.00		49,294.44
146	DA020612	2/3/2012		2/13/2012	632.67	(10.00)		(6,326.70)
147	408874	2/3/2012		3/2/2012	152.95	(28.00)		(4,282.60)
148	231704	2/16/2012		3/16/2012	362.64	(29.00)		(10,516.56)
149	HW-02172012	2/16/2012		2/29/2012	313.12	(13.00)		(4,070.56)
150	MM022012	2/11/2012		3/1/2012	369.03	(19.00)		(7,011.57)
151	WM-022312	2/13/2012		2/24/2012	751.12	(11.00)		(8,262.32)
152	6700655817	2/10/2012		3/20/2012	1,370.70	(39.00)		(53,457.30)
153	28712867	2/14/2012		3/26/2012	3,519.78	(41.00)		(144,310.98)
154	124149	3/16/2012		4/9/2012	53.58	(24.00)		(1,285.92)
155	11994216	4/16/2012		3/30/2012	274.66	17.00		4,669.22
156	2012-0101	1/31/2012		4/2/2012	10,165.47	(62.00)		(630,259.14)
157	MM031912	3/11/2012		3/29/2012	97.89	(18.00)		(1,762.02)
158	WM-032612	3/5/2012		3/27/2012	1,836.88	(22.00)		(40,411.36)
159	PB032612	3/17/2012		3/28/2012	620.37	(11.00)		(6,824.07)
160								

WIND ENERGY TRANSMISSION TEXAS, LLC
OTHER O&M EXPENSES LEAD/LAG DAYS
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE

Line No.	Invoice Number	Begin Date		End Date - Later of Due Date or Clear Date	Amount	Total (Lead)/Lag		Weighted Dollar Days
		Midpoint of Service Period or Invoice Date	(b)			Days	(e)	
161	(a)			(c)	(d)		(f)	
162	Total				\$ 298,207.18		(20.35)	\$ (6,069,331.31)
163								
164								

Source: Q&M - Sample Invoices.xlsx

WIND ENERGY TRANSMISSION TEXAS, LLC
AFFILIATE TRAS ACTIONS
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE

Line No.	Affiliate (a)	(Lead)/Lag Days (b)	Reference (c)
1	BROOKFIELD	(45.83)	WP / II-B-9 / 5-1
2	ICCENLUX	(45.83)	WP / II-B-9 / 5-2
3			
4	Average	<u>(45.83)</u>	

**WIND ENERGY TRANSMISSION TEXAS, LLC
AFFILIATE TRAS ACTIONS BETWEEN WETT AND BROOKFIELD
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE**

Line No.	Beginning of Month (a)	End of Month (b)	Midpoint (c)	Billing Date (d)	Due Date (1) (e)	(Lead) / Lag Days (f)
1	4/1/2011	4/30/2011	4/15/11	5/2/2011	6/1/2011	(46.50)
2	5/1/2011	5/31/2011	5/16/11	6/1/2011	7/1/2011	(46.00)
3	6/1/2011	6/30/2011	6/15/11	7/1/2011	7/29/2011	(43.50)
4	7/1/2011	7/31/2011	7/16/11	8/1/2011	8/31/2011	(46.00)
5	8/1/2011	8/31/2011	8/16/11	9/1/2011	9/30/2011	(45.00)
6	9/1/2011	9/30/2011	9/15/11	10/3/2011	11/2/2011	(47.50)
7	10/1/2011	10/31/2011	10/16/11	11/1/2011	12/1/2011	(46.00)
8	11/1/2011	11/30/2011	11/15/11	12/1/2011	12/30/2011	(44.50)
9	12/1/2011	12/31/2011	12/16/11	1/3/2012	2/2/2012	(48.00)
10	1/1/2012	1/31/2012	1/16/12	2/1/2012	3/2/2012	(46.00)
11	2/1/2012	2/29/2012	2/15/12	3/1/2012	3/30/2012	(44.00)
12	3/1/2012	3/31/2012	3/16/12	4/2/2012	5/2/2012	(47.00)
13						
14	Total					
15						(45.83)

Sources:

17 Affiliate Services Agreement between Brookfield and WETT.pdf

**WIND ENERGY TRANSMISSION TEXAS, LLC
AFFILIATE TRASCTIONS BETWEEN WETT AND ICCENLUX
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE**

Line No.	Beginning of Month (a)	End of Month (b)	Midpoint (c)	Billing Date (d)	Due Date (1) (e)	(Lead) / Lag Days (f)
1	4/1/2011	4/30/2011	4/15/11	5/2/2011	6/1/2011	(46.50)
2	5/1/2011	5/31/2011	5/16/11	6/1/2011	7/1/2011	(46.00)
3	6/1/2011	6/30/2011	6/15/11	7/1/2011	7/29/2011	(43.50)
4	7/1/2011	7/31/2011	7/16/11	8/1/2011	8/31/2011	(46.00)
5	8/1/2011	8/31/2011	8/16/11	9/1/2011	9/30/2011	(45.00)
6	9/1/2011	9/30/2011	9/15/11	10/3/2011	11/2/2011	(47.50)
7	10/1/2011	10/31/2011	10/16/11	11/1/2011	12/1/2011	(46.00)
8	11/1/2011	11/30/2011	11/15/11	12/1/2011	12/30/2011	(44.50)
9	12/1/2011	12/31/2011	12/16/11	1/3/2012	2/2/2012	(48.00)
10	1/1/2012	1/31/2012	1/16/12	2/1/2012	3/2/2012	(46.00)
11	2/1/2012	2/29/2012	2/15/12	3/1/2012	3/30/2012	(44.00)
12	3/1/2012	3/31/2012	3/16/12	4/2/2012	5/2/2012	(47.00)
13						
14	Total					(45.83)
15						

Sources:

17 Affiliate Services Agreement between Iccenlux and WETT.pdf

**WIND ENERGY TRANSMISSION TEXAS, LLC
FEDERAL INCOME TAX
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE**

Line No.	Actual Payment Date	Mid-Year	(Lead)/Lag	Statutory % of Total Taxes for Year	Weighted Days
	(a)	(b)	(c)	(d)	(e)
1	4/15/2011	7/2/2011	78.50	25.00%	19.63
2					
3	6/15/2011	7/2/2011	17.50	25.00%	4.38
4					
5	9/15/2011	7/2/2011	(74.50)	25.00%	(18.63)
6					
7	12/15/2011	7/2/2011	(165.50)	25.00%	(41.38)
8					
9	Total				(36.00)
10					
11	Source:	Instructions for Form 1120.pdf, page 4, section: Estimated Tax Payments			

WIND ENERGY TRANSMISSION TEXAS, LLC
PAYROLL TAXES
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE

Line No.	Pay Period (a)	Pay Period Begin Date (1) (b)	Pay Period End Date (1) (c)	Midpoint of Pay Period (d)	ADP Withdrawal Date (2) (e)	Total (Lead)/Lag (f)
1	1	4/1/2011	4/15/2011	4/8/2011	4/14/2011	(6.00)
2	2	4/16/2011	4/30/2011	4/23/2011	4/28/2011	(5.00)
3	3	5/1/2011	5/15/2011	5/8/2011	5/12/2011	(4.00)
4	4	5/16/2011	5/31/2011	5/23/2011	5/27/2011	(3.50)
5	5	6/1/2011	6/15/2011	6/8/2011	6/14/2011	(6.00)
6	6	6/16/2011	6/30/2011	6/23/2011	6/29/2011	(6.00)
7	7	7/1/2011	7/15/2011	7/8/2011	7/14/2011	(6.00)
8	8	7/16/2011	7/31/2011	7/23/2011	7/28/2011	(4.50)
9	9	8/1/2011	8/15/2011	8/8/2011	8/12/2011	(4.00)
10	10	8/16/2011	8/31/2011	8/23/2011	8/30/2011	(6.50)
11	11	9/1/2011	9/15/2011	9/8/2011	9/14/2011	(6.00)
12	12	9/16/2011	9/30/2011	9/23/2011	9/29/2011	(6.00)
13	13	10/1/2011	10/15/2011	10/8/2011	10/13/2011	(5.00)
14	14	10/16/2011	10/31/2011	10/23/2011	10/28/2011	(4.50)
15	15	11/1/2011	11/15/2011	11/8/2011	11/14/2011	(6.00)
16	16	11/16/2011	11/30/2011	11/23/2011	11/29/2011	(6.00)
17	17	12/1/2011	12/15/2011	12/8/2011	12/14/2011	(6.00)
18	18	12/16/2011	12/31/2011	12/23/2011	12/29/2011	(5.50)
19	19	1/1/2012	1/15/2012	1/8/2012	1/12/2012	(4.00)
20	20	1/16/2012	1/31/2012	1/23/2012	1/30/2012	(6.50)
21	21	2/1/2012	2/15/2012	2/8/2012	2/14/2012	(6.00)
22	22	2/16/2012	2/29/2012	2/22/2012	2/28/2012	(5.50)
23	23	3/1/2012	3/15/2012	3/8/2012	3/14/2012	(6.00)
24	24	3/16/2012	3/31/2012	3/23/2012	3/29/2012	(5.50)
25						
26	Average					(5.42)
27						
28	Sources:					
29	(1) WP/II-B-9/2-1					
30	(2) WP/II-B-9/2-3					

**WIND ENERGY TRANSMISSION TEXAS, LLC
STATE FRANCHISE TAXES
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE**

Line No.	Month/ Year	Mid Month	Payment Date	(Lead)/Lag Days
	(a)	(b)	(c)	(d)
1	4/1/2011	15-Apr-11	16-May-11	(31.00)
2	5/1/2011	15-May-11	16-May-11	(1.00)
3	6/1/2011	15-Jun-11	16-May-11	30.00
4	7/1/2011	15-Jul-11	16-May-11	60.00
5	8/1/2011	15-Aug-11	16-May-11	91.00
6	9/1/2011	15-Sep-11	16-May-11	122.00
7	10/1/2011	15-Oct-11	16-May-11	152.00
8	11/1/2011	15-Nov-11	16-May-11	183.00
9	12/1/2011	15-Dec-11	16-May-11	213.00
10	1/1/2012	15-Jan-12	15-May-12	(121.00)
11	2/1/2012	14-Feb-12	15-May-12	(91.00)
12	3/1/2012	15-Mar-12	15-May-12	(61.00)
13				
14	Average			45.50
15				

Sources:

- 17 [Taxes - 2011 TX State Franchise Tax Blank Form.pdf](#)
18 [Taxes - 2012 TX State Franchise Tax Blank Form.pdf](#)

**WIND ENERGY TRANSMISSION TEXAS, LLC
AD VALOREM TAXES
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE**

Line No.	Jurisdiction (a)	Payment Date (b)	Tax Year (c)	Mid-Year (d)	(Lead)/Lag (e)
1	Borden County	1/31/12	2011	7/2/2011	(212.50)
2	Coke County	1/31/12	2011	7/2/2011	(212.50)
3	Dickens County	1/31/12	2011	7/2/2011	(212.50)
4	Ector County	1/31/12	2011	7/2/2011	(212.50)
5	Glasscock County	1/31/12	2011	7/2/2011	(212.50)
6	Howard County	1/31/12	2011	7/2/2011	(212.50)
7	Kent County	1/31/12	2011	7/2/2011	(212.50)
8	Martin County	1/31/12	2011	7/2/2011	(212.50)
9	Midland County	1/31/12	2011	7/2/2011	(212.50)
10	Mitchell County	1/31/12	2011	7/2/2011	(212.50)
11	Scurry County	1/31/12	2011	7/2/2011	(212.50)
12	Sterling County	1/31/12	2011	7/2/2011	(212.50)
13					
14					
15		Average			(212.50)
16					
17	Source:	<u>WETT Segment Map (01597568).pdf</u>			

**WIND ENERGY TRANSMISSION TEXAS, LLC
AVERAGE DAILY BANK BALANCES
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE**

Line No.	Month/Year (a)	Average Daily Balance (b)
1	Nov-10	489,686
2	Dec-10	836,090
3	Jan-11	795,287
4	Feb-11	1,167,574
5	Mar-11	791,428
6	Apr-11	711,591
7	May-11	1,020,031
8	Jun-11	693,972
9	Jul-11	1,364,884
10	Aug-11	1,374,601
11	Sep-11	893,134
12	Oct-11	1,327,911
13		
14		
15	Average Bank Balances	\$ 955,516
16		
17	Sources:	
18	Bank Balances.xlsx	
19	Bank Account Listing.docx	
20	Bank Smts Nov 2010.pdf	
21	Bank Smts Dec 2010.pdf	
22	Bank Smts Jan 2011.pdf	
23	Bank Smts Feb 2011.pdf	
24	Bank Smts Mar 2011.pdf	
25	Bank Smts Apr 2011.pdf	
26	Bank Smts May 2011.pdf	
27	Bank Smts Jun 2011.pdf	
28	Bank Smts July 2011.pdf	
29	Bank Smts Aug 2011.pdf	
30	Bank Smts Sept 2011.pdf	
31	Bank Smts Oct 2011.pdf	

WIND ENERGY TRANSMISSION TEXAS, LLC
AMORTIZATION OF PREPAYMENTS
FOR THE TEST YEAR ENDED MARCH 31, 2012
SPONSOR: JAY JOYCE

Line No.	Description	Account No.	Twelve-Month Amortization
	(a)	(b)	(c)
1	O&M - Amortization of Prepayments	Various	\$ 391,796
2			
3	Total		<u>\$ 391,796</u>
4			
5	Source:		
6	<u>Amort of Prepayments.xlsx</u>		

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PUC DOCKET NO. 40606

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

DIRECT TESTIMONY OF

GREGORY S. WILSON

ON BEHALF OF

WIND ENERGY TRANSMISSION TEXAS, LLC

AUGUST 2012

**TABLE OF CONTENTS TO THE DIRECT TESTIMONY OF GREGORY S.
WILSON WITNESS FOR WIND ENERGY TRANSMISSION TEXAS, LLC**

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LIST OF EXHIBITS

Exhibit GSW-1	Resume of Gregory S. Wilson
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1

2

5

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15

21

1 **DIRECT TESTIMONY OF GREGORY S. WILSON**

2 **I. INTRODUCTION AND QUALIFICATIONS**

3 **Q. PLEASE STATE YOUR NAME, OCCUPATION, BUSINESS**
4 **AFFILIATION, AND BUSINESS ADDRESS.**

5 A. My name is Gregory S. Wilson. I am a consulting actuary specializing in
6 the area of property-casualty actuarial matters. I am a Vice President and
7 Principal at Lewis & Ellis, Inc. ("L&E"). My business address is 2929 N. Central
8 Expressway, Suite 200, Richardson, TX 75080.

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

10 A. I am presenting testimony on behalf of Wind Energy Transmission Texas,
11 LLC ("WETT" or the "Company").

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
13 **PROFESSIONAL EXPERIENCE.**

14 A. I received a Bachelor of Science degree in applied mathematics from the
15 University of Rhode Island in 1976.

16 In 1992, I became a Fellow of the Casualty Actuarial Society ("FCAS"),
17 having attained that designation by completing all of the required examinations. I
18 am also a member of the American Academy of Actuaries.

19 I was employed by Amica Mutual Insurance Company until 1994. Most
20 recently, I was a vice president, serving as chief actuary and supervising the
21 actuarial department.

1 In 1994, I joined PricewaterhouseCoopers, LLP, where I provided actuarial
2 consulting services to a wide variety of clients, including insurance companies,
3 state insurance regulators, self-insured entities, and non-insurance corporations.

4 I joined L&E in 2001, where I continue to provide actuarial consulting
5 services to a variety of clients. I have testified before the Public Utility
6 Commission of Texas ("PUC" or the "Commission") in Docket Nos. 16705,
7 33309, 33310, 37695 and 39896, and submitted written testimony in Docket Nos.
8 20150, 22356, 30123, 34800 and 37364. I have also testified on self-insurance
9 issues before the Missouri Public Service Commission in conjunction with a
10 utility rate filing. My resume is attached as Exhibit GSW-1.

11 **Q. WHAT IS AN ACTUARY?**

12 A. This term can be defined in terms of required education and in terms of the
13 functions an actuary usually performs. The highest designation a property-
14 casualty actuary can have is FCAS. This designation is obtained through a
15 rigorous process involving separate examinations on topics such as mathematics,
16 probability and statistics, theory of credibility, theory of risk and insurance,
17 economics, insurance coverages, ratemaking, loss reserving, insurance accounting
18 and regulation, and individual risk rating.

19 An actuary estimates the financial implications of future contingent events.
20 In this particular case, my analysis of the future financial consequences is
21 performed in accordance with the Actuarial Standards of Practice, as well as the
22 Statement of Principles Regarding Property and Casualty Loss and Loss
23 Adjustment Expense Reserves adopted by the Casualty Actuarial Society.

1 **II. PURPOSE AND SUMMARY OF TESTIMONY**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A. The general purpose of my testimony is to offer an independent opinion of
4 the reasonableness of the approach WETT proposes to take with respect to
5 protecting its Transmission assets through self-insurance. The specific purpose of
6 my testimony is: (1) to estimate the annual accruals needed to provide for the
7 expected property losses incurred by WETT for the losses that are not covered by
8 insurance and for which Section 36.064 of the Texas Public Utility Regulatory
9 Act¹ ("PURA") permits a provision to be made; and (2) to estimate a target
10 amount to accumulate in the self-insurance reserve along with a recommended
11 time period over which these accruals are to be made.

12 My testimony also includes a cost benefit analysis demonstrating that self-
13 insurance at the levels proposed by WETT is a lower cost alternative to
14 purchasing insurance and is in the public interest, consistent with P.U.C. Subst.
15 Rule 25.231(b)(1)(G).

16 **Q. WHAT DOES THIS RULE PROVIDE?**

17 A. This rule provides as follows:

18 Accruals credited to reserve accounts for self-insurance under a
19 plan requested by an electric utility and approved by the
20 commission. The commission shall consider approval of a self
21 insurance plan in a rate case in which expenses or rate base
22 treatment are requested for such a plan. For the purposes of this
23 section, a self insurance plan is a plan providing for accruals to be
24 credited to reserve accounts. The reserve accounts are to be
25 charged with property and liability losses which occur, and which
26 could not have been reasonably anticipated and included in

¹ TEX. UTIL. CODE ANN. §§ 11.001–66.017 (Vernon 2005 and Supp. 2006).

1 operating and maintenance expenses, and are not paid or
2 reimbursed by commercial insurance. The commission will
3 approve a self-insurance plan to the extent it finds it to be in the
4 public interest. In order to establish that the plan is in the public
5 interest, the electric utility must present a cost benefit analysis
6 performed by a qualified independent insurance consultant who
7 demonstrates that, with consideration of all costs, self-insurance is
8 a lower-cost alternative than commercial insurance and the
9 ratepayers will receive the benefits of the self insurance plan. The
10 cost benefit analysis shall present a detailed analysis of the
11 appropriate limits of self insurance, an analysis of the appropriate
12 annual accruals to build a reserve account for self insurance, and
13 the level at which further accruals should be decreased or
14 terminated.

15 **Q. HAS THE COMMISSION ESTABLISHED A PROPERTY INSURANCE**
16 **EXPENSE AND RESERVE TARGET FOR WETT?**

17 A. No. WETT is a new entity and this is the first rate filing it has made.

18 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

19 A. I propose that WETT establish a self-insurance plan that will allow it to
20 establish a self-insurance reserve to pay losses which could not be reasonably
21 anticipated and included in operating and maintenance expense and are not
22 reimbursed by commercial insurance. I recommend that WETT use the reserve to
23 pay for any claim whose value is greater than \$25,000. Any claim that is less than
24 \$25,000 should be paid from expenses. I recommend that WETT accrue \$2
25 million annually and set a target property insurance reserve of \$10 million. The
26 accrual is composed of two elements. The first is \$1 million to provide for
27 average annual expected losses from all causes. The second is \$1 million
28 annually for ten years to achieve the target reserve of \$10 million.

1 **III. SELF-INSURANCE RESERVE BACKGROUND**

2 **Q. PLEASE STATE THE PURPOSE OF A SELF-INSURANCE RESERVE**
3 **AND EXPLAIN HOW IT WOULD OPERATE.**

4 A. The purpose of WETT's self-insurance reserve would be to provide for
5 occurrences resulting in transmission and other property loss of at least \$25,000.

6 Each year, an amount of money would be accrued in the self-insurance
7 reserve to provide for losses expected to occur in the calendar year. In addition to
8 this amount, an accrual would be made to raise the self-insurance reserve to a
9 level that would serve as a financial buffer in the event that actual losses exceed
10 the accrued annual expected loss amount. Accruals would be made to this reserve
11 until it reaches the recommended target level, at which point contributions to the
12 reserve would reduce to the lower of annual expected losses or actual losses.

13 **Q. WHAT HAPPENS IF THE ANNUAL AGGREGATE LOSSES EXCEED**
14 **THE AMOUNT ACCRUED IN ANY GIVEN YEAR?**

15 A. If the annual aggregate losses exceed the amount accrued in any given
16 year, the remaining reserve would be drawn upon to provide the needed additional
17 amounts. If the annual aggregate losses are less than the amount accrued for that
18 purpose, the excess annual accrual would remain in the self-insurance reserve,
19 serving to bring the self-insurance reserve closer to its target level.

20 **Q. WHY IS IT NECESSARY TO BUILD THE SELF-INSURANCE RESERVE**
21 **UP TO A CERTAIN TARGETED LEVEL?**

22 A. The range of expected losses covered by the self-insurance reserve varies
23 considerably from year to year, as will the actual losses that WETT will incur.

1 The self-insurance reserve needs to be sufficient to cover the losses for each year,
2 knowing that any given year's actual losses may be very different from the
3 average expected losses. Hence, a reserve large enough to provide for some
4 variation in the annual aggregate amount of losses is needed.

5 **Q. IS THE SELF-INSURANCE PROGRAM OF WETT IN THE**
6 **CUSTOMERS' INTEREST?**

7 A. Yes. The self-insurance program of WETT is in the best interest of the
8 Company's customers. As will be shown later, it provides a lower cost alternative
9 than purchasing insurance for all losses. At the same time, it provides for utility
10 rate stability by providing for a self-insurance reserve to absorb the variation in
11 the experience from the expected annual losses so that customers' rates will not
12 reflect dramatically different self-insurance losses from one year to the next.

13 **IV. ANNUAL EXPECTED LOSSES**

14 **Q. HOW MUCH MONEY SHOULD WETT ACCRUE ANNUALLY IN THE**
15 **SELF-INSURANCE RESERVE TO COVER THE EXPECTED LOSSES**
16 **FOR EACH YEAR?**

17 A. The amount I recommend to be accrued annually for expected losses for
18 the self-insurance reserve is \$1 million. This amount is an estimate of the
19 expected value of the annual losses incurred by WETT from all losses.

20 **Q. HOW WAS THE ANNUAL EXPECTED LOSS ACCRUAL OF \$1**
21 **MILLION CALCULATED?**

22 A. Because WETT is a new entity, there is no historical loss experience to use
23 to estimate the average annual loss. The only information available is an

1 insurance quote that WETT received to provide all risk coverage of \$10 million
2 over a \$2.5 million deductible. The annual premium quoted for this policy is \$2
3 million. Most insurance companies estimate that between 60% and 70% of the
4 premium will be used to pay losses. In addition, I believe that this rate quote
5 includes a fairly large risk loading, as the insurance market perceives there to be a
6 large risk of loss for electric utilities in Texas. The risk loading could be as high
7 as 50%. Thus, we believe that the insurer offering this coverage may estimate the
8 annual losses at \$600,000 to \$700,000. To be conservative I believe the expected
9 losses for this policy should be accrued at \$500,000.

10 However, this does not include the deductible of \$2.5 million, which
11 should also be considered in the calculation of the accrual. I believe that adding
12 the deductible of \$2.5 million to the expected loss will result in an accrual that is
13 too high. I believe a conservative approach is more appropriate in light of the
14 uncertainties. I recommend that another \$500,000 be added to the accrual to
15 reflect a portion of the deductible. This produces a total accrual for the average
16 annual loss of \$1 million.

17 **V. TARGET RESERVE**

18 **Q. WHAT IS THE TARGET AMOUNT OF MONEY NEEDED TO PROVIDE**
19 **FOR AN ADEQUATE SELF-INSURANCE RESERVE?**

20 A. The recommended total target amount of the reserve is \$10 million. The
21 Company needs to provide for anticipated transmission and other property losses
22 in order to ensure safe, reliable, and adequate service to ratepayers.

1 **Q. WHY IS IT NECESSARY TO ACCRUE MORE TO THE SELF-**
2 **INSURANCE RESERVE THAN THE \$1 MILLION FOR EXPECTED**
3 **LOSSES?**

4 A. The \$1 million accrual is intended to cover only the average annual
5 expected loss. These losses can range from very low to millions of dollars in any
6 one year. The insurance reserve needs to be built up to provide for extreme or
7 catastrophic events in any one year.

8 **Q. HOW WAS YOUR TARGET RESERVE OF \$10 MILLION DEVELOPED?**

9 A. Because WETT is a new entity, there is no historical loss experience to use
10 to estimate the average annual loss. The only information available is an
11 insurance quote that WETT received to provide all risk coverage of \$10 million
12 over a \$2.5 million deductible. The assets of WETT will be considerably higher
13 than this amount, but because they are spread over West Texas and not
14 concentrated in any one area, the chance of a very large loss affecting a large
15 portion of the assets is unlikely. Thus we selected \$10 million to be conservative.

16 In addition, WETT is required to maintain \$10 million per occurrence in
17 insurance for transmission and distribution lines in property all-risk insurance.
18 This is found in Appendix A, section 1(h)(iii) of its credit agreement with lenders.
19 We believe that building a self-insurance fund to that level will allow WETT to
20 comply with this requirement.

21 **Q. WHY IS THIS RESERVE LEVEL APPROPRIATE?**

22 A. This reserve level is the amount that WETT should carry to make an
23 actuarially sound provision for coverage of the self-insured losses. The target

1 reserve will be sufficient if annual losses are equal to or less than the target in a
2 given year provided the reserve is already in place at its target amount; but if the
3 actual losses exceed the amount accrued for the expected annual amount for
4 several years in a row, the self insurance reserve may be depleted.

5 For example, once the reserve level has been reached, if there were several
6 years with losses of approximately \$1 million, the reserve would remain unused.
7 However, if there were two consecutive years with annual aggregate losses of
8 more than \$5 million each year, the self-insurance reserve would be in a deficit
9 position. The deficit amount would need to be collected from future ratepayers.

10 **Q. WHAT ARE THE INDIVIDUAL COMPONENTS OF THE ANNUAL**
11 **ACCRUAL TO THE SELF-INSURANCE RESERVE INDICATED BY**
12 **YOUR ANALYSIS?**

13 A. The annual amount to be accrued each year is \$2 million, which is
14 composed of two elements. First, there is \$1 million each year to provide for the
15 year's annual expected losses. Second, there should be an accrual of \$1 million
16 each year for ten years to provide for the variation in annual losses from year to
17 year by building the total self insurance reserve up to the \$10 million level. I have
18 recommended a ten-year period to balance the interests of future ratepayers versus
19 current ratepayers.

20 **Q. ARE THESE CALCULATIONS PREPARED IN ACCORDANCE WITH**
21 **GENERALLY ACCEPTED ACTUARIAL PROCEDURES?**

22 A. Yes. The process reflects generally accepted actuarial procedures.

1 for losses, loss adjustment expenses, non-loss related expenses, premium taxes,
2 and a profit.

3 A self-insurance reserve, such as WETT's reserve, does not need to
4 include many of the provisions other than those for losses and loss-related
5 expenses. For example, a self-insurance reserve does not need to pay premium
6 taxes and other state-imposed fees. An insurance company needs to make a profit
7 on the business it transacts. A self-insurance reserve, on the other hand, is not
8 intended to generate a profit and, therefore, no provision for profit needs to be
9 included in the accrual provisions. Insurance companies also incur costs
10 associated with the acquisition of insured risks. The largest of these expenses is
11 that associated with the payment of commissions to insurance agents or brokers to
12 place the business. A self-insurance reserve does not include any provision for
13 commissions. Finally, an insurance company must expend resources to
14 underwrite risks, market its products, and maintain overhead expenses. A self-
15 insurance reserve does not need to provide for these costs.

16 In summary, self-insurance saves the costs of premium taxes,
17 commissions, profit, and many of the general expenses associated with the
18 operation of an insurance company.

19 **Q. WHAT OTHER COST BENEFIT ANALYSIS HAVE YOU RELIED UPON**
20 **TO SHOW THAT THE COST FOR THE SELF-INSURED LAYER IS**
21 **LOWER THAN THE COST OF INSURANCE FOR THE SAME LAYER**
22 **OF INSURANCE AND IS IN THE INTEREST OF THE COMPANY'S**
23 **CUSTOMERS?**

1 A. Comparing the cost of self-insurance versus the cost of buying insurance
2 establishes that it is more cost effective for WETT to self-insure. For example,
3 WETT's broker contacted Lloyds of London to discuss a property insurance
4 policy for WETT. The broker received a premium quote for property coverage for
5 damage from any peril, and the amount was for limited coverage in excess of a
6 \$2.5 million retention. Coverage is \$10 million for any one occurrence and in the
7 annual aggregate. The premium for this coverage is quoted at \$2 million per year.
8 Thus, under this proposal, WETT would have to pay \$2 million per year, and still
9 be responsible for at least the first \$2.5 million of loss. WETT would also need to
10 accrue additional amounts for losses lower than the deductible and for the
11 deductible itself. My estimate of the total annual cost to purchase the insurance
12 and accrue amounts sufficient to cover the costs is approximately \$2.5 million.
13 Therefore, the combination of the high premium cost and the high retention
14 indicates that self-insurance is the most cost effective method of providing
15 protection for WETT's transmission and distribution ("T&D") assets.

16 The cost of buying insurance is as follows. The premium for WETT to
17 purchase property insurance with a \$2.5 million deductible is quoted at \$2 million
18 annually. This amount would only cover those losses that exceed the \$2.5 million
19 deductible. WETT, however, would still need to fund the \$2.5 million deductible
20 if there were significant losses. As a result, with the purchase of commercial
21 insurance to cover some of the loss, the total cost would be \$4.5 million= [(\$2
22 million) + (\$2.5 million)]

23 In contrast, the cost of self-insurance is \$2 million.

1 **VII. CONCLUSION**

2 **Q. WHAT DO YOU CONCLUDE REGARDING WETT'S REQUEST FOR**
3 **SELF-INSURANCE RESERVE TO T&D PROPERTY LOSSES?**

4 **A.** I have conducted an analysis that meets the Commission's rule
5 requirements and have demonstrated that self-insurance is necessary and desirable
6 given the lack of reasonably priced commercial insurance.

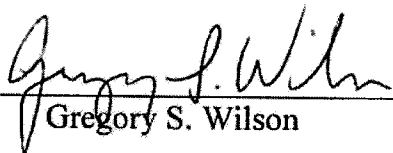
7 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

8 **A.** Yes. However, I reserve the right to make changes or corrections as
9 necessary during the pendency of this matter before the Commission.

STATE OF TEXAS §
 §
COUNTY OF COLLIN §

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

My name is Gregory S. Wilson. 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.

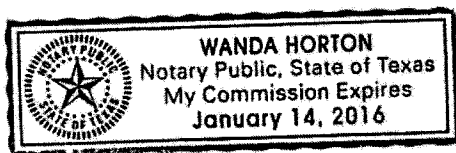


Gregory S. Wilson

SUBSCRIBED AND SWORN TO BEFORE ME by the said Gregory S. Wilson
this 17 day of AUGUST, 2012.



Notary Public, State of Texas



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GREGORY S. WILSON, FCAS, MAAA
Vice President and Principal

CURRENT POSITION

Mr. Wilson is a Vice President and Principal with Lewis & Ellis, Inc.

EXPERIENCE:

Mr. Wilson's responsibilities include evaluating the adequacy of insurance company reserve levels in conjunction with actuarial certification for the annual statement as well as state insurance department examinations. He also performs rate level analyses for his clients and assists them prepare filings for the state insurance departments. He also evaluates the adequacy of loss reserves for several self-insured companies,

Prior to joining the firm, Mr. Wilson was a Principal Consultant at PricewaterhouseCoopers LLP. His responsibilities were similar to his current responsibilities. In addition, he reviewed retrospective rating calculations for several companies involved in class action litigation in Texas. He also performed several funding analyses for governmental entities.

Prior to joining PricewaterhouseCoopers LLP, Mr. Wilson was Vice President of Amica Mutual Insurance Company in Providence, Rhode Island. There, he supervised all aspects of ratemaking, from procedures to recommendations, helped negotiate the purchase of reinsurance, determine IBNR, develop a strategy for

Massachusetts Automobile and develop other states' residual market strategies, in particular, New York and New Jersey.

EDUCATION

Mr. Wilson received his Bachelor's degree in Applied Mathematics from the University of Rhode Island.

PROFESSIONAL ACTIVITIES

Mr. Wilson is a former member of the Casualty Actuarial Society's Examination Committee, Committee on Ratemaking and Committee on Reserving. He is also a Past President of the Southwest Actuarial Forum.

PUC DOCKET NO. 40606

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

DIRECT TESTIMONY OF
THOMAS J. FLAHERTY

ON BEHALF OF

WIND ENERGY TRANSMISSION TEXAS, LLC.

AUGUST 2012

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LIST OF EXHIBITS

EXHIBIT TJF-1	Summary of Experience
EXHIBIT TJF-2	WETT and Affiliate Organization and Services
EXHIBIT TJF-3	Affiliate Activity Necessity and Benefit
EXHIBIT TJF-4	Budgeting and Cost Control
EXHIBIT TJF-5	EPC Survey
EXHIBIT TJF-6	Project Management
EXHIBIT TJF-7	Testimony Figures

EXECUTIVE SUMMARY

In my testimony I review the affiliate charges incurred by Wind Energy Transmission Texas, LLC ("WETT") with respect to the development and construction of its CREZ related substations and transmission lines, and provide my conclusions with respect to the reasonableness of these charges in light of the particular statutory and regulatory evidentiary requirements of the Public Utility Commission of Texas ("PUC" or "Commission"). These charges relate to services performed by subsidiaries of Brookfield Asset Management Inc. ("Brookfield") and Grupo Isolux, S.A. ("Grupo Isolux"), which are WETT's ultimate parent companies.¹

More specifically, I assess the nature of the construction and corporate support charges from WETT's affiliates and the necessity, benefits, control processes, allocations, and comparability related to these costs. I find them to be reasonable, necessary, and prudent, and not higher than the affiliates would charge other affiliates. I also evaluate WETT's EPC Contract planning and decision-making with respect to affiliate transactions, such as the reasonableness and prudence of the decision to use a subsidiary of Isolux Ingeniería USA LLC ("I-USA"), to provide EPC services to WETT; the fee and overhead allocation specified in the EPC Contract between WETT and I-USA; and the overall structure of the EPC Contract. Again, I find WETT's actions to be reasonable and prudent. Finally, I evaluate WETT's project management process and determine the effectiveness of WETT's processes as they relate to the planning, development, engineering and construction of its transmission lines and substations; these oversight processes I also find reasonable, prudent, and effective.

¹ WETT is owned by WETT Holdings LLC ("WETT Holdings"), which in turn is owned 50/50 by (1) Iccenlux Corp. ("Iccenlux"), a subsidiary of Isolux Corsán Concesiones, S.A. ("Isolux Concesiones"), which is ultimately owned by Grupo Isolux; and (2) Brookfield-CREZ SPV LLC ("Brookfield SPV"), which is ultimately owned by Brookfield. Grupo Isolux has another subsidiary, Isolux Ingeniería, S.A. ("Isolux Ingeniería") which owns the affiliate with which WETT contracted for EPC work.

1 **DIRECT TESTIMONY OF THOMAS J. FLAHERTY**

2 **I. INTRODUCTION**

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

4 A. My name is Thomas J. Flaherty, and I am a Senior Vice President in the
5 Energy, Chemicals and Utilities practice of Booz & Company. My business address
6 is 901 Main St., Suite 6500, Dallas, Texas 75202.

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

8 A. I am testifying on behalf of Wind Energy Transmission Texas, LLC (hereafter
9 known as "WETT" or the "Company").

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
11 **PROFESSIONAL EXPERIENCE.**

12 A. I graduated from the University of Oklahoma with a B.B.A. degree in
13 Accounting and immediately joined Touche Ross & Co., where I began my career as
14 a management consultant. Subsequently, I worked for Deloitte & Touche (formed
15 by the merger of Touche Ross and Deloitte, Haskins & Sells in 1989) for more than
16 30 years until joining Booz Allen Hamilton as a Senior Vice President. In 2008, a
17 corporate transaction was announced resulting in the Federal consulting practice of
18 Booz Allen Hamilton being acquired by the Carlyle Group and Booz & Company
19 being created as an independent entity with a focus on commercial sector clients. I
20 continue to be a Senior Vice President of Booz & Company in the post-transaction
21 organization. I am a Certified Management Consultant and a member of the
22 Institute of Management Consultants.

1 Over the course of my consulting career, I have specialized in the public
2 utility industry and have performed a variety of assignments, a summary of which
3 can be found in Exhibit TJF-1. I have participated in numerous regulatory
4 consulting engagements for gas, electric, water and telephone utilities encompassing
5 rate base, operating income, capital structure, rate of return, revenue requirements,
6 affiliate transactions, and cost allocations. In particular, I have conducted numerous
7 assessments of affiliate costs from parent or service companies related to their
8 incurrence, control, distribution and reasonableness. I have also conducted several
9 assignments related to major capital projects and construction prudence and have
10 conducted comprehensive reviews of planning, management, and construction
11 processes and execution, or selected elements of these processes. These reviews
12 were conducted on both contemporaneous and retrospective bases for owners and
13 regulatory commissions in connection with general prudence assessments, in-service
14 rate cases, litigation, or specific review chartered in anticipation of litigation.

15 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY TO THE PUBLIC**
16 **UTILITY COMMISSION OF TEXAS (“PUC” OR “COMMISSION”)?**

17 A. Yes; and in other states as well. For example, I have pre-filed direct
18 testimony and appeared for cross-examination in the states of Arizona, California,
19 Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas,
20 Kentucky, Louisiana, Maryland, Massachusetts, Minnesota, Mississippi, Missouri,
21 Montana, New Jersey, New Mexico, North Carolina, Ohio, Oklahoma, Oregon,
22 Utah, Washington, and Wyoming; in the District of Columbia; and before the
23 Federal Energy Regulatory Commission (“FERC”). The testimony I presented was

1 principally directed towards certain accounting, regulatory, management,
2 operational, and financial areas regarding the telecommunications, electric or gas
3 industries.

4 **II. PURPOSE OF TESTIMONY**

5 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

6 A. The purpose of my testimony is to generally review the reasonableness of
7 affiliate charges incurred by WETT. Services performed by affiliates on behalf of
8 WETT are subject to particular statutory and regulatory evidentiary requirements by
9 the Public Utility Commission of Texas ("PUC" or "Commission"). My testimony
10 addresses the incurrence of both corporate and construction support service charges
11 by WETT from its affiliates and the assignment or allocation of these costs. These
12 charges relate to services performed by subsidiaries of Brookfield Asset
13 Management Inc. ("Brookfield") and Grupo Isolux Corsán, S.A. ("Grupo Isolux"),
14 which are WETT's ultimate parent companies.²

15 More specifically, I:

- 16 1) assess the nature of the construction charges from WETT's affiliates and the
17 necessity, benefits, control processes, and assignment or allocations related to
18 these costs;
- 19 2) evaluate WETT's planning and decision-making with respect to affiliate
20 contracting, such as the reasonableness and prudence of the decision to use a
21 subsidiary of Isolux Ingeniería, S.A. ("Isolux Ingeniería"), Isolux Ingeniería
22 USA LLC ("I-USA"), to provide EPC services to WETT; the fees and
23 overhead specified in the *Engineering, Procurement and Construction*
24 *Contract between Wind Energy Transmission Texas, LLC, as Owner and*
25 *Isolux Ingeniería USA LLC, as Contractor For the Wind Energy Transmission*
26 *Project* (the "EPC Contract"); and the general structure of the EPC Contract;

² On the Isolux side, WETT's more immediate parent is Isolux Corsán Concesiones, S.A. ("Isolux Concesiones").

- 1 • Effectiveness of EPC project oversight and controls
- 2 • Adequacy of WETT's project involvement

3 To guide my assessment, I utilized specific evaluative criteria that I have adopted in
4 similar reviews to provide an objective framework for the analysis.

5 I found that activities performed by the affiliates within both classes of service
6 (corporate and construction support services) are necessary for WETT to effectively
7 construct and operate the transmission facilities it was ordered to build by the PUC.
8 I also believe that WETT satisfies the relevant standards contained in the Texas
9 Public Utility Regulatory Act ("PURA") related to cost reasonableness and
10 prudence.

11 WETT and its owners currently receive a range of identifiable benefits from
12 the performance of affiliate services activities, with ratepayers to receive direct
13 benefits once the projects become operational. The budgeting processes WETT
14 adopted to plan and control affiliate costs incorporates appropriate mechanisms that
15 have allowed WETT to provide adequate front-end input into planned or potential
16 service provision and cost levels and to utilize a documented basis for definition of
17 these services. The costs for these services are assigned or allocated to WETT using
18 processes consistent with those typically adopted within Grupo Isolux and in a
19 manner consistent with the nature of the project and typical construction practices.

20 Further, I found that using I-USA as the EPC contractor was reasonable,
21 prudent, and produces tangible benefits to WETT. The Commission has previously
22 reviewed and endorsed the selection of an Isolux Ingeniería affiliate, and based on
23 my review, the EPC Contract between WETT and I-USA was designed to

1 effectively be “arm’s length” in structure and application; it is comparable to other
2 EPC contracts that exist in the market; the 4% margin charged by I-USA in the EPC
3 Contract is below similar EPC margin levels I have observed in the industry and less
4 than what I-USA would charge a non-affiliate; the 6.29% Grupo Isolux overhead
5 allocation is in the range of what I have observed in the industry and reasonably
6 reflects I-USA’s share of costs incurred by Isolux corporate and relevant business
7 segments; and WETT has been directly and effectively engaged with I-USA in the
8 oversight of its planning and execution of its work in support of the current
9 transmission projects.

10 My review revealed that WETT has also been actively involved in project
11 planning throughout the course of the project. The Company has implemented an
12 overall project management framework consisting of formal agreements, detailed
13 schedules, formal and informal interface and management mechanisms, and various
14 targeted plans to guide its oversight activities. WETT has “staged” the development
15 of the project into three phases,³ incorporating reviews at each phase to ensure
16 preparedness for succeeding stages. The overall project management framework
17 provides for: 1) planning on the front-end of the project to identify and manage
18 perceived risks during the design, development, and execution phases; 2) ongoing
19 project management; and 3) maintaining active oversight of I-USA in its role as the
20 EPC.

³ Throughout my testimony, I refer to WETT’s three “phases” of construction, consistent with the EPC Contract. Please note that these phases are distinct from the two “Phases” of rates discussed in WETT’s application and the testimony of some of WETT’s other witnesses.

1 For all of the reasons enumerated above, I believe that the affiliate charges
2 incurred to-date by WETT for corporate construction support are necessary to
3 support the transmission and substation projects and have been reasonably incurred.
4 I also believe that WETT has acted prudently with respect to the incurrence and
5 management of these costs.

6 **Q. HOW IS YOUR TESTIMONY ARRANGED?**

7 A. I begin my testimony by describing the WETT organization and the nature of
8 services provided by its affiliates. I examine the source and cost of affiliate services
9 provided to WETT, which are divided into two classes: (1) corporate support
10 services provided by Brookfield and Isolux Concesiones subsidiaries under Affiliate
11 Services Agreements (“ASAs”), and (2) construction support services provided by I-
12 USA under the Consultant Service Agreement (“CSA”) and the EPC Contract.

13 Next, I address the question of the necessity of the activities performed by
14 WETT’s affiliates and assess the benefits resulting from the performance of affiliate
15 activities for WETT. I then discuss the cost management processes in place at
16 WETT and its affiliates and how these processes are used to plan, manage and
17 control costs.

18 Then, I assess the decision to use I-USA as the EPC provider. I examine the
19 EPC planning conducted by WETT and its independent advisor, Science
20 Applications International Corporation, Inc. (“SAIC,” formerly R.W. Beck) which
21 served as WETT’s independent advisor, with practices observed in the market place
22 for similar projects across the country, and the approaches available at the time of
23 vendor selection. I assess the EPC Contract structure and development and describe

1 the rationale for the EPC Contract margin and EPC overhead allocation. In doing
2 so, I also discuss my findings regarding the reasonableness of I-USA's margin and
3 overhead allocation by presenting a high level analysis of historical EPC margins
4 charged for similar tasks, as well as a survey conducted to assess recent realized
5 EPC margin and overhead levels.

6 Finally, I assess the effectiveness of WETT's affiliate project management as
7 it relates to planning, development and construction of the transmission lines and
8 substations. My testimony includes an evaluation of the adequacy of the project
9 management processes used for project planning, tracking of budgets and schedules
10 and progress reporting. I also review the nature of interactions between WETT and
11 its independent advisor, SAIC. In particular, I examine SAIC's involvement in
12 overall project management, the manner in which WETT and SAIC interface and
13 their involvement in project planning and oversight.

14 **Q. PLEASE DESCRIBE THE ANALYSIS YOU PERFORMED.**

15 A. My review was conducted on a retrospective basis, *i.e.*, it dealt predominantly
16 with planning, decisions and events that had already occurred, although the current
17 processes were also included. I reviewed internal documentation including budgets
18 and organizational charts. I also conducted interviews with WETT management and
19 staff, including members of the Board of Managers, the General Manager,
20 Controller, Program Director⁴, and Contracts Manager, among other WETT
21 personnel. Additional interviews were conducted with representatives from

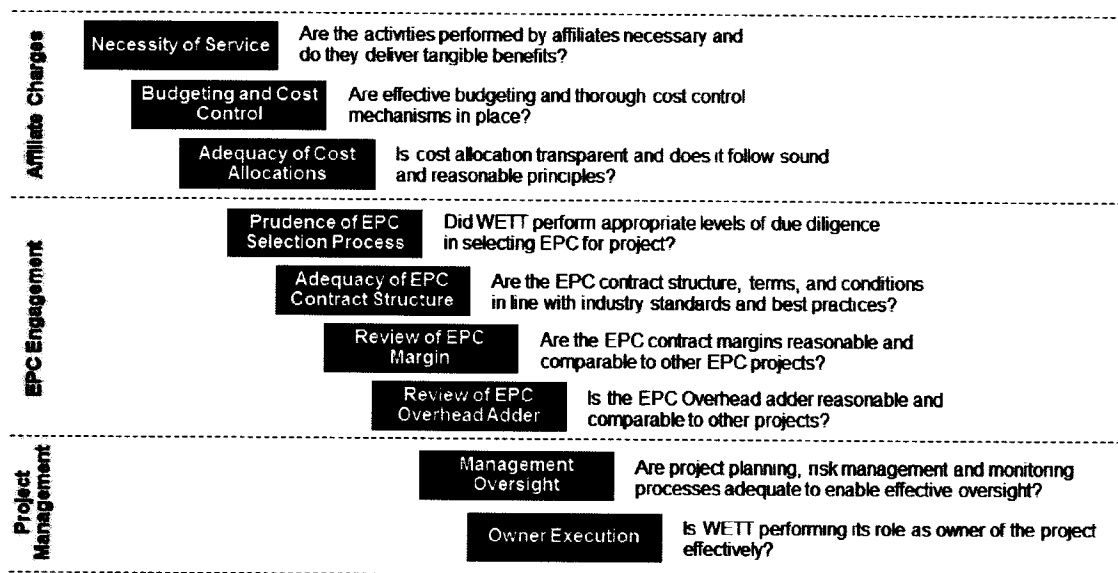
⁴ Program Director's role is now assumed by Asset Management Director

1 WETT's owners (Brookfield and Isolux Concesiones), as well as WETT's EPC
 2 contractor (I-USA), and WETT's independent adviser and evaluator (SAIC).
 3 Finally, to determine the appropriateness of I-USA's margin and overhead
 4 allocation, I conducted surveys with several EPC firms and market participants and
 5 compiled data from public sources to draw a comparison to I-USA's margin and
 6 overhead.

7 The approach outlined above provided an objective and comprehensive
 8 framework to evaluate overall affiliate charges by observing WETT's approach to
 9 affiliate planning, contracting, and project management. These analyses and the
 10 accompanying evaluation criteria taken together provide the basis for the
 11 conclusions I reached.

12 The figure below provides an overview of my evaluation framework.

13 **Figure 1 - Evaluation Framework**



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IV. APPROACH TO THE ASSESSMENT

Q. PLEASE DESCRIBE THE EVALUATION STANDARDS USED IN YOUR ASSESSMENT.

A. PURA requires a utility to demonstrate that its operating expenses are reasonable and necessary as part of its rate case filing.⁵ The statute also stipulates that utilities are allowed a reasonable return for well-managed, quality and efficient services.⁶ My analysis was guided by relevant standards that the Commission has adopted in the past. With respect to the affiliate charges that flow from Brookfield and Isolux, I have noted the PURA standards that require a showing of cost reasonableness across several factors such as:

- (1) a specific finding of the reasonableness and necessity of each item or class of items allowed; and*
- (2) a finding that the price to the electric utility is not higher than the prices charged by the supplying affiliate for the same item or class of items to:*
 - (A) its other affiliates or divisions; or*
 - (B) a nonaffiliated person within the same market area or having the same market conditions.*

With respect to the prudence of capital project decisions and expenditures, I used a definition of prudence from a number of prior Commission proceedings:

... the exercise of that judgment and taking of that action which a reasonable person or entity would exercise or take in the same or similar circumstances given the information or alternatives available

⁵ PURA, Texas Utilities Code Title II, Subtitle B, Sec. 36.051.
⁶ *Id.* Sec. 36.052.

1 *at the point of time such judgment is exercised or action is taken.*⁷

2 It is also important to note that the Commission has stated that the prudence standard
3 should not be applied as a standard of perfection. Instead,

4 *When applying the Commission's prudence standard, it is not*
5 *necessary that the decision be one which the finder of fact would have*
6 *considered optimal. Rather, there may be more than one prudent*
7 *option within the range of options available to the utility at any given*
8 *time or under any given set of circumstances.*⁸

9 The Commission has stated that the prudence of a company's decisions should be
10 evaluated in terms of the circumstances and options existing at the time the decisions
11 were made. Thus, information which was not known at the time the company was
12 required to act or make its decisions is not relevant and should be disregarded in
13 evaluating the prudence of the decisions made by the company. As the Commission
14 has stated:

15 *...when determining the prudence of the company's actions or*
16 *decisions, the reasonableness of an action or decision must be judged*
17 *based upon the facts, circumstances, and options existing at the time*
18 *the decision was made. Use of hindsight is not permitted.*⁹

19 **Q. PLEASE DESCRIBE HOW YOU APPROACHED YOUR ASSESSMENT.**

20 A. To assess whether WETT's affiliate transactions have met the affiliate and
21 prudence standards stated above, I analyzed the services obtained or to be obtained
22 by WETT on an actual and prospective basis from affiliates to determine whether
23 those activities are necessary for the completion and operation of the transmission

⁷ *Application of Houston Lighting and Power Company for a Rate Increase*, Docket No. 5779, 12 P.U.C. BULL. 261, 279 (Jan. 11, 1985).

⁸ *Application of Texas-New Mexico Power Company for Authority to Change Rates*, Docket No. 9491, 16 P.U.C. BULL. 2825, 2857 (Feb. 7, 1991).

⁹ *Id.*

1 projects assigned to WETT by the Commission. More specifically, I did the
2 following:

- 3 • Determined whether affiliate charges are necessary and delivered identifiable
4 benefits to WETT;
- 5 • Reviewed the cost assignment and allocation methodologies and determined
6 whether the costs charged to WETT by its affiliates are appropriate and not
7 higher than the affiliates' charges to other entities for the same class of service;
- 8 • Reviewed WETT's budget, contracts with affiliates, historical charges by
9 affiliates, assignment and allocation methodologies, and cost planning and
10 control mechanisms;
- 11 • Evaluated whether WETT's decision to use I-USA as the EPC contractor was
12 reasonable, including an examination of the circumstances at the time of EPC
13 selection and the advantages associated with selecting I-USA;
- 14 • Compared I-USA's contract profit margin and Grupo Isolux's overhead
15 allocation to those of other companies involved with similar EPC projects; and
- 16 • Assessed the effectiveness of overall affiliate project management by examining
17 project planning and oversight processes and the effectiveness of management
18 controls.

19 My review included the roles and responsibilities of WETT and its independent
20 advisor, SAIC.

21 **Q. PLEASE DESCRIBE THE SOURCES OF THE DATA YOU USED IN YOUR**
22 **ASSESSMENT.**

- 23 A. To gather data necessary to evaluate WETT's decisions, I
- 24 1) Reviewed documents and conducted interviews to understand affiliate charges,
25 budgeting processes and assignment and allocation principles;
 - 26 2) Reviewed the key documentation underlying WETT's decision-making (e.g.,
27 organizational structure, contracts);
 - 28 3) Assessed the effectiveness of WETT's management processes;
 - 29 4) Reviewed specific decisions and events related to the projects; and
 - 30 5) Evaluated the reasonableness of WETT's decision-making.