Figure 5: Sources of WETT Affiliate Services

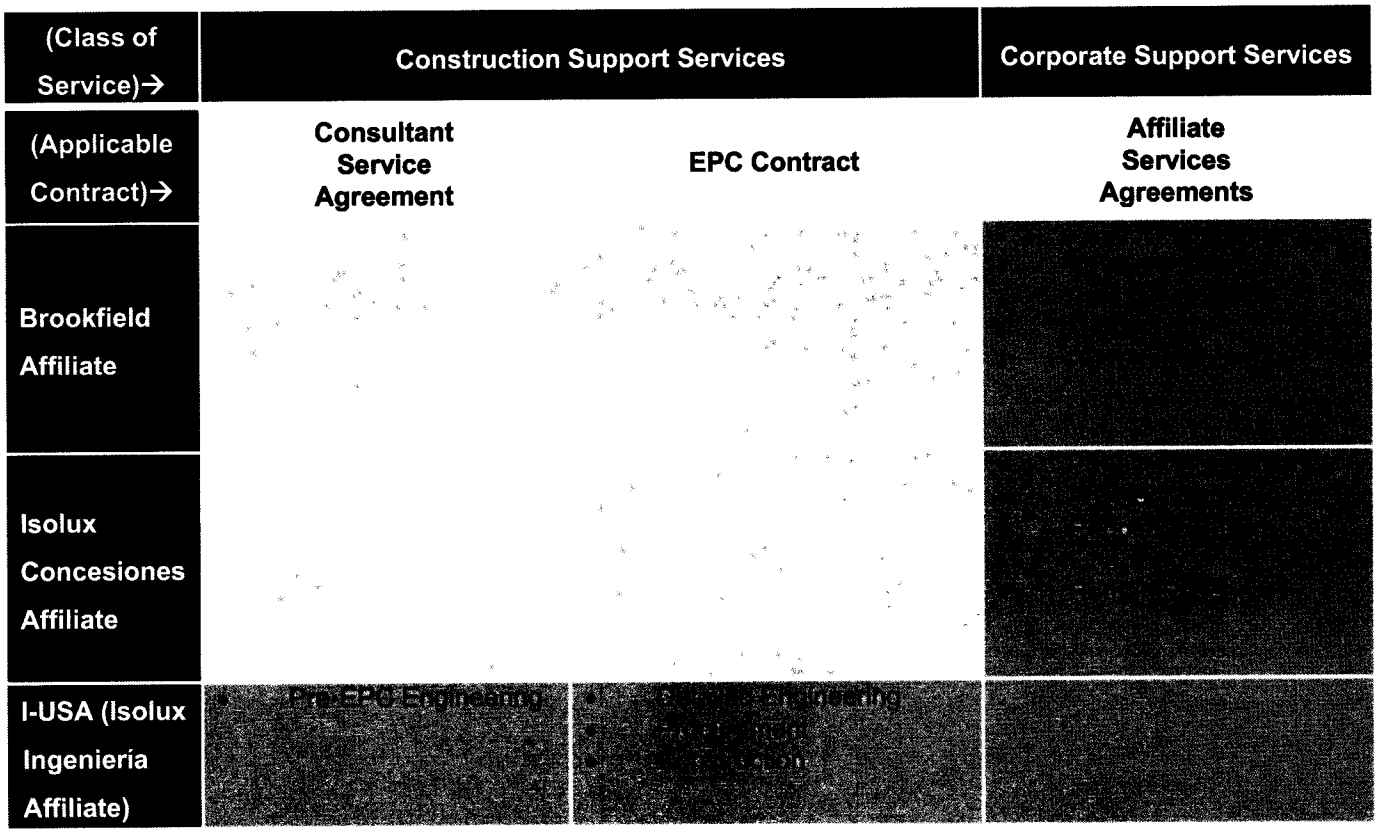


Figure 6: EPC Charges

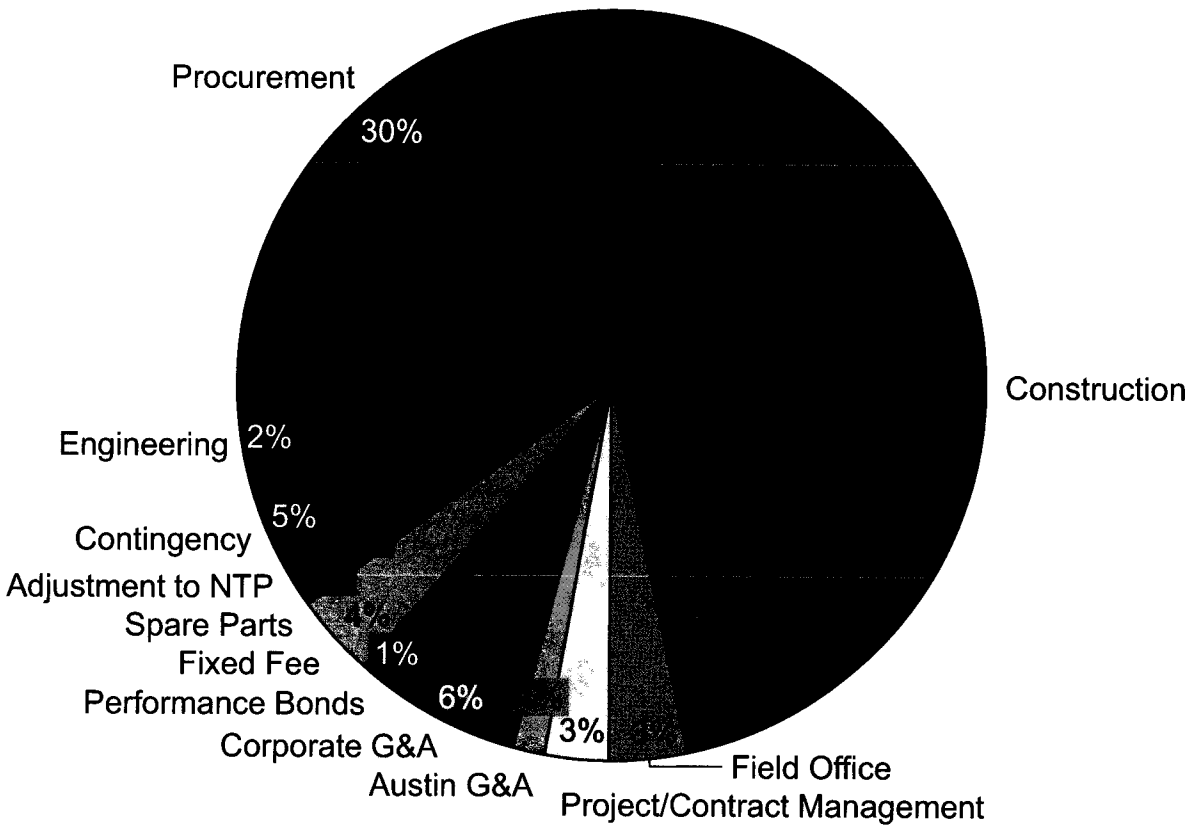
EPC Costs

Projected Expenditure

Source	Affiliate Service	Invoice Amount
I-USA (EPC)	Engineering	$14,692,117
	Procurement	$177,808,856
	Construction	$261,261,536
	Field Office	$20,025,604
	Project/Contract Management	$17,199,186
	Austin G&A	$7,928,553
	Corporate G&A	$35,494,967
	Performance Bonds	$8,192,929
	Fixed Fee	$21,704,150
	Spare Parts	$6,416,306
	NTP Adjustment	$246,932
	Contingency	$31,752,410
Total		[illegible]

Breakdown of EPC Costs

Construction and Procurement take the vast majority of cost



Source: WETT Construction Project Tracking Records; Booz & Company analysis

Figure 7 – Affiliate Corporate Services Billings

Corporate Services Billings			
Corporate Expense	**Affiliate Billings to WETT**	**Affiliate Source**	**Affiliate Service**
Finance, accounting, start-up support, communications, etc	$368,030	Brookfield	Project Management
Transmission design support	$119,948	Brookfield	Project Management
Legal support in contract development, financing, and permitting	$44,136	Brookfield	Project Management
Human resource support in recruiting HSSE manager	$10,439	Brookfield	Human Resources
Refinancing Assistance	$178,440	Brookfield	Finance & Accounting
Regulatory assistance in permitting proceedings	$16,166	Brookfield	Regulatory Affairs
Travel expenses for board of managers	$178,205	Brookfield	Advisory Services
Board member costs	$1,011,727	Brookfield	Advisory Services
Travel expenses for board of managers	$253,903	Isolux	Advisory Services
Board member costs	$1,066,979	Isolux	Advisory Services
Finance, accounting, start-up support, communications, etc	$896,996	Isolux	Project Management
Refinancing Assistance	$79,661	Isolux	Finance & Accounting
Human Resources	$810	Isolux	Human Resources
Regulatory assistance in permitting proceedings	$56,922	Isolux	Regulatory Affairs
Total Brookfield	$1,927,092	Brookfield	
Total Isolux	$2,355,271	Isolux	
Total	**$4,282,362**		

Source: Isolux 2008, 2009, 2010, 2011 and 2012 Invoice Summaries; Brookfield 2009 – 2012 Invoice Summary; Booz & Company analysis

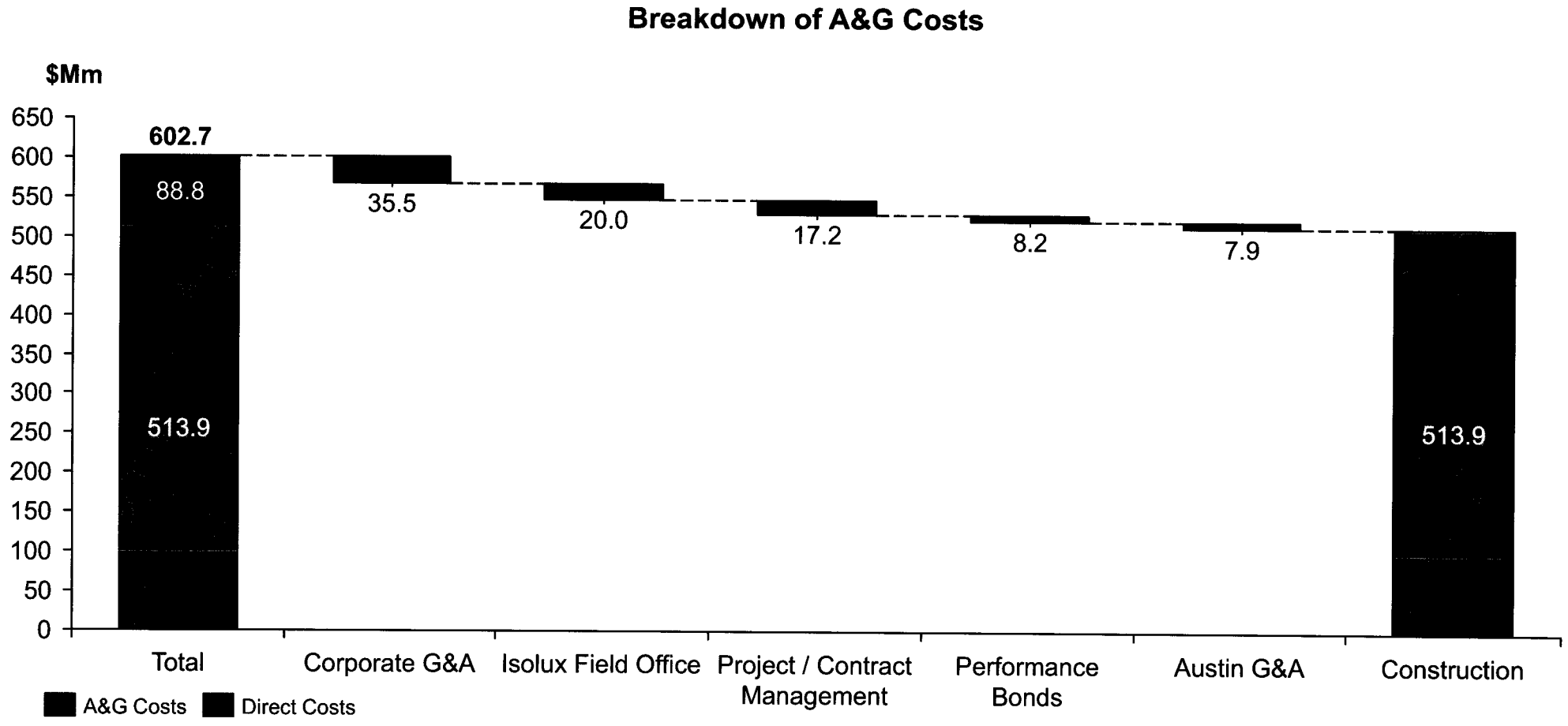
Figure 8: Necessity Attributes

Necessity Attributes	Definitions
Corporate Governance	Activities that are necessary to ensure that fiduciary responsibilities and enterprise-wide management and operation is effectively executed. Examples include managing cross-business issues, performing risk management activities and evaluating internal controls
Regulatory Mandate	Activities that are required to fulfill statutory, regulatory and other commitments or mandates. Examples include complying with FERC, ERCOT and PUCT requirements
Legal Compliance	Costs incurred and activities performed as a direct result of legal proceedings, avoidance of legal proceedings, or compliance with legal requirements. Examples include performing litigation activities and responding to discovery requests
Management Control	Activities performed specifically to provide analysis, decision support data and results to management personnel. Examples include managing projects and reporting results and developing management reports
Operational Execution	Activities that are fundamental functions performed on a daily basis. Examples include performing maintenance activities, performing general accounting, and tracking employee information
Strategic Planning	Activities that encompass business unit planning and activities directed at providing enterprise-wide direction. Examples include performing strategic planning and providing business planning assistance

Figure 9: Benefit Attributes

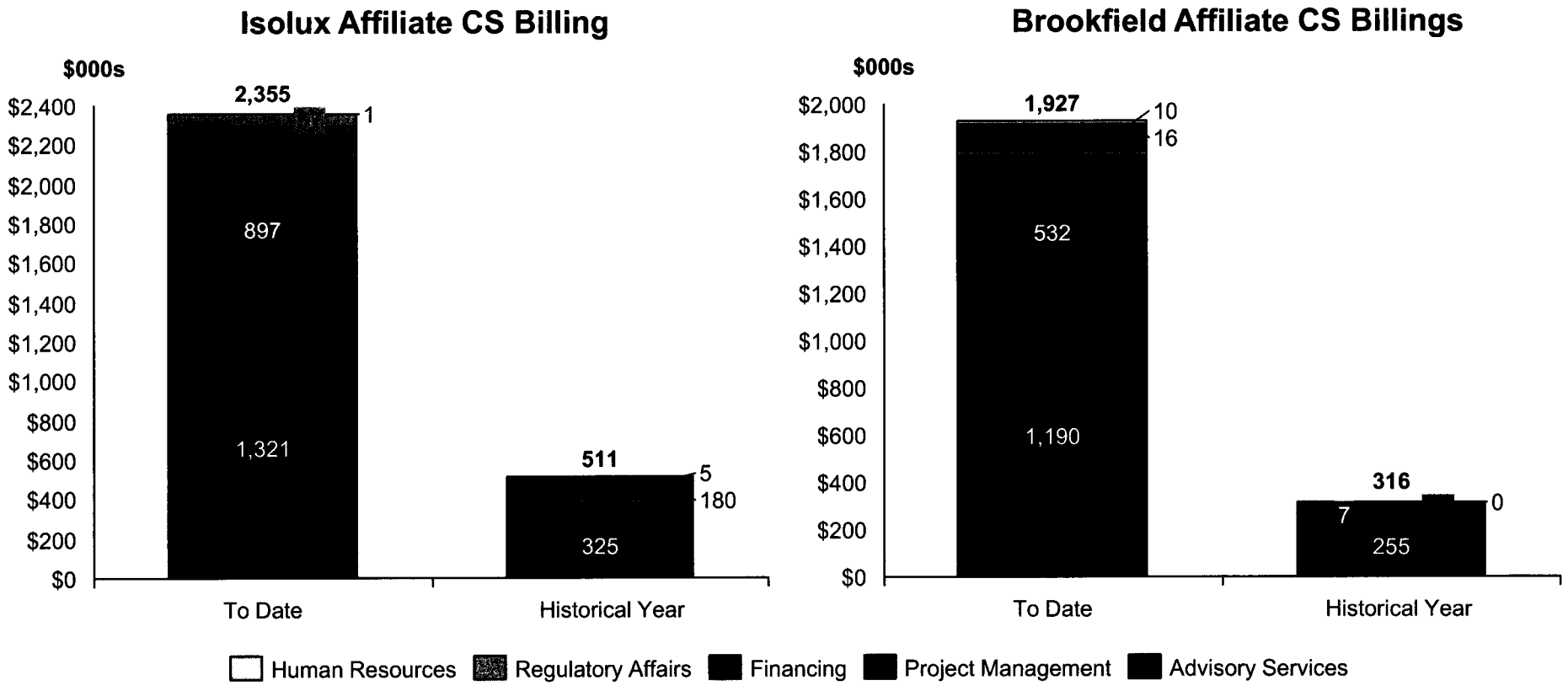
Benefit Attributes	Definitions
Reduce Risk	Actions designed to reduce liability and mitigate exposure to financial, operational, regulatory and other types of risk through activities such as implementing safety programs, performing internal audit, and developing policies, procedures and manuals
Increase Employee Productivity	Programs that enhance employees' abilities to perform their jobs more productively. Examples include implementing certain automated systems, providing certain types of training, implementing and administering employee health awareness programs, developing procedures, policies and practice manuals, developing employee communications and implementing and administering quality programs
Provide Management Information	Activities conducted primarily to provide decision support data and analysis to management personnel. Examples include developing budgets, monitoring operational and safety performance, performing corporate development, conducting strategic assessments and developing integrated information systems
Enhance Corporate Performance	Activities performed to enhance the abilities and effectiveness of management with respect to the business, including developing strategic plans, managing the performance review process, maintaining the inter/intranet and conducting benchmarking studies
Reduce or Avoid Costs	Activities performed to improve the cost effectiveness of operations. Activities include implementing certain automated systems or negotiating discounts with outside vendors
Increase Reliability	Activities performed to increase the reliability of energy delivery and to minimize the impact of disruptions

Figure 10: Construction Support Services Billings



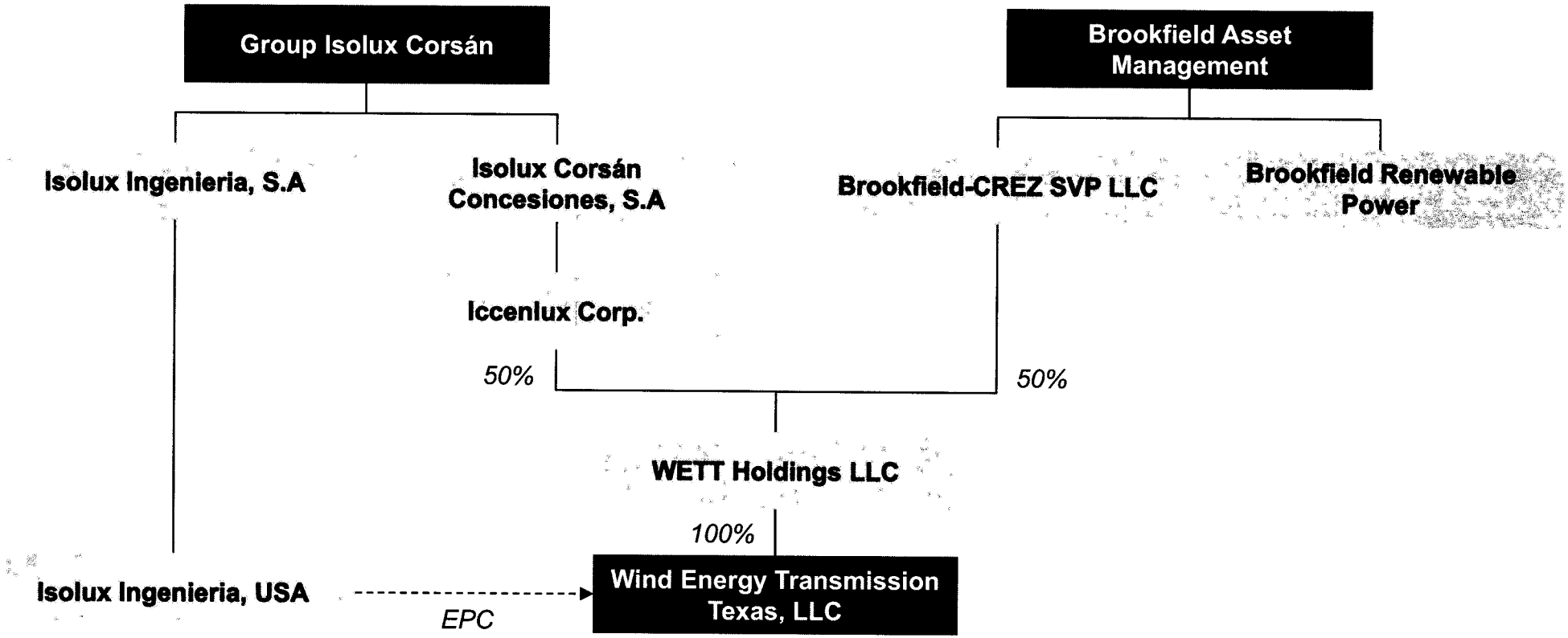
Source: WETT Construction Project Tracking Records; Booz & Company analysis

Figure 11 –Corporate Support Services Billings



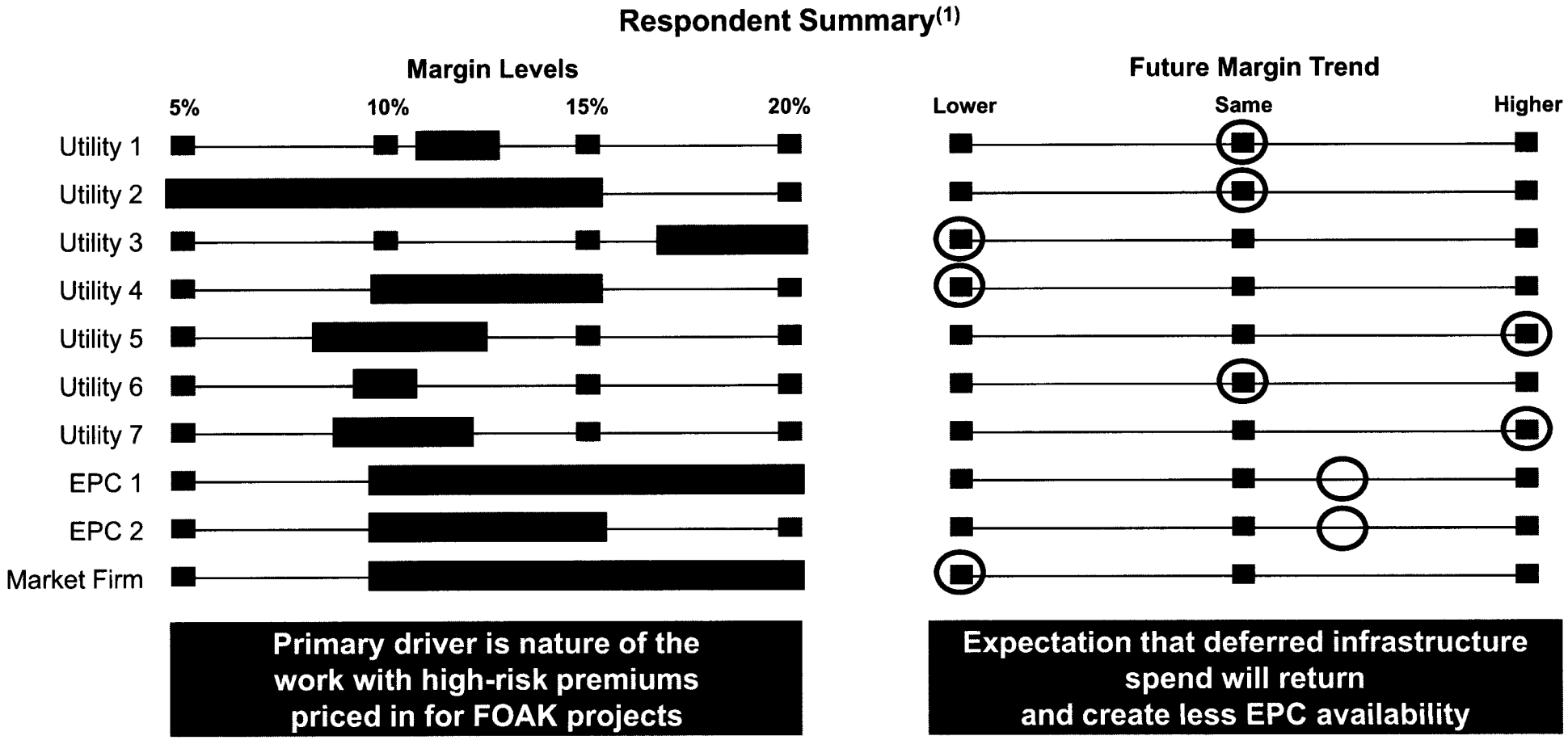
Source: Isolux 2008, 2009, 2010, 2011 and 2012 Invoice Summaries; Brookfield 2009 – 2012 Invoice Summary; Booz & Company analysis

Figure 12: WETT Ownership Structure



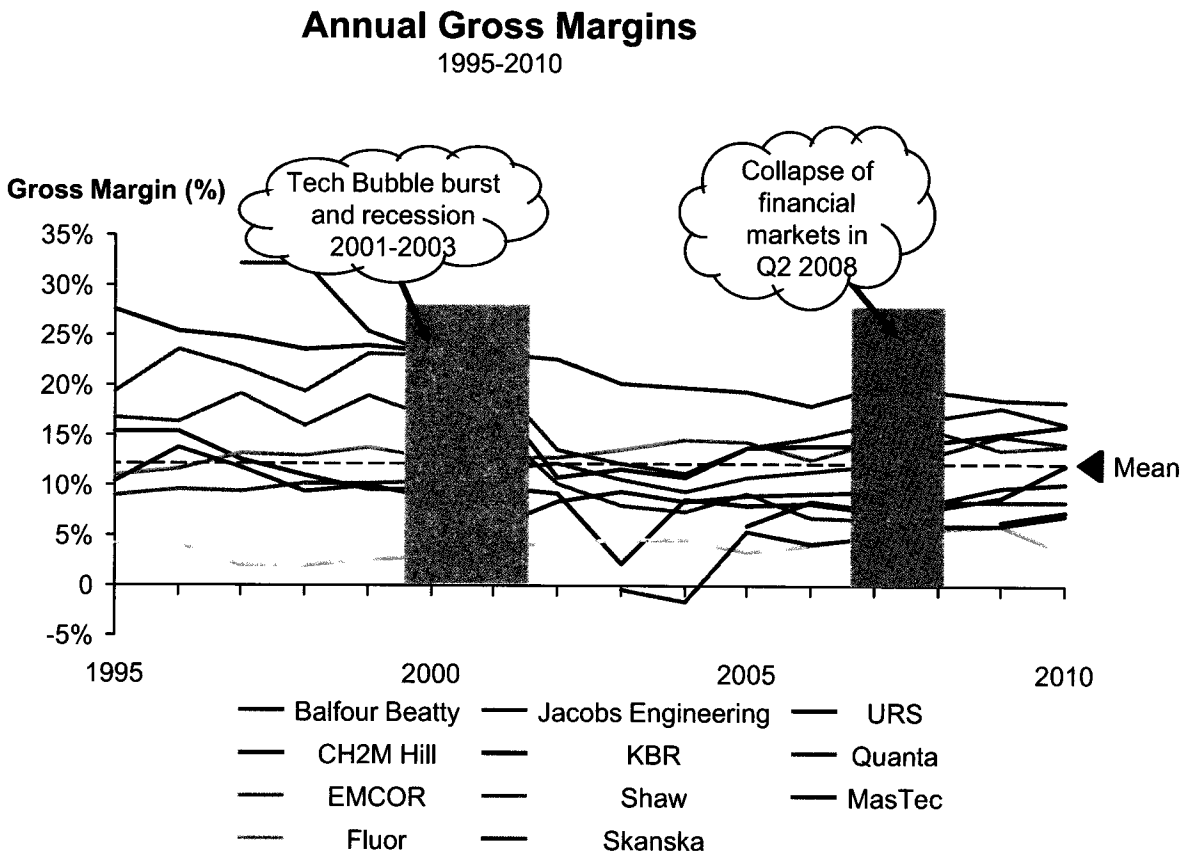
Note: Isolux Ingenieria USA is also known as I-USA
Source: Black & Veatch Technical Environmental Due Diligence; WETT 2010 Annual Report of Affiliate Activities; Booz & Company analysis

Figure 13: Survey Results



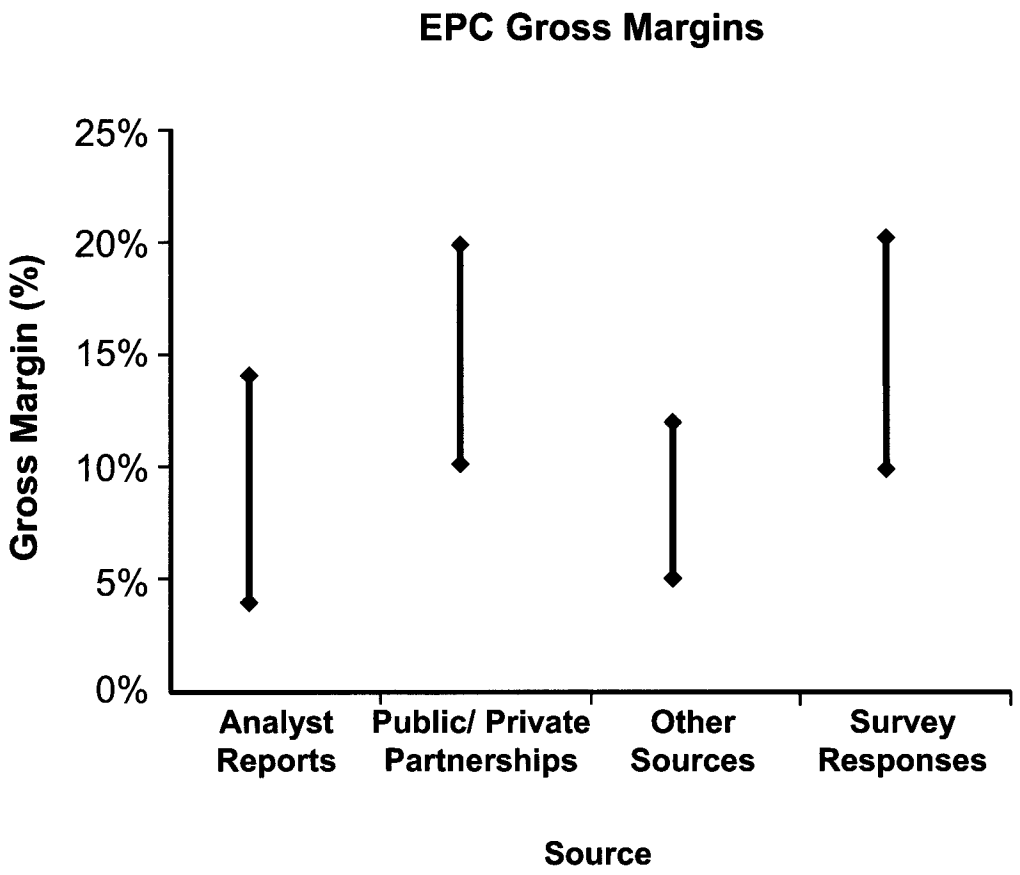
(1) Trade association responses too general to capture

Figure 14: Industry Margin History



Note: Gross Margin (in most cases) equals total revenues minus cost of goods sold
Source: Capital IQ, Booz & Company analysis

Figure 15: EPC Gross Margins



Note: Other sources include Industry Trade Press (e.g., Engineering News Record, Construction Industry Institute, etc), Regulatory filings, and other 3rd party news articles
Source: Analyst Reports, External Interviews, Texas Department of Transportation, Booz & Company analysis

Figure 16: Segment Components of Overhead Adder

Corporative Chargeable Expenses

- Based on allocation of corporate structural charges, corporate amortization, and finance expenses

Engineering Business Services

- Based on total segment revenue matching with "Engineering and Industrial Services"

Peripheral T&D

- Based on cost centers assigned to "Transmission and Power Distribution of Energy"

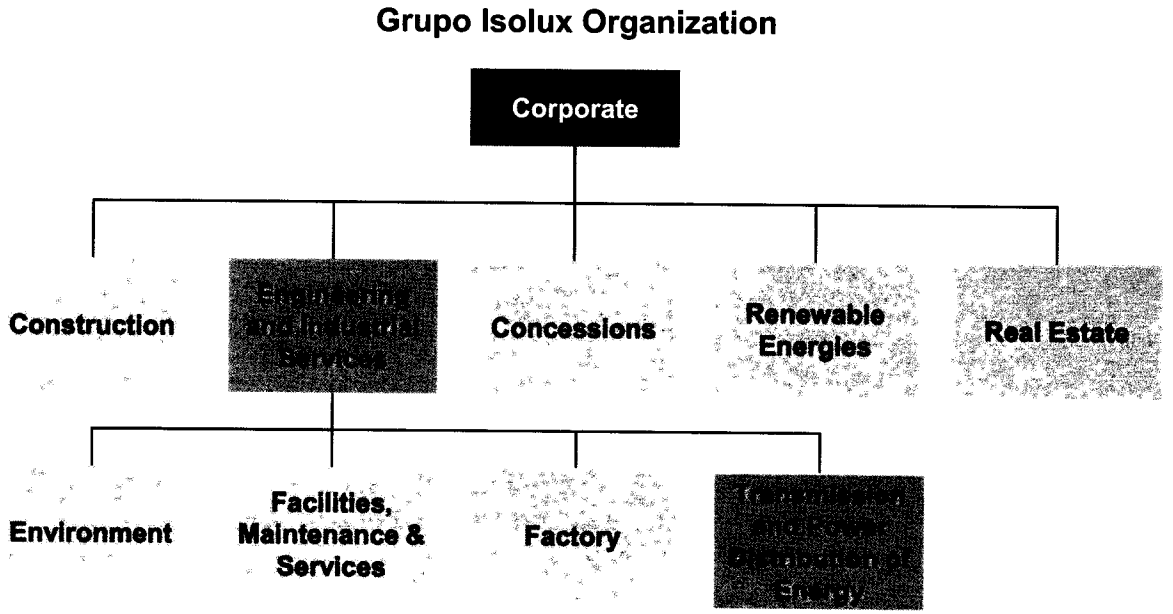


Figure 17: EPC Overhead Survey Results

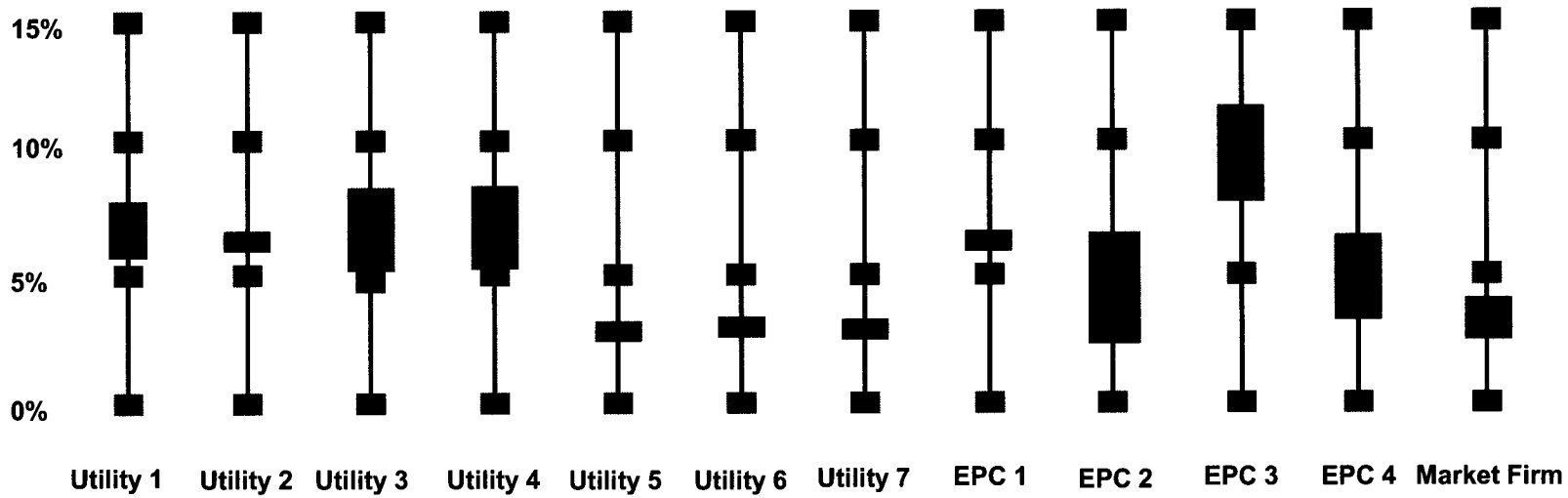


Figure 18: WETT and I-USA Interface and Touch Points

WETT	Focus Area	Frequency	I-USA
General Manager	Overall Project Performance	Monthly formal meeting	General Manager
Program Director	Operational Issues related to project progress and performance	Monthly formal meeting	Operations Director
Program Director	Procurement: supply chain issues, material shipment, vendor management	Informal weekly or daily discussions, monthly formal meetings	Procurement Manager
Controller	Finance and Accounting, such as, Invoices and Cash Management	Monthly formal meeting	CFO
Project Manager CCN1, CCN2, and CCN3	Planning, Scheduling & Managing Construction Contractors	Weekly formal meeting	Planning & Construction Manager
Contracts Manager	Contractual Issues: (Change Orders, Claims and Equitable Adjustments)	Informal daily discussions, monthly formal meetings	Contract Manager
Controller	Cost Control, Invoicing and Reporting	Informal weekly discussions, monthly formal meetings	Project Controls Manager
HSSE Manager	HSSE	Weekly meeting	HSSE Manager
Project Manager CCN1, CCN2, and CCN3	Quality Assurance/Quality Control	Informal weekly discussions, monthly formal meetings	QA/QC Manager
Engineering Manager	Engineering functions: design reviews, design changes	Informal weekly discussions, monthly formal meetings	Engineering Manager
Field Monitors (Construction, Safety)	Field construction activities	Daily meetings	Construction Manager

Source: WETT Communications Plan; Booz & Company analysis

Figure 19: WETT Asset Management Director's Role

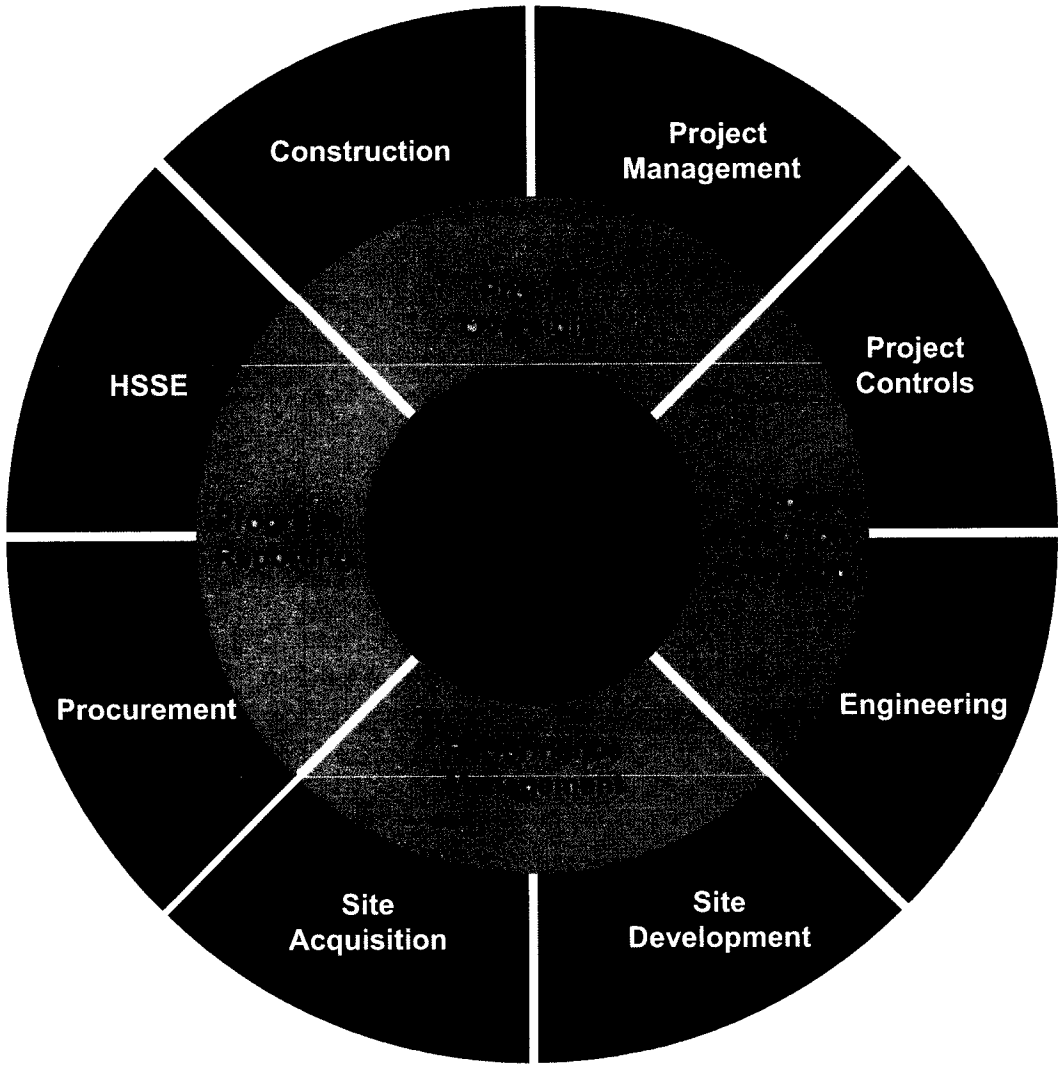
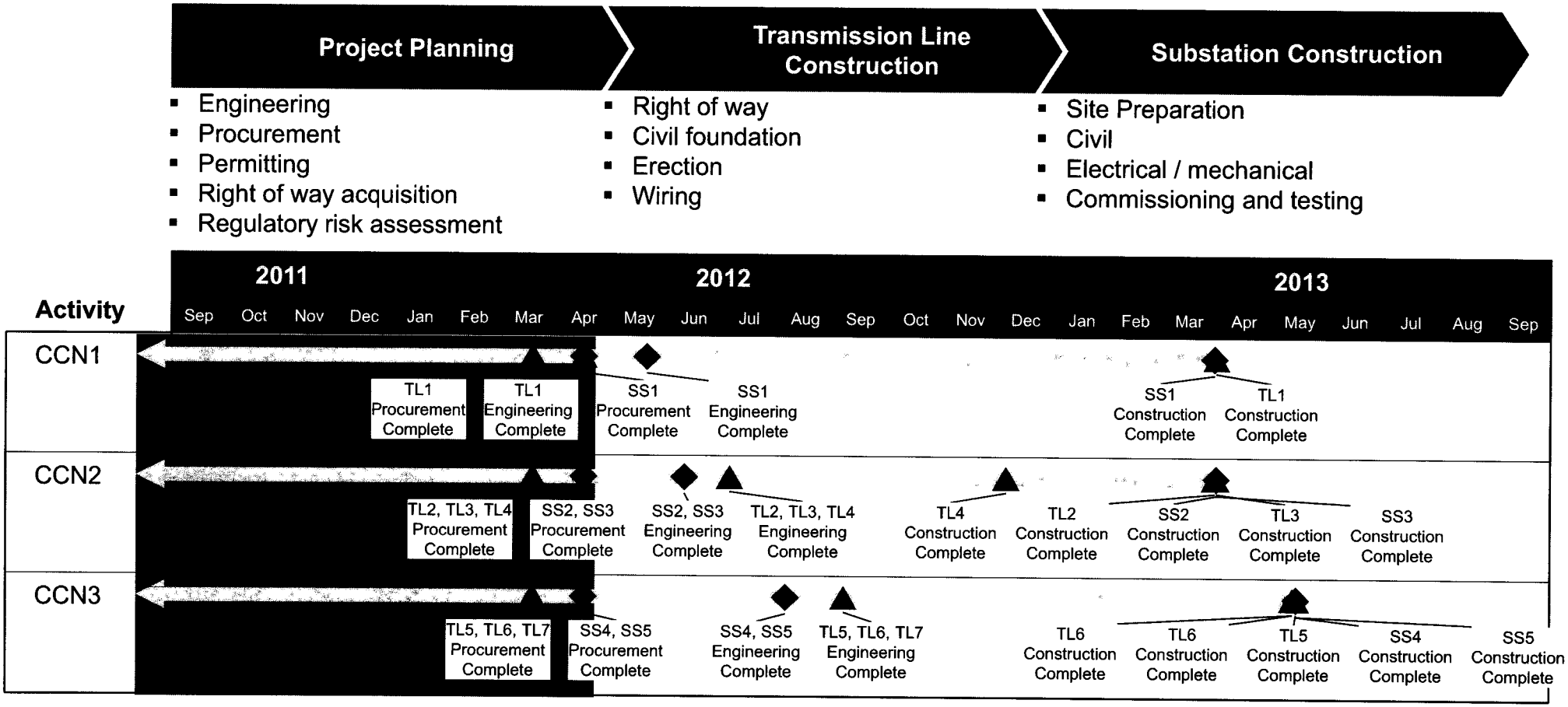


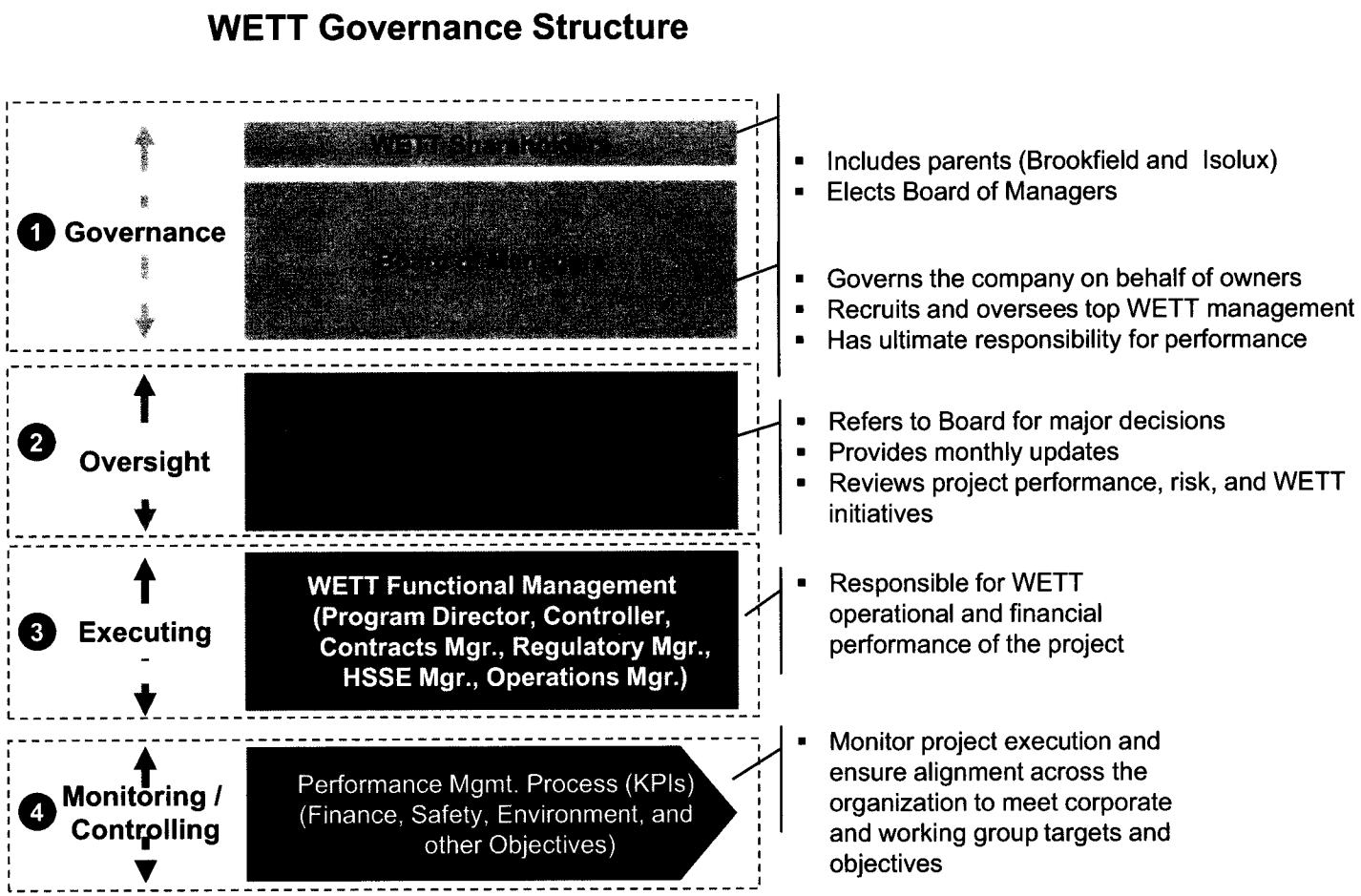
Figure 20: Overall Project Plan & Milestones



Note: 1) The Green area represents actual completion months as the precise day was not ascertainable
2) Triangles are Transmission Milestones. Diamonds are Substation Milestones. Orange is a completion of Engineering. Blue is a completion of Procurement. Red is a completion of Construction
3) "Complete" means substantial completion. Work remains for the months before energization

Source: WETT Progress Reports; Discussions with WETT Management; Booz & Company analysis

Figure 21: WETT Governance Structure

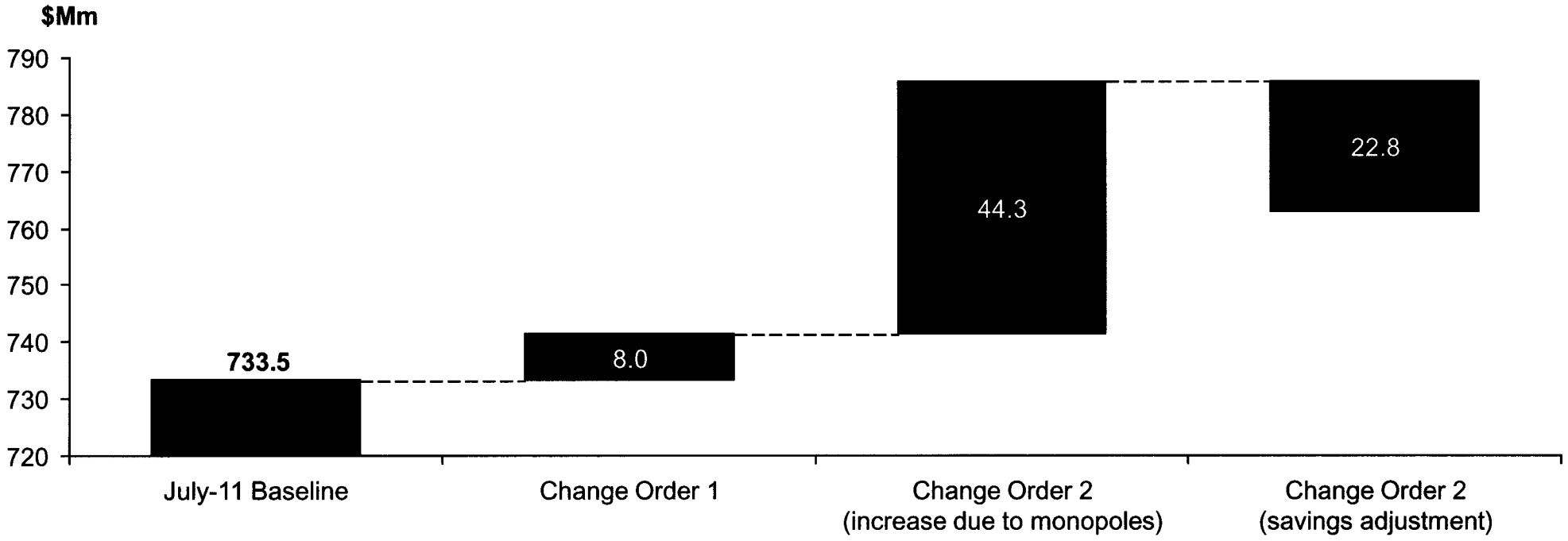


Source: Booz & Company analysis

Figure 22: Executed Change Order

Change Order No	Description of change	Effective Date	Rationale	Impact
[redacted]	Non-CREZ project to add Faraday switching station; increase in EPC Contract by $7,992,144	Dec 30, 2011	To accommodate an ERCOT approved secondary power source for Oncor via the WETT grid	Increase in project cost by $7,992,144 net No impact on original contract dates
[redacted]	Increase due to monopoles is $44,310,975; savings due to reduction in EPC costs by $22,769,302 resulting in a net increase of $21,541,672	Dec 30, 2011	Comply with CCN final orders' requirements, routing and due to landowner related issues	Net increase in project costs by $21,541,672 No impact on schedule for CCN1

Figure 23: Project Budget Adjustments



Discussion

- July 2011 – WETT Financing Baseline – $733.5 million
- February 2012 – Change Order #1 for Faraday added for $7.99 million
- March 2012 – Change Order #2 for monopoles added net of $21.54 million.
- Change Order #2 includes $44.3 million increase due to addition of monopoles and savings of $22.77 in EPC costs

Source: WETT Project Cost Variances; Booz & Company analysis

Figure 24: WETT Project Management Framework Elements

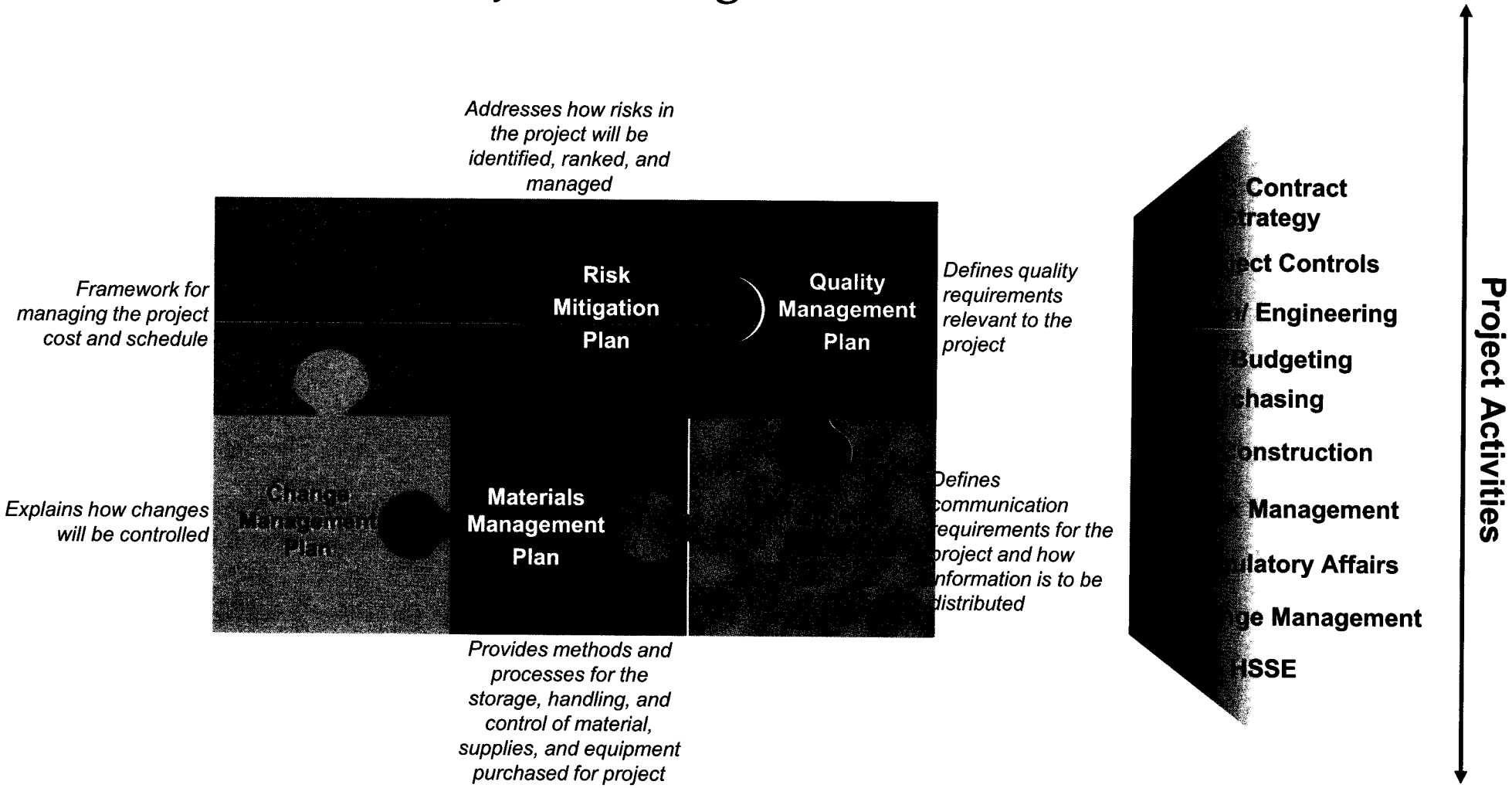


Figure 25: Project Schedule Completion Dates

Baseline Schedule[1]

Completion Dates

Function	CCN1		CCN2					CCN3				
	TL1	SS1	TL2	TL3	TL4	SS2	SS3	TL5	TL6	TL7	SS4	SS5
Engineering	1/9/12	4/24/12	6/18/12	5/9/12	6/25/12	6/21/12	6/14/12	5/9/12	5/9/12	5/9/12	7/6/12	8/10/12
Procurement	8/23/12	11/13/12	10/16/12			12/10/12		3/22/13			8/17/12	
Construction	12/21/12	12/11/12	1/30/13	3/29/13	1/30/13	3/11/13	3/21/13	6/28/13	7/31/13	8/28/13	5/6/13	5/13/13

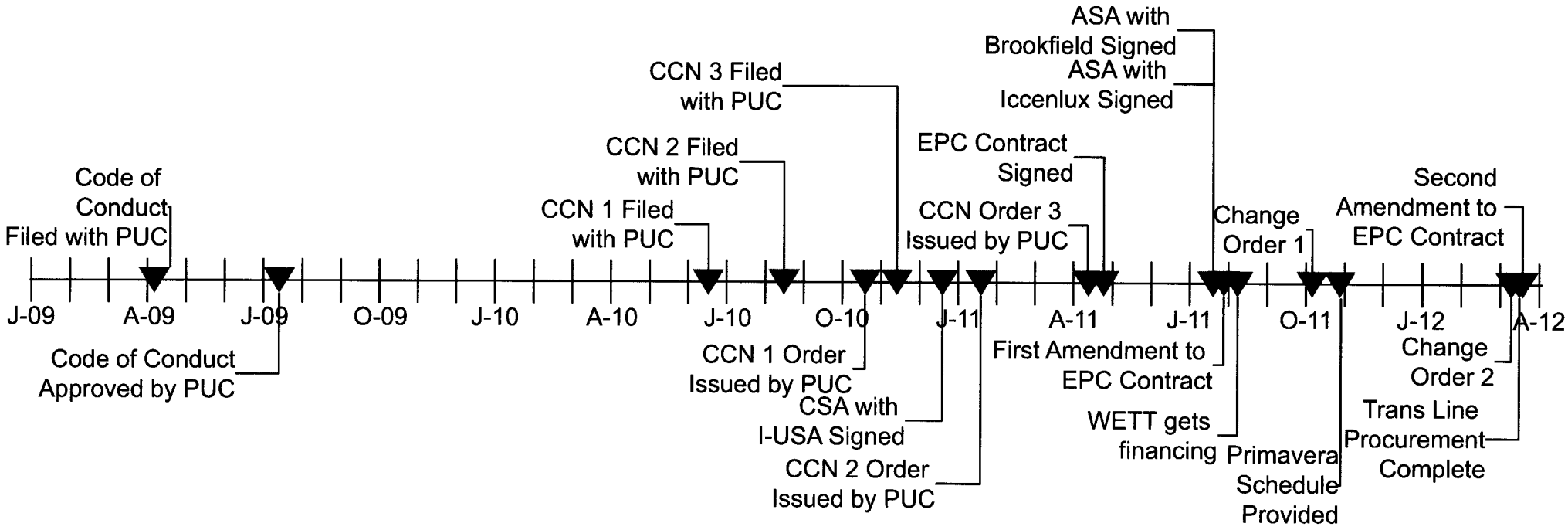
Compressed Schedule

Completion Dates

Function	CCN1		CCN2					CCN3				
	TL1	SS1	TL2	TL3	TL4	SS2	SS3	TL5	TL6	TL7	SS4	SS5
Engineering	2/9/12	5/22/12	7/6/12			6/11/12		9/7/12			7/6/12	
Procurement	7/30/12	11/13/12	9/12/12			9/17/12		11/13/12			11/14/12	
Construction	12/18/12	12/14/12	12/19/12	2/5/13	12/6/12	2/11/13	12/31/12	4/3/13	3/4/13	4/26/13	3/11/13	4/25/13

1) Rev 4 as listed in the September 2011 Board Report's EPC Schedule attachment
Source: September 2011 Board Report; February 2012, and March 2012 Construction Progress Reports; WETT Management Discussions; Booz & Company analysis

Figure 26: Major Project Events

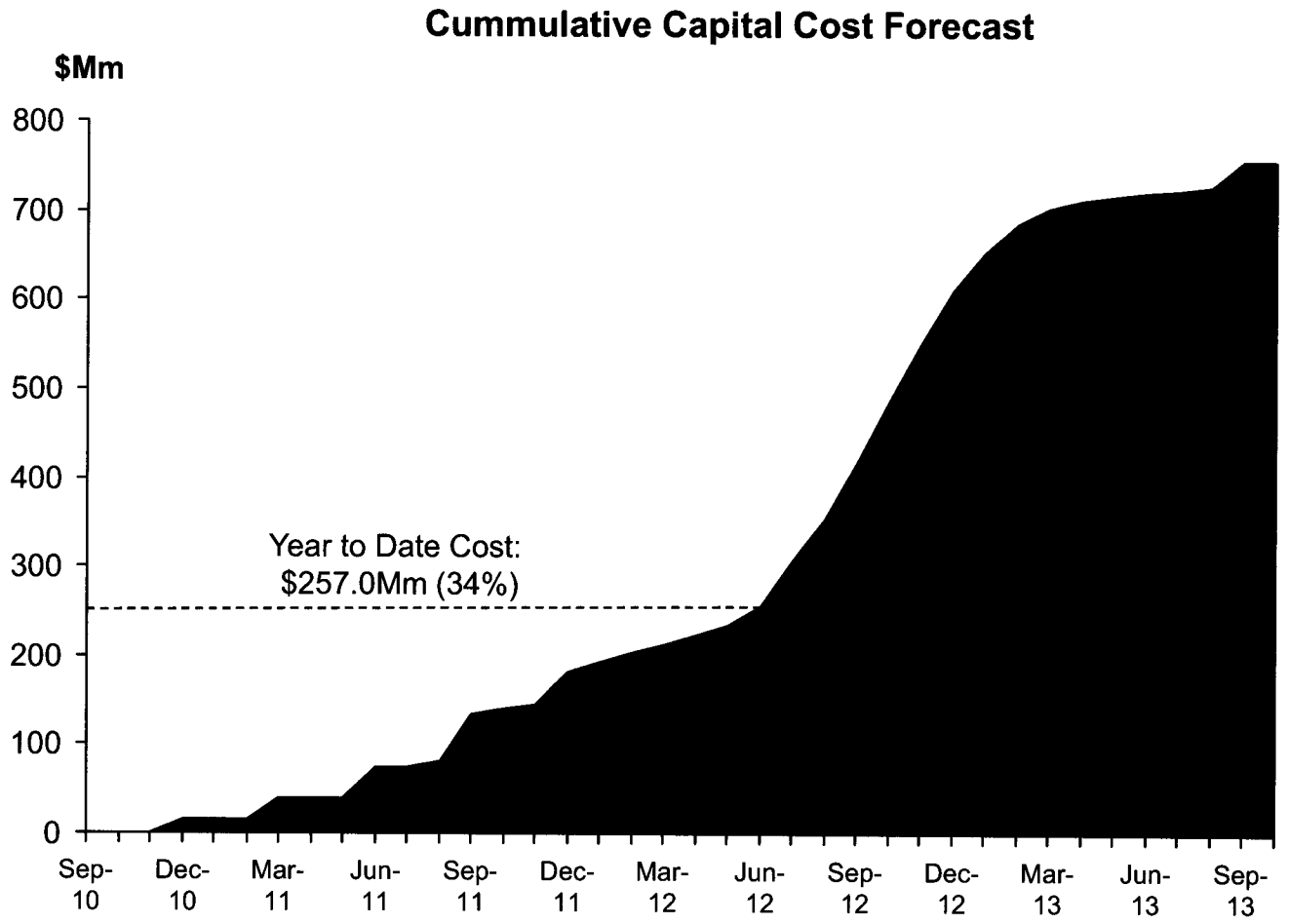


Source: Interviews; Contracts; Reports from all time frames; Booz & Company analysis

Figure 27: Project Management Mechanisms

Meeting Type	Description
WETT Staff Meetings	The WETT Staff meet weekly to discuss major events that the relevant portions of the team should be aware of. Such meetings address: 1. Internal all-hands updates 2. Project Financial Status with the Controller and leadership 3. Field Monitoring with WETT field inspectors 4. And HSSE issues in a meeting held on site. This meeting occurs only monthly
Direct Contractor Meetings	Because WETT contracts to several other companies directly, these entities are met with at weekly intervals, including: 1. Land-related meetings include ROW Survey and Acquisition meetings with KPE, Integra Realty, Survey & Mapping, the WETT real estate manager and the leadership team. 2. Additionally there is a meeting with Survey & Mapping to get similar land updates. 3. Some of the parties also take part in discussions about how WETT traverses other transmission and pipe lines in the Facility Crossing Meeting 4. HSE meetings to debrief with KPE and WETT HSE Staff 5. Regulatory affairs meetings to update parties involved with the regulatory side on all the events of the past week and plans to mitigate regulatory risks
I-USA Meetings	I-USA, as the contractor, has many direct touch-points with WETT but weekly meetings strengthen those connections and put all parties at the same information baseline 1. Design meetings with the I-USA technical leads and engineering subcontractors allow WETT engineers to provide input on design and engineering 2. Purchasing and Ordering meetings bring subcontractors in to track procurement and shipping in the supply chain 3. Weekly as well as monthly construction progress report meetings in advance of Board of Managers interactions allow the WETT team to spot and smooth out any issues that may have arisen in the prior week / month
Board Meetings	While the Board of Managers at large meets monthly to discuss construction progress, there are two weekly points of contact: 1. Competition with other Transmission lines and utilities is analyzed to determine how other CREZ projects are doing and what WETT can learn from them 2. The Board is also in regular contact with the General Manager to discuss weekly high-impact items

Figure 28: Total Project Capital Cash Curve



Source: WETT Construction Project Tracking Records; Booz & Company analysis

THIS PAGE WAS LEFT BLANK INTENTIONALLY

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

A. DARYL PULLIN

ON BEHALF OF

WIND ENERGY TRANSMISSION TEXAS, LLC

AUGUST 2012

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

LIST OF EXHIBITS

EXECUTIVE SUMMARY

I explain the services performed by SAIC as an independent advisor for WETT's transactions related to the CREZ transmission projects assigned to WETT; describe my contemporaneous observations of WETT's contract negotiations and management of the CREZ Projects; and explain how the steps WETT has taken to construct its assigned CREZ transmission facilities are reasonable, necessary, prudent, and economical.

I find that WETT has prudently structured its organization and made decisions such that processes and contracts are in place that should lead to successful completion of each part of the CREZ Projects within the schedule established by the PUC. The budgets and schedules WETT has established are reasonable and incorporate appropriate and effective control mechanisms that allow WETT to provide adequate input into service and cost levels. WETT's approach to contract management and construction monitoring is prudent, thorough, and will result in the timely and cost-effective completion of its CREZ Projects.

WETT's decision to select an affiliate to perform the EPC Contract was reasonable and prudent given the unique features of the organization, Commission review, and the prevailing market circumstances at the time this decision was made. Selecting an affiliate served to align objectives, reduce costs, expedite project execution, and mitigate risk. I-USA's services are cost competitive and the firm enjoys the backing of Isolux Ingeniería, a respected name in the EPC industry. The 4% fee in the CSA and the EPC Contract is below average as compared to similar scale contracts in the industry and less than what I-USA would charge an unaffiliated entity. The 6.29% overhead loader is consistent with what SAIC has observed in the industry.

DIRECT TESTIMONY OF A. DARYL PULLIN

I. INTRODUCTION

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

A. My name is Alvy Daryl Pullin. I am Senior Project Manager with Science Applications International Corporation ("SAIC"). I was previously Vice President of R. W. Beck, Inc. R. W. Beck was purchased by SAIC in August of 2009, but operated under the R. W. Beck name until mid-2010. My business address is 5806 Mesa Drive, Austin, Texas 78731.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I hold a BS in Mechanical Engineering Technology from Fairleigh Dickinson University and an MBA from the University of Houston. For the past 25 years, I have consulted with clients over a broad range of management advisory services, primarily in the electric and water utility industries. I have advised utility companies on how to approach and manage important enterprise-wide initiatives and projects. Prior to entering the consulting business, I worked hands-on for clients in the electric utility industry. I spent 12 years in various engineering and engineering management positions with engineering and construction companies.

Over the years my experience has been wide-ranging and includes:

- Design and engineering department management for internationally respected engineering and construction firms;

- Assisting clients involved in the Electric Reliability Council of Texas ("ERCOT") market with decisions involving wholesale and retail energy issues and the transition to retail competition;

- Serving as an expert witness before the Public Utility Commission of Texas ("PUC" or "Commission") addressing utility company management processes and cost control and addressing and evaluating the reasonableness and necessity of costs incurred or proposed by investor-owned electric utility companies in regulatory proceedings;

- Assisting many utility organizations with strategic planning, business performance measurement and development of efficient and effective management practices.

- Assisting in the development of an Engineering, Procurement, and Construction ("EPC") contract for the proposed Coleto Creek 2 electricity generating facility in Texas.

This experience is set forth in my resume, a copy of which is attached as Exhibit ADP-1.

In addition to my experience, other SAIC professionals assigned to the team assisting WETT possess extensive experience on Design-Build and EPC contracts. Recent team members' experiences include at least eight significant transmission projects, including four high-voltage projects (up to 500 kV), and two generation plants.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY TO THE PUC?

A. Yes. I have previously testified as an expert witness before the PUC in Docket Numbers 8425, 9850 and 9850-S, 12065, 22355 and 28840.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to explain the services performed by SAIC as an independent advisor for WETT's transactions related to the Competitive Renewable Energy Zone ("CREZ") transmission projects assigned to WETT in PUC Docket No. 37902 ("CREZ Projects"); to describe my contemporaneous observations of WETT's

contract negotiations and management of the CREZ Projects; and to explain how the steps WETT has taken to construct its assigned CREZ transmission facilities are reasonable, necessary, prudent, and economical.

Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

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

Q. WERE YOUR TESTIMONY AND THE EXHIBITS ATTACHED THERETO PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes.

III. SUMMARY OF TESTIMONY

Q. WHAT ARE THE KEY ELEMENTS OF YOUR TESTIMONY?

A. My testimony is organized as follows:

- First, in Section IV(A), I note the test from the Texas Public Utility Regulatory Act ("PURA") against which WETT's decisions were measured, followed by an overview of SAIC's involvement with WETT and its role as an independent advisor—experience which provided the input for evaluating the reasonableness and prudence of WETT's expenditures—and other inputs used in my assessment in Section IV(B).

- After that, I provide a detailed assessment of:

  - WETT's EPC budgets and schedules in Section IV(C);

  - the contracting process for Affiliate Services Agreements ("ASAs") between (1) WETT and Iccenlux Corp ("Iccenlux"), a subsidiary of Isolux Corsán Concesiones, S.A. ("Isolux Concesiones), which is a subsidiary of WETT's ultimate parent company, Grupo Isolux Corsán, S.A. ("Grupo Isolux") and between (2) WETT and Brookfield Power US Asset Management LLC ("Brookfield Power"), which is a subsidiary of Brookfield – CREZ SPV LLC, which is a subsidiary of WETT's other ultimate parent company, Brookfield Asset Management, Inc. ("Brookfield") in Section IV(D);

  - the contracting process for the Consultant Service Agreement ("CSA") with Isolux Ingeniería USA, LLC ("I-USA"), which is a subsidiary of a different Grupo Isolux subsidiary, Isolux Ingeniería, S.A. ("Isolux Ingeniería"), in Section IV(E);

- the contracting process for the EPC agreement between WETT and I-USA (the "EPC Contract") in Section IV(F); and
- WETT's EPC Contract management and construction monitoring in Section IV(H).

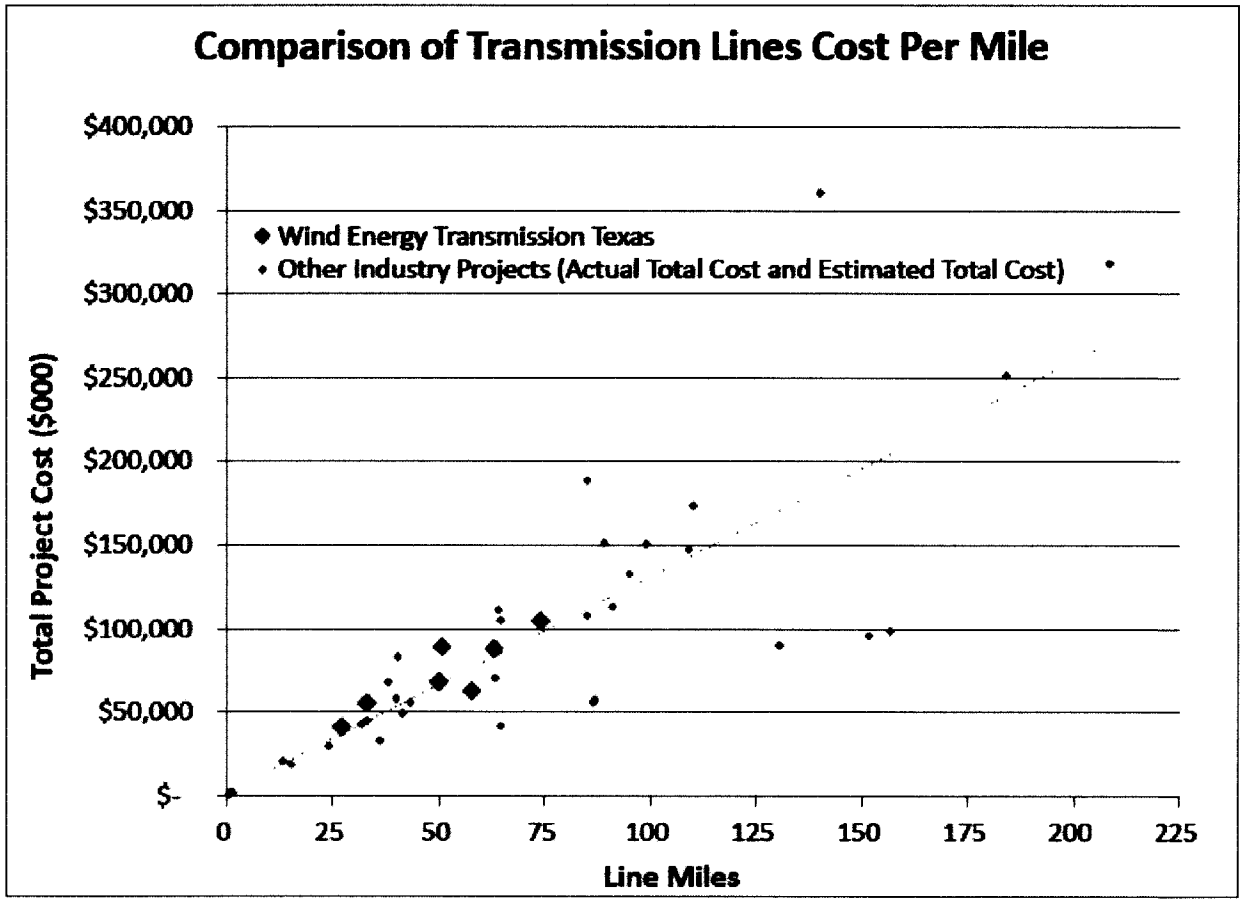
- At the end, I give a summary of all my conclusions in Section V.

Q. WOULD YOU PLEASE SUMMARIZE YOUR ASSESSMENT OF WETT'S MANAGEMENT OF ITS CREZ PROJECTS, INCLUDING ITS CHOICE TO WORK WITH AFFILIATES?

A. My extensive observations of WETT's actions cause me to conclude that WETT has taken reasonable, necessary, and prudent steps to efficiently and adequately construct, and later maintain and operate, its assigned CREZ transmission facilities at a reasonable cost – including WETT's choice to work with, and its interactions with, affiliates. Overall, the cost projections WETT developed with SAIC's guidance indicate that WETT's projected costs are in line with or lower than that of other transmission service providers ("TSPs") in the market. With particular regard to affiliate transactions (as also discussed in the direct testimony of Thomas Flaherty), the costs charged by I-USA to WETT compare favorably to industry standards and are no higher than what I-USA would charge an affiliate or an unaffiliated third party.

Comparing WETT's projected costs to those of other providers in this industry shows that WETT's average estimated transmission line cost per mile is within the range of average costs established by the marketplace, as depicted in Figure 1, below.

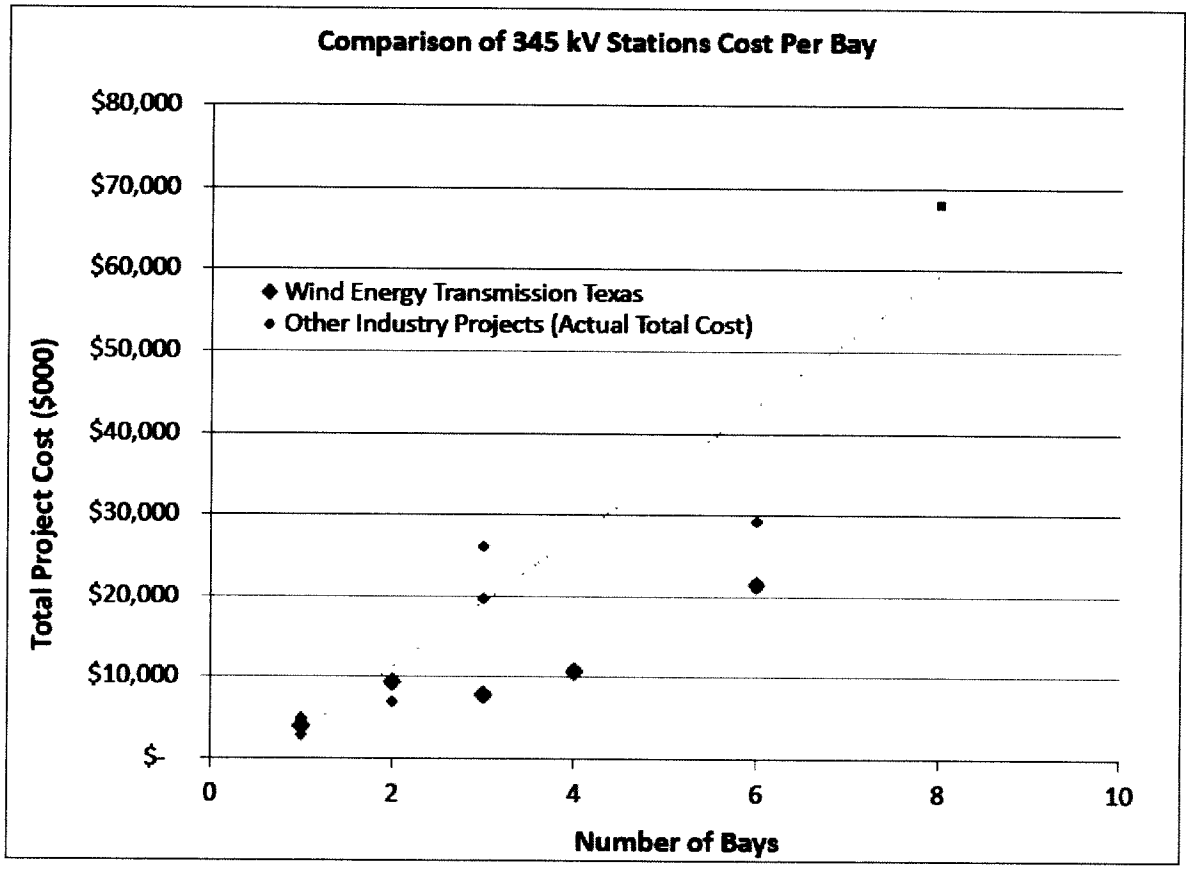
Figure 1: WETT Transmission Line Cost vs. Industry Average



Likewise, WETT's average estimated switching station cost per bay[1] is also within the range of average switching station costs established by the marketplace, as depicted in Figure 2, below.

[1] A switching station bay is an standard description used in the industry to generally present the size of the station. It should be noted that some of the comparison projects included in the figure may be substations, which contain transformers (WETT's switching stations do not).

Figure 2: WETT Switching Station Cost vs. Industry Average



IV. ASSESSING WETT'S DECISIONS IN THE CREZ PROJECTS

Q. WHAT ASPECTS OF WETT'S DECISION-MAKING DURING THE CREZ PROJECTS WERE YOU ASKED TO ASSESS?

A. I was asked to assess WETT's decisions and expenses incurred with respect to the EPC process, corporate services, and contract management and construction monitoring.

A. STANDARDS FOR JUDGING THE PRUDENCE OF WETT'S DECISION-MAKING DURING THE CREZ PROJECTS

Q. WHAT ARE THE STANDARDS BY WHICH THE PRUDENCE OF WETT'S DECISION-MAKING DURING THE CREZ PROJECTS IS JUDGED?

A. My assessment of WETT's decision-making is based upon my understanding of the standards in PURA and the Commission's rules.

For example, the Commission's definition of what is generally considered "prudent" with regard to recovery in rates of an electric utility's expenditures is: "... 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 at the point of time such judgment is exercised or action is taken."[2]

PURA includes additional safeguards for analyzing prudence in situations involving work sourced from affiliates. PURA § 36.058(c) states that payments to affiliates must be determined to be reasonable and necessary, including:

(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.

Further, PURA § 36.058(d) states: "In making a finding regarding an affiliate transaction, the regulatory authority shall: (1) determine the extent to which the conditions and circumstances of that transaction are reasonably comparable relative to

---

[2] *Application of Houston Lighting and Power Company for a Rate Increase,* Docket No. 5779, 12 P.U.C. BULL. 261, 279 (Jan. 11, 1985); *accord Inquiry of the Public Utility Commission of Texas into the Prudence and Efficiency of the Planning and Management of the South Texas Nuclear Project, et al.,* Docket Nos. 6668, 8425, and 8642, 16 P.U.C. BULL. 183, 206, 483 (CoL 9) (June 20, 1990); *Application of Gulf States Utilities Company for Authority to Change Rates, et al.,* Docket Nos. 7195 and 6755, 14 P.U.C. BULL. 1943, 1970, 2429 (CoL 14) (May 20, 1088); *Inquiry of the Public Utility Commission of Texas Concerning the Fixed Fuel Factor of Gulf States Utilities Company,* Docket Nos. 6525 and 6477, 12 P.U.C. BULL. 1043, 1097 (Oct. 15, 1986).

quantity, terms, date of contract, and place of delivery; and (2) allow for appropriate differences based on that determination."

These provisions regarding affiliates apply to WETT, because WETT has affiliate relationships and costs that fall into two classes: corporate support services and construction support services.[3]

Corporate support services are provided under ASAs between WETT and its affiliates Isolux Concesiones and Brookfield Power, and may include such traditional "back-office" affiliate support services as finance, budgeting and regulatory support.

Construction support services are provided to WETT by I-USA, whose parent company is Isolux Ingeniería, a different subsidiary of Grupo Isolux, under the EPC Contract and a CSA that was a precursor to the EPC Contract. The goods and services provided under the EPC Contract include all labor and materials associated with the construction of the CREZ Projects assigned to WETT by the Commission. Under the EPC Contract, I-USA (together with its subcontractors and suppliers) is 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.

I believe WETT's affiliate interactions comply with PURA's affiliate standards. My opinion is based upon my observations while acting as part of the SAIC team that served as an independent advisor to WETT. In this role, SAIC assisted WETT by providing disinterested third-party objective opinions on contractual terms and conditions for WETT's contract negotiations. It is through this experience with WETT, along with

[3] Both corporate support services and construction support services are also discussed in the direct testimonies of Mr. Morton, Mr. Perlman, and Mr. Flaherty.

my and the rest of the SAIC team's experience in the industry, that I assess the prudence of WETT's actions in comparison with industry standards. Additional inputs forming the bases of my opinions are described in Section IV(B), below.

B. INFORMATION USED TO PERFORM THE ASSESSMENT

Q. WHAT ARE THE PRIMARY SOURCES OF INFORMATION USED IN MAKING YOUR ASSESSMENT?

A. The primary source of information used to assess WETT's actions for compliance with PURA's standards was SAIC's experience in working with WETT on WETT's CREZ Projects. WETT's actions and choices were compared to the standards in PURA as well as to industry standards known to SAIC by virtue of its long and deep participation in the industry.

Q. CAN YOU PROVIDE A BRIEF HISTORY OF SAIC'S INVOLVEMENT WITH WETT?

A. SAIC was retained under a CSA by WETT in May of 2010 as an independent advisor for its CREZ Projects. SAIC was originally hired to perform certain tasks, as well as to serve as general advisor to WETT management and its Board of Managers on issues as they arise, though SAIC's assignment evolved over time. The tasks originally assigned were to:

1. Assist in developing the EPC contractor Request for Proposal ("RFP"), in the event that an RFP were necessary;
2. Evaluate contractor proposals and recommend candidates to be awarded the EPC Contract;
3. Monitor the EPC Contract/construction performance;
4. Provide rate case support and testimony; and
5. Serve as general advisor to WETT management.

For the first task, SAIC assisted WETT in preparing an RFP which could be used to obtain bids for selecting an EPC contractor and for construction support services for WETT's CREZ Projects (should a bidding process be necessary). Related activities included:

- Developing an EPC contract-formation and contractor-selection schedule; and
- Identifying and describing general elements to be included in the RFP, including:
  - developing a timeline/schedule for achievement of key EPC events;
  - identifying functional requirements for transmission lines and substations and development of certain other Appendices to be included in the EPC Contract;
  - defining the responsibilities of WETT, the EPC contractor, and the owner's engineer for delivery of the project;
  - examining project risks and their impacts; and
  - advising on commercial Terms and Conditions for the EPC Contract.

While SAIC began the RFP-related activities noted above, WETT filed for a waiver of its Code of Conduct from the PUC to enable it to contract with an affiliate, specifically, I-USA, a subsidiary of Isolux Ingeniería, to perform the required EPC functions. When the PUC approved the waiver in November 2010, WETT asked SAIC to adapt the draft RFP into a Consultant Service Agreement, or CSA, with I-USA. The CSA made possible initial design work on WETT's transmission project while EPC negotiations took place. Because WETT used the RFP as the basis for negotiating the EPC Contract with I-USA, WETT was able to utilize SAIC's work preparing the RFP in developing the EPC Contract.

Also during this time, WETT asked SAIC to assist in the development of the Affiliate Services Agreements, or ASAs, to be used by WETT for obtaining corporate support services from Brookfield Power and Iccenlux.

Accordingly, SAIC's role as independent advisor evolved to include the following major areas of activity:

1. CSA development;
2. EPC contract development;
3. ASA contract development;
4. EPC management and construction monitoring;
5. Prudence review; and
6. Rate case testimony.

In short, SAIC helped WETT structure and negotiate several important contracts with affiliates and others, and now helps WETT administer those contracts. SAIC has provided prudence review at all stages, and is now providing its conclusions regarding prudence in support of WETT's rate case.

Q. WOULD YOU SUMMARIZE SAIC'S INVOLVEMENT IN WETT'S CONTRACT DEVELOPMENT?

A. SAIC acted as WETT's independent advisor and was heavily involved in contract planning, structuring, and review of contract costs for the ASAs with Brookfield Power and Iccenlux, and the CSA and EPC Contract with I-USA. SAIC's advice was based on its extensive experience and the standard industry practices it has observed in the market place.

WETT and SAIC conducted a comprehensive planning phase for these contracts, which preceded the formulation of contracting strategy. Together the companies performed an assessment of WETT's capabilities and worked to identify and mitigate gaps in WETT's processes and resources. SAIC advised WETT as to regulatory

reporting standards for the scope and duration of all the CREZ Projects. WETT also decided upon a "lean" staffing plan; that is, with SAIC's advice, WETT decided to minimize staff numbers to keep its overhead low and to avoid unnecessary staffing costs after the initial transmission build-out is complete.

WETT and SAIC also worked together to determine the most appropriate contracting strategy for the EPC work. Specifically, several contracting models were studied and analyzed to determine which approach would best fit WETT's needs and objectives. Among others, WETT and SAIC considered structuring the EPC Contract as: lump sum, fixed price with escalation, or hybrid with cost plus. SAIC helped WETT analyze the tradeoffs between the various approaches and the implications for overall cost and project execution. Considerations included:

- distributing risk in a way that was acceptable to WETT;
- various pricing and incentive structures, including cost incentives, performance incentives, end-of-project bonuses, cost caps, and performance bonds;
- various approaches meant to align vendor interests with overall project goals;
- the degree of involvement in EPC project execution required from WETT;
- governance and decision rights;
- contractor and vendor management; and
- methods for tracking project progress.

Based on an analysis of these factors, WETT chose to enter into a cost-plus "open book" EPC Contract with cost caps subject to adjustment for certain limited circumstances, such as change orders resulting from defined "equitable adjustment events." These contract terms are discussed in more detail in Section F of my testimony, below, and in the direct testimony of Mr. Flaherty.

Thereafter, WETT and I-USA worked to develop detailed commercial terms and conditions and related project schedules and milestones.

Next, I observed and actively participated in EPC Contract negotiations. I observed that these EPC Contract negotiations took place on an arm's-length basis; WETT and I-USA had separate legal counsel and negotiated in the same manner that two unaffiliated entities would negotiate.

Also, as part of the project planning effort, WETT reviewed several subcontractors and compiled a list of preferred vendors. Preferred vendors are subcontractors deemed capable of efficiently supplying necessary goods or services of the necessary quality. SAIC assisted in this part of the process as well.

SAIC's involvement in contract planning is discussed in more detail with respect to each of the three contracts discussed herein in Section IV(D, E, and F), below.

Q. WOULD YOU SUMMARIZE SAIC'S INVOLVEMENT IN WETT'S CONTRACT ADMINISTRATION?

A. SAIC has been deeply involved in WETT's administration of the ASAs, the CSA, the EPC Contract, and construction monitoring. Specifically, SAIC assists WETT with prudent contract management and construction monitoring by advising WETT on Change Orders or Equitable Adjustment Events and their implication for overall project execution, and providing general guidance on contract management. ("Equitable Adjustment Events" are defined in the EPC Contract as certain circumstances that could not reasonably be foreseen, such as legislative or legal requirements. This element is a standard component of most EPC contracts.) In particular, SAIC helps monitor performance under the EPC Contract through, among other things, weekly and monthly

project status and update meetings and detailed project status reporting. SAIC also periodically attends informal meetings and the monthly meetings of the WETT Board of Managers at WETT's request. Finally, SAIC performs site inspections.

I discuss SAIC's involvement in contract administration in more detail in Section IV(G), below.

Q. WHO AT SAIC HAS PERFORMED THESE VARIOUS ACTIVITIES?

A. I lead a team of senior-level professionals consisting of financial experts, professional engineers, and other specialists possessing experience with transmission facilities design and construction, contract development, cost estimating and budgeting, project scheduling, and other aspects of capital projects similar to WETT's CREZ Projects.

Primary contributors within the SAIC team are:

- Stephen Baumgart, P.E.: Mr. Stephen Baumgart is a professional civil engineer with 20 years of experience working with a variety of consumer-owned and investor-owned utilities. His experience consists of high-voltage and extra-high-voltage transmission line planning, design and construction. He assists clients in the development of EPC and other alternative delivery projects, including the preparation of contract documents, performance-based specifications and other relevant contract administration requirements. His experience includes supporting clients by monitoring the performance of engineers and contractors responsible for execution of the work.

- Ivan Clark, P.E.: Mr. Clark leads SAIC's program management and owner's engineering services for major projects for public and private clients primarily in the energy market. With over thirty years in the industry, he has a wide range of experience in planning, analyses, design, and operation of electric utility systems for clients throughout the United States. His background includes project management and supervision of multidisciplinary teams in providing owner's engineering services for new project development and contracting, design and construction, independent reviews for project finance, power supply planning studies, power plant feasibility studies, technology review studies, licensing and

permitting studies, transmission planning studies and the design and construction of electric transmission and substation facilities. Mr. Clark has appeared as an expert witness before numerous state regulatory agencies on matters concerning the planning, construction and licensing of power plants and transmission/substation facilities.

- Charles Williams, P.E.: Mr. Williams has had program management, project management and engineering responsibility for a wide range of power planning, routing, design, and construction projects for circuits through 500-kV ac and 100-kV dc. His over 30 years of professional experience includes the development of project concepts and design criteria, preliminary design, final design and contract administration and construction management. He has prepared analysis for and participated in public hearings for transmission line projects and made presentations before regulatory bodies. Mr. Williams has provided opinions, deposition and testimony related to transmission line design, EMF, and project costs. He has been involved in development of contracts for public and private utilities utilizing a wide range of project delivery scenarios including design-bid-build, design-build, EPC, and alliance contracting mechanisms. He has been involved in contract negotiations, settlement discussions and dispute resolution proceedings. He has been integrally involved in more than 75 projects in over twenty states and overseas.

All SAIC work done for WETT has been performed by me or by these and other SAIC professionals under my direct supervision.

Q. WHAT OTHER INFORMATION WAS USED BY SAIC IN EVALUATING WETT'S DECISIONS ON ITS CREZ PROJECTS?

A. In addition to the considerable personal experience of our team members in the industry in general, and in working with WETT in particular as described above, we reviewed documents critical to this endeavor by WETT. These include:

1. Documents outlining the governing structure of WETT. The agreement between Brookfield and Isolux Concesiones splits WETT's Board of Managers 50/50 between subsidiaries of Brookfield and Isolux Concesiones. (Giving each owner equal decision-making authority over the project prevents either parent from acting unilaterally, thus helping to prevent self-dealing: each owner's interest lies in ensuring that costs billed to WETT by the other owner are reasonable and justified, so the owners' joint investments and expenditures are recoverable. Since WETT's owners both have broad experience and expertise in management of large projects like transmission lines, they are well equipped to make sure

charges incurred by WETT—including affiliate charges—are reasonable or necessary.)

2. WETT's Application to become a CREZ transmission provider in PUC Docket No. 35665, as well as transcripts of the hearing in that docket.

3. WETT's Code of Conduct and the Limited Waiver of WETT's Code of Conduct approved in PUC Docket Nos. 36856 and 38568.

4. WETT's applications for Certificates of Convenience and Necessity ("CCNs") in PUC Docket Nos. 38295, 38484, and 38825 (referred to by WETT respectively as "CCN1," "CCN2," and "CCN3").

As suggested by my summary of SAIC's involvement with WETT, SAIC also reviewed project forecasted budgets and schedules, and various contracts among WETT and affiliates, such as:

1. Project budget projections and forecasted schedules;

2. ASAs between WETT and subsidiaries of Brookfield and Isolux Concesiones;

3. The CSA between WETT and I-USA, a subsidiary of Isolux Ingeniería;

4. The EPC Contract between WETT and I-USA; and

5. Amendments and change orders to the EPC Contract.

Finally, SAIC continually reviews various procurement and construction status reports and progress reports required by the EPC Contract that are regularly exchanged between WETT and I-USA, such as:

1. Actual Project Progress Reports including actual costs and schedule status reports;

2. Procurement and Equipment Reports, including purchasing status and material and equipment supply status;

3. Invoicing Forecasts;

4. Budget, Invoicing, and Payment Reports;

5. I-USA Staffing Reports for Austin, Big Spring, and construction sites;

6. Right-of-Way, Environmental and Permit Issues Report;

7. Quality Assurance and Quality Control Reports; and

8. Health, Safety, Security, and Environmental Reports.

C. ASSESSMENT OF THE CONSTRUCTION SUPPORT SERVICES BUDGET PROJECTIONS AND SCHEDULES

Q. HOW DID SAIC EVALUATE THE INITIAL CCN1, CCN2, AND CCN3 BUDGET PROJECTIONS AND SCHEDULES?

A. WETT developed budget projections and schedules for its CCN applications. CCN cost projections were developed with the assistance of SUN Technical Services, Inc. SAIC reviewed these estimates. During our assessment of WETT's original projections, we compared WETT's average estimated cost per mile for its CREZ Projects with the published estimates for other new entrants to the Texas transmission infrastructure and found that WETT's estimate of average cost per mile was within the range of estimated costs from other CREZ providers for similar types of construction. SAIC also attempted to compare WETT's estimated costs for its CREZ Projects with the per-mile costs estimated in the Texas CREZ Transmission Optimization Study ("CTO Study"). WETT's estimates generally varied from the CTO Study's costs for the following reasons: differences in mileage of the particular segments, due in part to the fact that the CTO Study used straight-line distances between substations whereas actual transmission lines must turn periodically to avoid constraints or follow existing infrastructure; differences in mileage due to error with respect to Segment 6, which the CTO Study erroneously listed as six miles long instead of the straight-line estimate of 30 miles long; the use of monopoles, which tend to be more expensive than lattice structures on a per-mile basis; and generic real estate acquisition cost estimates that were used in early projections. Due to these variances, it is difficult to make a true cost comparison.

Q. HOW DID SAIC EVALUATE THE BUDGET PROJECTIONS AND SCHEDULES FOR THE CSA?

A. The CSA between WETT and I-USA was executed on December 15, 2010. Construction support services under the CSA included engineering tasks and material specifications defined by "Task Releases." A Task Release describes specific work requested by WETT; it contains a scope-of-work description and cost and schedule estimates for the task it describes. As WETT has identified tasks to be performed through Task Releases, SAIC reviews each of these budget projections. Because the CSA was essentially developed for engineering services, associated costs were predominantly driven by billing rate ranges for the various personnel classifications. Billing rates are developed by I-USA based upon I-USA's allocated costs, which result in an approved range of billing rates for relevant personnel. SAIC and WETT reviewed the billing rates proposed by I-USA to insure the rates appropriately reflected the cost of providing the services and were comparable to what would be expected within the industry for the services provided. Additionally, the rates charged by I-USA under the CSA are no higher than what I-USA would charge another affiliate or an unaffiliated third party for the same services.

Each Task Release specified an estimated date for when the work was to be complete. The completion date was based on the overall project schedule considering the required in-service date for the transmission lines and switching stations. SAIC conferred with WETT on the appropriateness of the schedule estimates.

Q. HOW DID SAIC EVALUATE THE BUDGET PROJECTIONS AND SCHEDULES USED FOR CONSTRUCTION SUPPORT SERVICES IN THE EPC CONTRACT?

A. SAIC evaluated the budget projections and schedule used for construction support services in the EPC Contract by comparing them to SAIC's experience in the industry as a whole. The EPC Contract contains a Maximum Project Amount, which is a cap on the total value of the EPC Contract, subject to any amendments or Change Orders issued by WETT. Before agreeing to the Maximum Project Amount, WETT required I-USA to develop budget projections based on preliminary pricing from potential subcontractors and equipment suppliers. WETT and SAIC reviewed all cost estimates provided by I-USA. For example, for I-USA labor rates, SAIC verified that labor rates used in the CSA were also used in the EPC Contract and were reasonable based upon SAIC's industry experience; SAIC then included hourly rate ranges in Exhibit C to the EPC Contract. Subcontractor services costs and equipment and material costs were evaluated to ensure the costs compared favorably to similar costs on other projects with which SAIC had experience or knowledge. SAIC also conferred with WETT staff to understand the overall project schedule. SAIC confirmed, based on its experience with similar projects, that the schedule was reasonable to complete each phase of the CREZ Projects by the target dates. SAIC reviews and assists with updates and/or changes to the overall project schedule.

Q. HAVE WETT'S BUDGETS VARIED BETWEEN INITIAL PROJECTIONS AND COSTS DESCRIBED IN THE EPC CONTRACT?

A. As one would expect, estimated costs for these projects have evolved over time as additional factors are included and more specific cost estimates or actual costs become available. For example, initial CCN projections are updated by WETT in six-month and annual compliance filings filed in PUC Project No. 37858. After the development of detailed costs in the EPC Contract, the costs presented in the compliance reports are somewhat different from the costs initially reported in WETT's CCNs. These differences are primarily attributable to the inclusion of certain costs in the six-month compliance reports that were not included in the CCN estimates, such as CCN proceeding costs, financing costs, and legal and appraiser fees associated with eminent domain work. Typically, one would expect that the farther a project progresses, the more thorough and inclusive associated cost estimates become. WETT's cost estimates prepared at different times reflect this expectation.

Q. HOW DID SAIC EVALUATE THE BUDGET ESTIMATES AND SCHEDULES USED FOR EPC CONTRACT AMENDMENTS AND CHANGE ORDERS?

A. WETT has provided and will provide all proposed Change Orders to SAIC for review. Change Order No. 1 to the EPC Contract addressed Faraday Switching Station which was executed with an effective date of December 30, 2011. The Faraday Switching Station is a CREZ-related substation, subsequently approved by ERCOT. This Change Order was approached in much the same manner as the budgets and schedules in the EPC Contract. Change Order No. 2 addresses the need to use monopoles rather than lattice towers in CCN2 (parts of Segments 2, 3 and 4) and CCN3 (all of Segment 6 and parts of 7), as ordered by the PUC. It was also executed with an effective date of December 30, 2011. At WETT's request, SAIC evaluated the budget projections and

schedule used for construction services and reported back to WETT. In addition to those Change Orders, WETT is currently considering an EPC Contract amendment which would alter previous schedules in order to better coordinate construction completion dates with various subcontractors and other interconnecting CREZ TSPs. This amendment has not yet been executed but is anticipated, as reflected in a letter between WETT and I-USA which is included in my workpapers.

Q. HOW DID SAIC EVALUATE THE BUDGET PROJECTIONS AND SCHEDULES FOR PROJECT PROCUREMENT ACTIVITIES?

A. I and other SAIC personnel have observed that I-USA uses a competitive bidding process for securing services and materials for the project. Service and material providers are approved through a qualification process involving WETT. In this qualification process, providers respond to a list of questions provided by I-USA, and after possible follow up, those whose responses meet the requirements are pre-approved. Bids are submitted by pre-approved providers in response to RFP scope statements prepared by I-USA. Bids received by I-USA are evaluated, the highest ranked proposers are shortlisted, and the shortlisted proposers are requested to submit Best and Final Offers. Generally, I-USA recommends awarding a task to the lowest priced, qualified bidder. Schedules for completing procurement activities are driven by the subsequent (or successor) activities identified in the project schedule.

WETT submits proposed major subcontracts and purchase orders developed by I-USA to SAIC for review and comment. WETT evaluates SAIC's comments and recommendations and discusses the necessary changes with I-USA.

Q. WHAT ARE YOUR CONCLUSIONS AS TO THE PRUDENCE AND EFFECTIVENESS OF WETT'S BUDGET PROJECTIONS AND SCHEDULES?

A. Cost estimates initially prepared for each of WETT's CCNs were professionally performed and in line with other CREZ TSPs' cost estimates. Since that time, budgets and schedules developed by WETT with SAIC's advice for construction support services are reasonable and consistent with market standards. Cost estimates prepared by I-USA for the procurement work covered by the EPC Contract were completed after going to the market for competitive bids. SAIC concludes that WETT's project budget projections for construction support services have been reasonable and valid when compared to current industry costs for similar services and material.

Q. PLEASE DESCRIBE HOW WETT MONITORS BUDGETS AND SCHEDULES.

A. I-USA tracks all aspects of the CREZ Projects with scheduling software called Primavera. This software is commonly used in the industry and utilizes Gantt charts to allow for thorough tracking of the overall schedule for complex projects such as this one. Primavera allows WETT to simultaneously monitor schedules for many distinct construction activities, identify critical paths, and calculate budget implications if any processes deviate from scheduled deadlines. This very detailed schedule, originally created in Microsoft Project, has approximately 2,000 line items that cover tasks such as permitting, ROW acquisitions, EPC, testing, and commissioning. WETT field personnel frequently validate reported construction and procurement progress by onsite inspections. WETT follows project expenditures through weekly and monthly progress reports provided by I-USA. These reports are validated by WETT project managers and