



Control Number: 40606



Item Number: 55

Addendum StartPage: 0

SOAH DOCKET NO. 473-13-0218
PUC DOCKET NO. 40606

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

**WIND ENERGY TRANSMISSION TEXAS, LLC'S RESPONSE TO
THE STEERING COMMITTEE OF CITIES SERVED BY ONCOR'S
SECOND REQUEST FOR INFORMATION**

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

Wind Energy Transmission Texas, LLC ("WETT") files this Response to the
aforementioned requests for information.

I. PROCEDURAL HISTORY

WETT received Cities' Second RFIs by fax on September 26, 2012. Pursuant to P.U.C.
PROC. R. 22.144(d), these Responses are timely filed on or before October 16, 2012.

II. WRITTEN RESPONSES

Attached hereto and incorporated herein by reference are WETT's written responses to
the aforementioned requests for information. Each such response is set forth separately beneath a
restatement of the relevant request. Such responses are made without waiver of WETT's right to
contest the admissibility of any such matters upon hearing. WETT hereby stipulates that its
responses may be treated by all parties exactly as if they were filed under oath.

III. INSPECTIONS

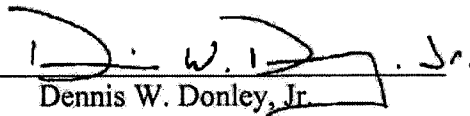
In those instances where materials are to be made available for inspection by request or in
lieu of a written response, the attached response will so state. For those materials that a response
indicates may be inspected at WETT's voluminous room, please call at least 24 hours in advance
for an appointment in order to assure that there is sufficient space and someone available to
accommodate your inspection. To make an appointment at the WETT voluminous room located
at 210 Barton Springs Road, Suite 150, Austin, Texas 78704, please call Carrie Marchese at
(512) 807-2492.

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Respectfully submitted,

NAMAN, HOWELL, SMITH & LEE, PLLC
8310 Capital of Texas Highway, North
Suite 490
Austin, Texas 78731
(512) 479-0300 TELEPHONE
(512) 474-1903 FACSIMILE

BY:


Dennis W. Donley, Jr.

State Bar No. 24004620

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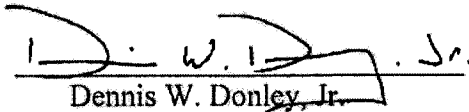
Stephanie S. Potter

State Bar No. 24065923

**ATTORNEYS FOR WIND ENERGY
TRANSMISSION TEXAS, LLC**

CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing document was served on all parties of record on this 16th day of October 2012.


Dennis W. Donley, Jr.

**WIND ENERGY TRANSMISSION TEXAS, LLC'S RESPONSE TO
THE STEERING COMMITTEE OF CITIES SERVED BY WETT'S
SECOND REQUEST FOR INFORMATION**

QUESTION LK 2-1:

Refer to page 4, lines 4-8 of Mr. Wilson's Direct Testimony:

- a. Please define the term "property losses" as used by Mr. Wilson for purposes of the self-insurance reserve expense accrual and target reserve.
- b. Please indicate whether these "property losses" are losses to plant in service that must be replaced or reconstructed, or are some other type of losses. If the latter, then please describe each such other type of loss.

RESPONSE:

- a. "Property losses" refers to losses that are not covered by insurance and for which Section 36.064 of the Texas Public Utility Regulatory Act permits a provision to be made.
- b. See a.

Preparer: Gregory S. Wilson
Sponsor: Gregory S. Wilson

Title: Vice President and Principal, Lewis & Ellis, Inc.
Title: Vice President and Principal, Lewis & Ellis, Inc.

QUESTION LK 2-2:

Refer to the page 4, line 24 through page 5, line 2 of Mr. Wilson's Direct Testimony and P.U.C. SUBST. R 25.231 (b)(1)(G):

- a. Please explain Mr. Wilson's understanding as to the differences between property losses to plant in service that require the replacement or reconstruction of that plant in service versus losses incurred to restore service that otherwise would be charged to operating and maintenance expenses.
- b. Please explain how Mr. Wilson separated estimated losses to plant in service that require replacement or reconstruction and losses incurred to restore service that otherwise would be charged to maintenance expenses in his analyses, if at all. If Mr. Wilson did not make this distinction, then please explain why he did not do so.
- c. Please confirm that Mr. Wilson understands that losses to plant in service that require the replacement or reconstruction or that plant in service will be capitalized to plant in service and not charged to the reserve. In addition, please provide Mr. Wilson's understanding of why this is the case; e.g., these costs are capitalized and would not otherwise be charged to operating and maintenance expense.
- d. Please confirm that no other utility subject to the PUC's rate regulation is allowed to charge the cost of replacing or reconstructing plant in service to the self-insurance reserve and instead, capitalizes such costs to CWIP and then closes the costs to plant in service when the assets are placed in service. If Mr. Wilson cannot confirm this fact, then please explain why he cannot do so.

RESPONSE:

Part d. of this RFI has been limited by agreement to Mr. Wilson's personal knowledge of other Texas utilities' practices.

- a. Mr. Wilson does not have an understanding as to the differences between property losses to plant in service that require the replacement or reconstruction of that plant in service versus losses incurred to restore service that otherwise would be charged to operating and maintenance expenses.
- b. Mr. Wilson did not separate losses to plant in service that require replacement or reconstruction and losses incurred to restore service that otherwise would be charged to maintenance expenses. He did not do so because his testimony only relates to the insurance of transmission lines.
- c. See b.

- d. Mr. Wilson cannot confirm that no other utility subject to the PUC's rate regulation is allowed to charge the cost of replacing or reconstructing plant in service to the self insurance reserve because he does not have knowledge of the specific provisions, policies and practices for each of those self-insurance programs. Mr. Wilson cannot obtain such knowledge because the provisions, policies and practices of other utilities' self-insurance programs are not publically available.

Preparer: Gregory S. Wilson
Sponsor: Gregory S. Wilson

Title: Vice President and Principal, Lewis & Ellis, Inc.
Title: Vice President and Principal, Lewis & Ellis, Inc.

QUESTION LK 2-3:

Refer to page 5, lines 22-23 of Mr. Wilson's Direct Testimony wherein he recommends that WETT use the reserve "to pay for any claim whose value is greater than \$25,000." Please define the term "claim" as used in this context and describe all costs that Mr. Wilson proposes he charged to the reserve, e.g., replacement or reconstruction of plant in service.

RESPONSE:

"Claim" refers to any damage or loss to WETT's transmission lines and injuries or damage claims by third parties that could not have been reasonably anticipated and for which no allowance was included in operations and maintenance expenses. All costs associated with the claim, including the full replacement cost of any property implicated by a claim, would be charged to the reserve.

Preparer: Gregory S. Wilson
Sponsor: Gregory S. Wilson

Title: Vice President and Principal, Lewis & Ellis, Inc.
Title: Vice President and Principal, Lewis & Ellis, Inc.

QUESTION LK 2-4:

Refer to page 7, lines 1-2 of Mr. Wilson's Direct Testimony. Please provide all reasons why Mr. Wilson believes that "[t]he self-insurance reserve needs to be sufficient to cover the losses for each year." Please provide a copy of all authoritative support relied on by Mr. Wilson for this premise or conclusion, whichever it is.

RESPONSE:

The purpose of purchasing insurance is to protect assets against large, unforeseen losses. The purpose of the self-insurance reserve is to allow a utility to accrue funds to serve the same basic purpose of insurance, but at a lower cost that goes to the benefit of the ratepayers.

If the self-insurance fund is not sufficient to cover the losses each year, then the extra funds will have to be provided by future rate payers in future filings. This would defeat the purpose of having a self-insurance fund as it would then be more beneficial to the company, but not the ratepayers, to purchase insurance.

Preparer: Gregory S. Wilson
Sponsor: Gregory S. Wilson

Title: Vice President and Principal, Lewis & Ellis, Inc.
Title: Vice President and Principal, Lewis & Ellis, Inc.

QUESTION LK 2-5:

Refer to page 7, line 23 through page 8, line 2 of Mr. Wilson's Direct Testimony wherein he describes a "quote that WETT received to provide all risk coverage of \$10 million over a \$2.5 million deductible:"

- a. Please describe the risks insured under this "all risk coverage." Was it limited to the cost of replacing or reconstructing plant in service or did it include other types of risk coverage? If so, then please describe each type of coverage and any specifics regarding each type of coverage that were addressed in the quote.
- b. Please provide a copy of the cited insurance quote, including all information relied upon by the underwriter to provide the quote.

RESPONSE:

- a. The term "all risks" was not defined in the quote, except to say that the wording would be agreed upon prior to inception. The coverage appears to be limited to damage or loss to real or personal property only.
- b. The entirety of the insurance quote was provided as part of Mr. Wilson's highly sensitive confidential workpapers. It can be found at:

Docket No. 40606
GSW Workpapers 00001-00008
Page 1 of 8 to page 8 of 8.

Preparer: Gregory S. Wilson
Sponsor: Gregory S. Wilson

Title: Vice President and Principal, Lewis & Ellis, Inc.
Title: Vice President and Principal, Lewis & Ellis, Inc.

QUESTION LK 2-6:

Refer to page 9 line 18 of Mr. Wilson's Direct Testimony:

- a. Please provide a complete copy of the credit agreement with lenders. On page 25, lines 22-23 of Mr. Morton's Direct Testimony, he states that an excerpt of the credit agreement was included with Mr. Wilson's workpapers, but it is not included in either the public workpapers or the confidential/highly sensitive workpapers.
- b. Please provide a copy of all analyses performed by and/or relied upon by Mr. Wilson to conclude that a self-insurance reserve funded at \$10 million will allow WETT to comply with the cited provision of the credit agreement.
- c. Please explain how WETT presently complies with the cited provision of the credit agreement.

RESPONSE:

- a. It appears the relevant Credit Agreement excerpt was inadvertently omitted from Mr. Wilson's workpapers. However, the entirety of the Credit Agreement, including this excerpt, was provided as part of Mr. Morton's highly sensitive confidential workpapers.

The credit agreement begins on the page with the following heading:

Docket No. 40606
WM Workpapers 00317
Page 1 of 242

The cited page has the following heading:

Docket No. 40606
WM Workpapers 00462
Page 146 of 242

- b. The belief that a \$10 million self-insurance reserve would allow WETT to comply with the cited provision of the credit agreement was made based upon the plain language of the credit agreement.
- c. The credit agreement (Appendix A, section 1. g.) calls for WETT to maintain builders all risk insurance until the project is complete. WETT presently complies with the credit agreement by maintaining such a policy.

Preparer: Gregory S. Wilson
Sponsor: Gregory S. Wilson

Title: Vice President and Principal, Lewis & Ellis, Inc.
Title: Vice President and Principal, Lewis & Ellis, Inc.

QUESTION LK 2-7:

Please provide a copy of all accounting guidelines proposed by WETT that address thresholds for charging to the self-insurance reserve, such as a dollar threshold and the occurrence of an event that could not be reasonably anticipated, e.g., a severe storm event. Please compare the Company's thresholds to those used by Oncor and CenterPoint that have been authorized by the PUC in prior rate cases.

RESPONSE:

The part of this RFI in which the requestor asks WETT to "Please compare the Company's thresholds to those used by Oncor and CenterPoint that have been authorized by the PUC in prior rate cases" has been limited by agreement to Mr. Wilson's or the Company's knowledge of same.

Because WETT does not have a Commission-approved self-insurance reserve, WETT has not yet adopted specific accounting guidelines for self-insurance. However, attached is a preliminary document entitled "Policies and Procedures Governing the Operation of Wind Energy Transmission Texas, LLC's Self-Insurance Reserve" which WETT expects to modify, prepared in contemplation of the Commission approving WETT's requested self-insurance reserve.

In the most recent proceedings that have been completed to date, CenterPoint's threshold is \$100,000 and Oncor's threshold is \$500,000. WETT's proposed threshold is \$25,000. By further comparison, Entergy has a current approved threshold of \$50,000. Documents evidencing these thresholds are publicly available through the PUC Interchange.

Preparer: Gregory S. Wilson
Sponsor: Gregory S. Wilson

Title: Vice President and Principal, Lewis & Ellis, Inc.
Title: Vice President and Principal, Lewis & Ellis, Inc.

WIND ENERGY TRANSMISSION TEXAS, LLC

POLICIES AND PROCEDURES GOVERNING THE OPERATION OF WIND ENERGY TRANSMISSION TEXAS, LLC's SELF INSURANCE RESERVE

1.0 **INTRODUCTION AND SUMMARY**

1.1 Introduction

This Policies and Procedures Manual ("Manual") is for the sole use of Wind Energy Transmission Texas, LLC ("WETT") for the governance of its Self Insurance Reserve. It is not for use outside of the WETT organization.

1.2 Summary

This Manual provides rules for the reporting and processing of transmission line damage expenditures for WETT.

1.3 Scope of Reporting Obligations

All employees, agents, and contractors of WETT shall immediately report known, suspected or potential violations of this Manual by following the procedures described in the Manual Reporting Policy set forth in Section 2.4.

2.0 **DETAILED POLICY**

2.1 Purpose

The purpose of this Manual is to establish a uniform set of rules for the reporting of damage expenditures for WETT's transmission plant, general plant, and/or related information technology (IT) facilities. This Manual will also provide the framework to ensure that project charges and reserve charges are accurate and that the appropriate internal accountabilities are established.

2.2 Applicability

This Manual applies to any and all employees of WETT, unless otherwise expressly excluded, as well as agents and contractors of WETT.

2.3 No Employment Contract Created

Nothing contained in this Manual should be construed to suggest that employees of a particular subsidiary or affiliate of WETT are also employees of WETT or any other affiliate or subsidiary of WETT. Moreover, this Manual does not create any employment relationship between any person and WETT.

2.4 Reporting Requirements of Violations of the Manual

If an employee of WETT believes or suspects that the terms of this Manual have been violated, the employee has a duty to report the violation or suspected violation in writing to the General Manager. The report should contain the nature of the violation, the date of the violation, and the person or persons who are believed to have committed the violation.

3.0 **REFERENCES & CROSS REFERENCES**

3.1 The following policies should be read in conjunction with this Manual:

3.1.1 WETT accounting policies

- Capital funding project approval policy
- External job order policy

3.1.2 Other WETT policies

- Code of Conduct
- Reporting Violations / Point of Contact

4.0 **DEFINITIONS**

4.1 **Commission** – The Public Utility Commission of Texas.

4.2 **Legal Entity** – Wind Energy Transmission Texas, LLC.

4.3 **MajorDamage Threshold** - AnEvent with combined O&M and capital repair costs estimated to be \$25,000 or more per occurrence. When damage is caused by or sustained to transmission plant, general plant, and/or related IT facilities, a combined cost for all functions within the Legal Entity affected should be used to estimate the \$25,000 threshold amount.

4.4 **Policy** – Means this Self Insurance Reserve Policies and Procedures Manual.

4.5 **Property Insurance Account For Damage** - Account at WETT that is used to capture the approved regulatory accrual for damage expenses (also known as the Self Insurance Reserve). The offset for

the accrual is captured in a Property Insurance expense account (*i.e.*, FERC Account 924).

- 4.6 **Damage Work Order** - Term used to refer to the Work Order used to accumulate all costs (both O&M and Capital) for damage to WETT's transmission plant, general plant, and/or related Information Technology facilities.
- 4.7 **Event** – Any event, including act of nature (storms, hurricanes, floods, tornadoes, ice storms, high winds) or any other that causes extensive damage to WETT's transmission plant, general plant, and/or related Information Technology facilities, or any personal injury or damage caused by WETT's transmission plant.
- 4.8 **Work Order** - The accounting code block element or chart field for projects used to accumulate costs.
- 4.9 **Catastrophic Event** - A sudden event which causes significant damage to WETT's facilities. This classification of an event would be implemented at the discretion of the General Manager.
- 4.10 **Material Financial Impact** - Storm Event having a repair estimate of \$5 million or more.
- 4.11 **Escrow Account** - A dedicated "lock-box" account (*i.e.* the Self Insurance Reserve) which is held in escrow for future events. Funds removed from this account may be used to reimburse WETT for covered expenditures.
- 5.0 **RESPONSIBILITIES** - Attachment A has a comprehensive chart of accountabilities.
 - 5.1 The **General Manager** is responsible for making the decision to implement the damage process.
 - 5.2 The **Director of Asset Management** is responsible for overseeing the review of charges to the Damage Work Order, and for making corrections to charges, when appropriate.
 - 5.3 The **Controller** is responsible for:

- issuing Damage Work Orders and activating these work orders for charges when notified by the General Manager or the Director of Asset Management;
- monitoring and reviewing the damage charges prior to moving the charges from the Damage Work Order to the Property Insurance Account for Damage;
- reversing any non-qualifying charges to appropriate expense accounts;
- providing reporting tools to the functional areas to assist in monitoring of charges;
- tracking damage losses for use in tax-return preparation and tax planning;
- accounting for reimbursement or recovery of damage charges, both capital and expense;
- monitoring reserve expense accruals to ensure accuracy and providing internal reporting of reserve balance information upon request and for providing annual budget to the General Manager.

6.0 **DETAILS**

6.1 **Charging Guidelines for typical damage**

- 6.1.1 Damage Work Orders should only be issued for the accumulation of costs associated with the restoration of damage when the total cost is expected to meet the Major Damage Threshold. Damage costs are generally related to repair and replacement work and equipment costs associated with transmission plant, substations, general plant, and/or related IT facilities.

Examples of valid damage charges include:

- All labor and material costs directly related to the restoration of Transmission plant, general plant, and communication facilities, whether by replacement or repair.
- All food, lodging, fuel and travel expenses associated with the restoration effort.
- All Transmission Operations Center (TOC) costs, above normal operating expenses, directly associated with the restoration effort.
- Communications cost associated with the restoration effort.

- Public safety announcements associated with the restoration effort.
- Tool, equipment, and vehicle repair costs directly attributable to the restoration effort.
- All incidental costs directly associated with the restoration effort.

Examples of invalid storm damage charges include:

- Alcoholic beverages and tobacco products.
- Purchases of any tools or equipment not specifically required for the restoration effort that will be used beyond the restoration effort unless these tools were purchased to replace tools or equipment lost in the storm.
- Purchases of personal clothing, except under extraordinary circumstances.
- Ramp up and mobilization costs when an event does not meet the major damage threshold amount.
- Facility upgrades not specifically required for the restoration effort such as new carpeting on the second floor of a building with flooding on the first floor only.
- Vegetation removal not specifically required for the restoration effort unless mandated by municipal or governmental authority.
- Replacement labor cost for any operating area that has supplied construction and support personnel to the restoration effort.

6.1.2 Damage Work Orders should be credited with unused materials returned to the storerooms.

6.1.3 Valid charges may be recorded to the Damage Work Order in order to meet the Major Damage Threshold. This includes incremental labor, transportation, and material costs. All valid charges may be applied against the Property Insurance Account for Damage once the threshold has been met. If the Major Damage Threshold is not met, valid charges to the Damage Work Order should be reversed and recorded against normal project codes (both capital and O&M, as appropriate).

6.2 Charging Guidelines for Catastrophic Event

6.2.1 Project Codes - In the event of a catastrophic event, all communications will be initiated by the General Manager or the Director of Asset Management. When set up, project codes are to include the name of the catastrophic event. This will be the basis for all damage reporting.

6.2.2 Damage Restoration Activities - Damage Work Orders should only be issued for the accumulation of costs associated with the restoration of damage when the total cost is expected to meet the Major Damage Threshold.

Should damage be incurred which will not meet the Major Damage Threshold, the total cost should be charged against the responsible organization's normal operating budgets (both capital and O&M, as appropriate). Damage costs are generally related to repair and replacement work associated with transmission plant, substations, general plant, and/or related IT facilities.

Examples of valid damage charges include:

- All labor and material costs directly related to the restoration of transmission plant , general plant, and communication facilities, whether by replacement or repair.
- All food, lodging, fuel and travel expenses associated with the restoration effort.
- All Transmission Operations Center (TOC) costs above normal operating expenses, directly associated with the restoration effort.
- Communications costs associated with the restoration effort.
- Public safety announcements associated with the restoration effort.
- Tool, equipment, and vehicle repair costs directly attributable to the restoration effort.
- All incidental costs directly associated with the restoration effort.

Examples of invalid damage charges include:

- Alcoholic beverages and tobacco products.
- Purchases of any tools or equipment not specifically required for the restoration effort that will be used beyond the restoration effort unless these tools were purchased to replace tools or equipment lost in the storm.

- Purchases of personal clothing, except under extraordinary circumstances.
- Facility upgrades not specifically required for the restoration effort such as new carpeting on the second floor of a building with flooding on the first floor only.
- Vegetation removal not specifically required for the restoration effort unless mandated by municipal or governmental authority.

6.2.3 Logistic Costs during a Catastrophic Event - Due to the complexity and high volume of costs during a Catastrophic Event, logistic costs will be tracked in one established project code. Detailed records must be maintained for these costs. The set up of these project codes will be completed by the Controller, and approved by the General Manager.

Examples of valid Logistics Costs include:

- Hotel rooms for restoration crews from WETT or contractors
- Costs of tent cities
- Costs of meals provided in bulk for restoration crews
- Labor related to logistics coordination
-

Examples of invalid Logistic Costs include:

- Materials and supplies related to restoring service or Business Continuity
- Labor related to restoring service
- Costs of lodging for WETT employees working on a WETT function not related to restoring service or organizing logistics

6.2.4 Non-Productive time related to damage - Employees on "release" that are not able to perform any business functions due to the damage must charge their time to Paid Time Off-Bad Weather.

6.2.5 Normal Activities - Work performing normal tasks (albeit under difficult or different circumstances), not related to storm restoration, should be charged to typical charge codes.

6.2.6 Business Continuity Costs during a Catastrophic Event- The costs of reestablishing business operations for any function relocated during a Catastrophic Event should be charged to a Business Continuity Code established by the General Manager.

Examples include planning efforts by the Business Continuity Team, temporary relocation of functions to provide business continuity, procurement of temporary office space and lodging when mandated by employee's supervisor in conjunction with returning to work. Time specifically spent on Business Continuity related tasks should be charged to the Business Continuity Code established by the General Manager. This includes planning sessions held within functions to return to business. Any approved employee expenses related to redeployment should be charged to this code. Charges for expenses for release employees will be the responsibility of the employee and not WETT (e.g. lodging and meals). WETT will not reimburse costs until an employee is given an assignment by his or her supervisor.

- 6.3 **Contractor Invoice approvals and documentation during a Catastrophic Event** - Most damage invoices will need to be approved by the Director of Asset Management and the General Manager. Documentation must be received from the vendor to support costs billed.

7.0 **PROCEDURES**

7.1 **Damage Work Orders**

Damage Work Order Setup - The General Manager determines the need for Damage Work Order based on the Major Damage Threshold definition in Section 4.3. Damage Work Orders are required for damage to substations, transmission plant, general plant, and/or related IT facilities. Damage Work Orders must also include an estimate of expenses

7.2 **Review/Monitor Damage Process**

- 7.2.1 **Damage Charges** – The Controller and Director of Asset Management should review and monitor all open Storm Damage Work Orders for accuracy and appropriateness from a damage project perspective.

7.2.2 Damage Reserve Balances - Damage Reserve balances will be reviewed periodically by the Controller and Director of Asset Management in order to determine the accuracy of the reserve expense accruals and the transfer of expense charges from Damage Work Orders. The Director of Asset Management will meet quarterly with the Controller to review the most recent monthly reserve balance analysis and to discuss any reserve balance issues. The General Manager will approve changes to reserve balances.

7.2.3 Threshold Validation - Damage Work Orders should be reviewed periodically by the Controller and Director of Asset Management to determine if they are in compliance with the Major Damage Threshold. The Controller will make the appropriate journal entry reversals to expense should the Damage Work Order not meet the threshold test.

7.2.4 Monitor/Review/Close Damage Work Order – The Controller and Director of Asset Management are accountable to monitor the transactions being charged to the Damage Work Orders and review the appropriateness of all transactions and that the correct project code was used. The Director of Asset Management is responsible for providing in-service dates for Damage Work Orders when storm restoration activities are completed. Damage Work Orders can remain in-service until all charges are received, which is not expected to exceed 90 to 120 days after restoration activities are completed except for catastrophic events, to facilitate the acceptance of late charges, but should be closed as soon as feasible by entering a completion date. Late charges that cause a project to be re-opened should be approved by the General Manager, upon the recommendation of the Controller and Director of Asset Management.

7.3 Billing of Damage Charges

7.3.1 Work Performed by WETT for Others - When WETT personnel assist in restoration efforts outside of WETT's properties, an External Job Order (EJO) must be set up to record and ultimately bill charges to the external entity.

7.3.2 Work Performed by Others for WETT - When other parties (e.g., contractors, other utilities, etc.) perform restoration work at WETT's request, the costs, upon billing to WETT, should be charged to the Damage Work Order for that Event. The invoice from the external party should be reviewed and approved by the Controller and Director of Asset Management prior to payment to the external party. Any discrepancies or questions relating to the bill should be reviewed and resolved with the external party prior to payment.

7.4 Other Accounting Processes

7.4.1 Reserve Balance Adjustments - As part of the normal regulatory accounting process, the Controller is responsible for requesting the appropriate damage reserve accrual. Accounting shall review and obtain Controller agreement of proposed damage-reserve accrual amounts prior to filing with the Commission. When new amounts are approved by the Commission, the Manager of Regulatory Affairs is responsible for notifying the Controller and Director of Asset Management of these and other approved adjustments to the reserve balance or accrual level, after consultation with and final approval by the General Manager.

7.4.2 Monthly Reporting Requirements – The Controller will record the monthly damage accrual for WETT, as well as the accumulation of charges for open Work Orders and the charges to the Property Insurance Account for Damage.

7.4.3 Reimbursement and Recovery Accounting Property Accounting - credits capital and the reserve account for amounts received through reimbursement (Self Insurance Reserve or commercial insurance) as authorized by regulators.

7.4.4 Escrow Accounting – The Controller credits the reserve account when funds are drawn from WETT's escrow account.

8.0 GUIDANCE CONTACTS

Questions regarding the use and applicability of these policies and procedures should be directed to the appropriate subject matter expert identified in Section 5 of this Manual.

9.0 **ATTACHMENTS**

Attachment A : Summary of Accountabilities and Responsibilities

Activity	Person and/ or Group Responsible
Responsible for making the decision to implement the damage process for system event	General Manager
Approval of any estimates for the event released externally	General Manager; Board of Managers
Approval of any communications related to damage event including those made by Regulatory	General Manager; Board of Managers
Classification of event, catastrophic event, or an event that doesn't meet threshold for damage accounting	General Manager; Board of Managers
Activity	Person and/ or Group Responsible
Ensure that information is funneled into the estimating and budgeting process	Controller and Director of Asset Management
Communicate project codes for a typical damage event within functional area	Controller
Code transactions/ source documents with proper coding for damage events (<i>i.e.</i> timesheets, invoices)	Transaction originator or assigned accountable employee
Ensure that proper documentation obtained for damage transactions for processing	Transaction originator or assigned accountable employee

Reviewing and approving contractor damage invoices in a catastrophic event or in any damage event that the team is deemed necessary including documentation	Director of Asset Management to Controller to General Manager
Activity	Person and/ or Group Responsible
Monitoring and reviewing the damage charges prior to moving the charges from the Damage Work Order to the Property Insurance Account for Damage	Director of Asset Management to Controller to General Manager
Recording the reserve accruals to the Property Insurance Account for Damage	Controller
Reconciling Damage related accounts	Controller and Director of Asset Management
Responsible for monitoring reserve expense accruals to ensure accuracy, for providing internal reporting of reserve balance information upon request and for providing annual budget to WETT	Manager of Regulatory Affairs to Controller
Responsible for approving the Manual and determining any exceptions to the Manual	General Manager
Responsible for training the appropriate functional area personnel in these policies and procedures	Controller and Director of Asset Management
Providing reports for catastrophic events	Director of Asset Management
Activity	Person and/ or Group Responsible
Answering questions on the proper coding of transactions or transaction processing	Controller

QUESTION LK 2-8:

Refer to page 27, lines 11-13 of Mr. Morton's Direct Testimony:

- a. Please provide all analyses and all other support relied on to develop the proposed \$25,000 amount "which constitutes a catastrophic loss."
- b. Please describe the significance of this determination, i.e., is this amount the proposed threshold for charges to the self-insurance reserve?
- c. Please identify all proposed thresholds for charges to the self-insurance reserve, if any.

RESPONSE:

Mr. Wilson proposed a threshold of \$25,000 for charges to the self-insurance reserve. It is based on his experience as an insurance expert and the relative size of WETT compared to other electric utilities in Texas.

Preparer: Gregory S. Wilson
Sponsor: Gregory S. Wilson

Title: Vice President and Principal, Lewis & Ellis, Inc.
Title: Vice President and Principal, Lewis & Ellis, Inc.

QUESTION LK 2-9:

Refer to page 40, line 13 through page 41, line 14 of Mr. Morton's Direct Testimony wherein he describes the ownership and structure of WETT Holdings LLC, the owner of WETT:

- a. Please explain why WETT Holdings LLC is necessary as an entity and why the joint owners of WETT Holdings LLC believe it is necessary to have an intermediate affiliate rather than owning WETT directly.
- b. Please provide a copy of all analyses performed by or on behalf of the owners of WETT Holdings LLC to determine: i) the entity ownership structure, e.g. use of an intermediate affiliate rather than direct ownership of WETT, and ii) the legal structure of each such entity, e.g., corporation, LLC, partnership.
- c. Please provide a copy of all analyses performed by or on behalf of the owners of WETT Holdings LLC to determine the tax status of WETT Holdings LLC and/or WETT.

RESPONSE:

This RFI is subject to a pending objection.

With regard to part a., without waiving the foregoing objection, WETT's corporate structure is based on the following factors: (1) WETT has two equal owners, (2) it will allow its owners to make additional investments in the future without impacting the operating utility (Wind Energy Transmission Texas, LLC), and (3) it is commonly-accepted utility practice.

In any event, with regard to the remainder of this request (and again without waiving the aforementioned objection), given that it seeks only information that is not subject to the attorney client/work product privilege (since it is axiomatic that such information is by rule beyond the scope of permissible discovery (*see, e.g.* TEX. R. CIV. P. 192.5(b); 193.3(c)), there is no material responsive to this request.

Preparer: Wayne Morton
Sponsor: Wayne Morton

Title: Wind Energy Transmission Texas, LLC General Manager
Title: Wind Energy Transmission Texas, LLC General Manager