



Control Number: 35665



Item Number: 322

Addendum StartPage: 0

PUC DOCKET NO. 35665

COMMISSION STAFF'S PETITION § 1
FOR SELECTION OF ENTITIES §
RESPONSIBLE FOR TRANSMISSION § PUBLIC UTILITY COMMISSION
IMPROVEMENTS NECESSARY TO §
DELIVER RENEWABLE ENERGY § OF TEXAS
FROM COMPETITIVE RENEWABLE §
ENERGY ZONES §

**SUPPLEMENTAL
DIRECT TESTIMONY
OF
DANIEL D. LANNING

ON BEHALF OF THE
CITY OF GARLAND, TEXAS**

SEPTEMBER 30, 2008

PUC DOCKET NO. 35665

COMMISSION STAFF'S PETITION	§	
FOR SELECTION OF ENTITIES	§	
RESPONSIBLE FOR TRANSMISSION	§	PUBLIC UTILITY COMMISSION
IMPROVEMENTS NECESSARY TO	§	
DELIVER RENEWABLE ENERGY	§	OF TEXAS
FROM COMPETITIVE RENEWABLE	§	
ENERGY ZONES	§	

**SUPPLEMENTAL
DIRECT TESTIMONY OF
DAN LANNING**

1 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

2 **A.** To present a proforma cash flow statement and financial ratios reflecting a change in
3 ratemaking methodology for transmission rates from the Utility method to the Debt
4 Service Coverage (DSC) method allowed by the Non-IOU TCOS-RFP. This change
5 is appropriate for several reasons. One of the chief reasons is the shift Garland Power
6 & Light (GP&L) will realize in its debt to equity ratio once new debt for the CREZ
7 Transmission project is added to the capital structure.

8 On page 7 of my original testimony I discussed the possibility of evaluating
9 other return methods allowed by Non-IOU TCOS-RFP and whether a change from
10 GP&L existing methodology for determining its TCOS would be appropriate. I have
11 now modified the proforma financials attached to the testimony so that the rationale
12 for such a change can be readily discerned. When compared to the cash flow
13 attachments in the original testimony, the cash flows attached to this supplemental
14 testimony show an increase in Off System Sales and New Transmission Revenue and
15 a decrease in Retail Rate Revenues. Thus, the cost burden of the CREZ Transmission

1 proposal is taken off retail ratepayers and is recovered from the transmission (Off
2 System Sales) ratepayers as required by PURA § 35.004(c).¹

3 **Q. WHAT HAS CHANGED BETWEEN THE DIRECT TESTIMONY FILED ON**
4 **SEPTEMBER 12, 2008 AND SEPTEMBER 30, 2008?**

5 **A.** After further meeting with GP&L it was determined that the DSC method should be
6 employed to properly recover costs as provided by PURA. The retail ratepayers of
7 Garland would be subsidizing wholesale transmission customers if the utility method
8 were used. The Utility method currently used by GP&L leads to a mismatch between
9 the depreciation life of the CREZ transmission line (50 years) and the amortization
10 schedule of the debt to be issued to pay for the CREZ transmission line (20 years).
11 The mismatch unduly burdens the retail customers of GP&L with paying for the
12 CREZ transmission line instead of recovering the costs from transmission customers.
13 In addition, the debt to be issued to build the CREZ Transmission line will change the
14 debt to equity ratio of GP&L from approximately 40% debt and 60% equity in 2007
15 to 50% debt and 50% equity by 2013. The shift in this ratio will lead to a lowering of
16 the Rate of Return and ultimately to a lowering of the Revenue Requirement. Due to
17 these factors, the Utility method would eventually lead to GP&L needing to raise its
18 retail rates in an unfair fashion in the 2014-2018 timeframe in order to maintain its
19 Days of Working Capital and Debt Service Coverage requirements. Adoption of the
20 DSC method solves both these issues.

¹ Public Utility Regulatory Act, Tex. Util. Code Ann. §§ 11.001-66.017 (Vernon 2007 & Supp. 2008) ("PURA").

1 **Q. HOW ARE THE FINANCIAL RATIOS, FUNDS FROM OPERATIONS TO**
2 **INTEREST COVERAGE, FUNDS FROM OPERATIONS TO TOTAL DEBT,**
3 **AND TOTAL DEBT TO TOTAL CAPITAL IMPACTED BY THIS CHANGE?**

4 **A.** The *Funds from Operations to Interest Coverage* ratio reveals an impact starting in
5 2009 and continuing through 2014. In the years of 2009, 2011, and 2012 there is a
6 small increase in the ratio with the use of the DSC method. In the years 2010 and
7 2014 there is a small decrease with no change present in 2013. It appears there is no
8 overall trend up or down. Therefore, the ratio is unchanged as a material indicator of
9 the financial health of the utility.

10 *Funds from Operation to Total Debt* shows a similar pattern with years 2009,
11 2011, and 2012 showing small increases in coverage over the utility method and year
12 2014 showing a small decrease. Years 2010 and 2013 were unchanged. Again, there
13 is no overall trend up or down and the ratio is unchanged as a material indicator of the
14 financial health of the utility.

15 *Total Debt to Total Capital* showed no changes in any year.

16 Thus, the proforma adjustments made in the Off System Sales shown in
17 Supplemental Table N-1 caused by the use of the DSC method makes little or no
18 difference to the financial strength of the utility. The only effect this adjustment has
19 is to pass the cost directly onto the cost causer (transmission ratepayer) and eliminate
20 the subsidy from retail ratepayers previously assumed in my original testimony.

21 **Q. HOW IS THE BALANCE SHEET IMPACTED BY THE CHANGE FROM**
22 **THE UTILITY METHOD TO THE DSC METHOD?**

1 A. We did not make any changes to the Balance Sheet for the changes presented in the
2 supplemental testimony. The proforma Balance Sheet is designed to reflect changes
3 in asset and liability balances resulting from the CREZ Transmission project
4 financing and capital improvements only.

5 Q. **DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

6 A. Yes.

**CONFIDENTIAL
ATTACHMENT
A**

**TABLE N-1
TABLE N-3**