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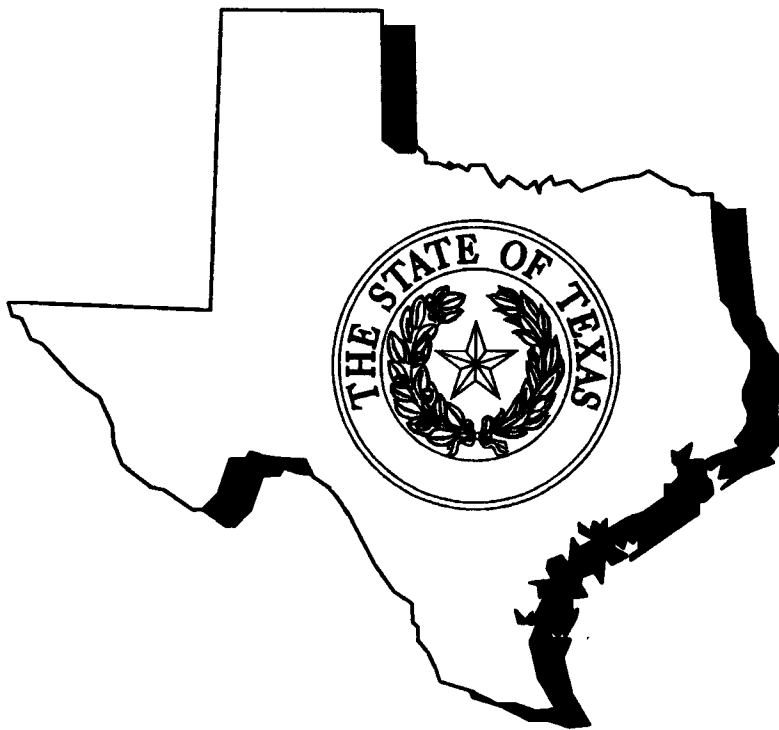
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PUC DOCKET NO. 35665

**COMMISSION STAFF'S PETITION
FOR THE SELECTION OF ENTITIES
RESPONSIBLE FOR TRANSMISSION
IMPROVEMENTS NECESSARY TO
DELIVER RENEWABLE ENERGY
FROM COMPETITIVE RENEWABLE
ENERGY ZONES**

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**BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS**



FILED
2008 OCT 28 PM 2:05

**DIRECT TESTIMONY OF
SLADE CUTTER
FINANCIAL REVIEW SECTION
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
OCTOBER 28, 2008**

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 **A. My name is Slade Cutter; my business address is 1701 N. Congress Avenue, Austin,**
4 **Texas.**

5 **Q. By whom are you employed and in what capacity?**

6 **A. I am employed by the Public Utility Commission of Texas (“PUC” or “Commission”)**
7 **as a senior financial analyst.**

8 **Q. What are your principal areas of responsibility in this capacity?**

9 **A. I recommend fair rates of return on invested capital for utilities that are regulated by**
10 **the Commission, and I evaluate their financial integrity. I assess the financial**
11 **qualifications of these companies when they apply for authority to provide electric or**
12 **telephone service, or to build new utility facilities; and, I make determinations of**
13 **whether or not the sale, transfer, or merger of a utility’s property is in the best interests**
14 **of the citizens of Texas. Finally, I determine if utilities have complied with the**
15 **financial aspects of Commission orders.**

16 **Q. Please briefly state your educational background and professional qualifications.**

17 **A. I received a Master of Business Administration degree with a concentration in finance**
18 **from the University of Texas at San Antonio and a Bachelor of Arts in Economics**
19 **degree with a minor in mathematics from the University of Texas at Arlington. Before**
20 **receiving my Master's degree, I was employed for five years as the pricing supervisor**
21 **at a manufacturing firm and for three years as a project manager at a real-estate-**

1 development company. My employment history appears as Attachment SC-1. Since
2 joining the Commission Staff (Staff) at the PUC in 1988, I have read extensively about
3 public-utility finance and attended seminars on the subject.

4 **Q. Have you testified before this Commission previously?**

5 A. Yes, a list of the dockets on which I have testified appears as Attachment SC-2.

6 **Q. What is the purpose of your testimony in this docket?**

7 A. The purpose of my testimony in this docket is to recommend to the Commission
8 whether the Interested Transmission Service Providers (Interested TSPs)¹ are capable
9 of financing the CREZ transmission facilities that they have applied to build and
10 operate and which Interested TSPs would be able to finance the CREZ transmission
11 facilities at the lowest financing cost. I also discuss a risk that some of the applicants
12 may not, because of future events, be able to build and operate facilities that are
13 assigned to them in this docket, and what the Commission should do to address this
14 risk.

15 **Q. Please identify the transmission facilities that are the subject of your**
16 **recommendation.**

¹ An Interested TSP is defined in the PUC's Subst. R. 25.216(c) as, "An entity seeking status as a Designated TSP that meets the definition of a TSP as defined by §25.5(143) of this title (relating to Definitions) or that commits to meeting such definition as necessary to fulfill its obligation as a Designated TSP." Subst. R. 25.5(143) defines a TSP as, "An electric utility, municipally-owned utility, or electric cooperative that owns or operates facilities used for the transmission of electricity." Finally, §25.216(c) defines a Designated TSP as, "An interested TSP that that the Commission has designated to construct, operate, and maintain one or more CTP [CREZ Transmission Plan] Facilities."

1 A. The transmission facilities I have considered are those listed in the column headed,
2 "Designated," by Staff witness Brian Almon on Attachment BA-5 of his direct
3 testimony in this docket.

4 **Q. What are your conclusions about the capability of the applicants to finance these**
5 **transmission projects?**

6 A. My conclusion is that all of the applicants are capable of financing the projects that
7 they have applied to build and operate.

8 **Q. How did Staff determine which facilities to assign to the different Interested**
9 **TSPs?**

10 A. I evaluated the financing costs of the Interested TSPs for which I had adequate
11 information and listed them in order of increasing financing costs as follows:

12 South Texas Electric Cooperative (STEC)
13 Texas Municipal Power Agency (TMPA)
14 City of Garland (Garland)
15 CPS Energy (CPS)
16 LCRA Transmisson Services Corporation (LCRA)
17 Tejas Transmission LLC (Tejas)
18 Electric Transmission Texas LLC (ETT)
19 Wind Energy Transmission Texas, LLC (WETT)
20 Sharyland Utilities, L.P. (Sharyland)
21 Cross Texas Transmission, LLC (Cross Texas)
22 Oncor Electric Delivery Co. LLC (Oncor)
23 Texas-New Mexico Power Co. (TNMP)

1 (Attachment SC-3 to this testimony, which includes supporting detail relating to the
2 ordering above, contains confidential information and has been filed separately in this
3 docket.)

4 Mr. Almon first assigned facilities to certain utilities on the basis that they
5 were upgrades of existing facilities to the owners of those facilities, as provided in
6 Substantive Rule 25.216. He then assigned the priority facilities, as identified in the
7 Commission's order in the CREZ proceeding to transmission and distribution utilities,
8 on the basis of his conclusion that these utilities could build the facilities more
9 expeditiously than the applicants that are not utilities today. The remaining facilities
10 were assigned on the basis of the cost of financing, with the first assignments to the
11 applicants with the lowest cost of capital. At the completion of this process, I
12 evaluated the overall cost of facilities recommended for each Interested TSP to
13 determine if its estimated cost of financing would be affected by the size of the
14 projects it would be assigned.

15 **Q. Why is it appropriate to assign the facilities on the basis of the lowest cost of**
16 **capital?**

17 A. The testimony of the Staff witnesses is that the applicants are all capable of building
18 and operating the facilities that they have applied for. If they are all capable of
19 carrying out these tasks, assigning the facilities to the companies with the lowest cost
20 of capital is likely to result in the transmission plan that is lowest cost and most
21 beneficial to customers.

1 **Q. Did your evaluation indicate that the costs for any Interested TSP would be**
2 **affected by the size of the assigned projects?**

3 A. No. The Interested TSPs assigned facilities were at most equal in size to that upon
4 which the Interested TSPs based their proposals.

5 **Q. Were there Interested TSPs, which were not considered because they did not**
6 **provide adequate information?**

7 A. Yes. Lone Star Transmission, LLC, is an Interested TSP; however, it did not file
8 sufficient data to evaluate its proposal.

9 **Q. Is there a risk that some of the applicants may not, because of future events, be**
10 **able to build and operate facilities that are assigned to them in this docket?**

11 A. Yes, I believe there is. All of the applicants have the capability to finance, build and
12 operate the CREZ transmission facilities now, but events relating to specific
13 companies could result in changes in their capability to finance, build and operate the
14 facilities. The financial sector in the United States and many other major countries is
15 in turmoil today, and changes in national economies or the financial condition of the
16 applicants could affect their capability to finance these projects. It is also possible that
17 a company that one of the applicants has identified as a key partner in the financing or
18 construction of the facilities could back out of the project or face financial setbacks, so
19 that it would no longer be a willing or suitable partner for the applicant. These
20 possibilities exist with respect to all of the applicants. In addition, it is possible that a
21 legislative change or court decision could affect the ability of some of the applicants to
22 build and operate these facilities.

1 **Q. What should the Commission do to address this risk?**

2 A. I believe that the Commission should develop a contingency plan to address the
3 possibility that a company selected to build and operate a CREZ transmission facility
4 will at some point in the future be unable to do so. The Commission could adopt such
5 a plan in this proceeding or in a subsequent proceeding. It may be appropriate to
6 include in the order in this case a requirement that the applicants that are selected to
7 build and operate CREZ transmission facilities meet with Staff and other interested
8 parties at the conclusion of this proceeding to develop a contingency plan and to file
9 that plan for Commission approval.

10 **Q. Does this conclude your testimony?**

11 A. Yes.

EMPLOYMENT HISTORY OF SLADE CUTTER

November, 1988- Present:	Financial Analyst, Texas Public Utility Commission
June, 1988- November, 1988:	Instructor, Collegiate Test Prep
December, 1987- June, 1988:	Administrator, Central Texas Biotechnology Consortium
November, 1983- June, 1986:	Project Manager, General Western Corporation
March, 1983- November, 1983:	Project Manager, Loughborough Engineering
July, 1982- March, 1983:	Investor, Self-employed
February, 1982- July, 1982:	Engineering Manager, Hussmann Insulated Panel
May, 1981- February, 1982:	Pricing Manager, Network Steel Corporation
May, 1976- May, 1981:	Pricing Supervisor, Mesco Metal Buildings Corporation
September, 1973- May, 1976:	Estimator, Mesco Metal Buildings Corporation

EDUCATION

Master of Business Administration,
University of Texas at San Antonio, 1987

Bachelor of Arts in Economics,
University of Texas at Arlington, 1973

**DIRECT TESTIMONY FILED AS A GENERAL COUNSEL WITNESS
FOR THE PUBLIC UTILITY COMMISSION OF TEXAS**

<i>Utility</i>	<i>Docket</i>	<i>Date Filed</i>	<i>Subject Area</i>
Tri-County Elec. Co-op	8437	11/88	Financial Integrity
Sam Rayburn G&T Elec. Co-op	8595	1/89	Rate of Return
Lamar County Elec. Co-op	8717	4/89	Rate of Return
Industry Telephone Co.	8987	9/89	Sale of Stock
Southwestern Elec. Ser. Co.	9040	12/89	Cost of Capital
Panola-Harrison Elec. Co-op	9214	4/90	Rate of Return
Sam Rayburn G&T Elec. Co-op	9447& 9448	3/90	Financial Integrity Rate of Return
Pedernales Elec. Co-op	9456	3/90	Eco. Incentive Rate
Houston Lighting & Pwr Co.	9850	2/91	Cost of Capital
Brazos Elec. Pwr. Co-op	10059	2/91	Notice of Intent
North Texas Tel. Co.	10223	4/91	Tariff
Texas-New Mexico Pwr. Co.	10200	4/91	Cost of Capital
Houston Lighting & Pwr Co.	10473	9/91	Notice of Intent
Brazos Elec. Pwr. Co-op	10883	1/92	Certificate of Conven. & Necessity
Brazos Elec. Pwr. Co-op	10921	10/92	Avoided Cost
Houston Lighting & Pwr Co.	11000	3/92	Certificate of Conven. & Necessity
Texas Utilities Co.	11735	8/93	Rate Moderation
East Texas Electric Co-op	12456	7/94	Certificate of Conven. & Necessity
Gulf States Utilities Co.	12852	11/94	Cost of Capital
Masters Financial Services	15810	5/96	Financial Integrity

City Public Service Board of San Antonio	15613	9/96	Transmission Cost Rate of Return
City of Austin	15645	9/96	Transmission Cost Rate of Return
Hino Electric Power Company	20314	11/99	Certificate of Conven. & Necessity
Reliant Energy HL&P	22355	12/00	Unbundling Cost of Service
Cap Rock Electric	24577	5/02	Certificate of Conven. & Necessity
Denton Municipal Electric	26672	2/03	Transmission Cost Rate of Return
AEP Texas Central Company	28840	2/04	Rate of Return
Denton Municipal Electric	30358	2/05	Transmission Cost Rate of Return
Southwestern Public Service Company	32766	1/07	Rate of Return
Entergy Gulf States	33687	5/07	Transition to Competition
Entergy Gulf States	34800	4/08	Rate of Return Decommissioning
PNM Resources and Cap Rock Electric	35460	6/09	Merger and Acquisition