



Control Number: 35665



Item Number: 913

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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**

ILLIUS CLERK

2008 NOV 14 PM 1:37



**REBUTTAL TESTIMONY OF
SLADE CUTTER
FINANCIAL REVIEW SECTION
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
NOVEMBER 14, 2008**

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

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

4 **Q. Did you provide pre-filed direct testimony in this proceeding; Docket No. 35665**
5 **at the Public Utility Commission of Texas (“PUC” or the “Commission”)?**

6 **A.** Yes, my direct testimony in this proceeding was filed on October 28, 2008, at the
7 Commission’s Central Records.

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

9 **A.** The purpose of my rebuttal testimony is to update and revise my direct testimony with
10 information provided by other parties to this proceeding subsequent to the filing of that
11 testimony. This information was made available in either direct or responsive
12 testimony filed on the same day as mine; in RFI responses filed at the Commission on
13 or after October 28, 2008; during my deposition by Lone Star Transmission, LLC
14 (Lone Star) on November 4, 2008; or, by communications from the representatives of
15 Interested TSPs shortly before or at some time after the deposition. The conclusions
16 of my rebuttal testimony have been incorporated into Staff’s Proposal for the
17 Assignment of CREZ Transmission Projects on Behalf of the Public Interest (The
18 Public Interest Plan) which was made public by Staff on November 7, 2008 and is
19 incorporated into the rebuttal testimony of Staff witness Brian Almon also.

20 **Q. How do these updates and revisions of your direct testimony affect your**
21 **recommendations?**

1 A. The updated information that has been incorporated as revisions to my direct
2 testimony has not affected my conclusion that all of the applicants are capable of
3 financing the projects that they applied to build and operate. These revisions have
4 affected the order of increasing financing costs in which I ranked the applicants in two
5 regards: (1) Tejas and Cross Texas each have a projected Pre-Tax Rate of Return
6 (ROR) of 10.04%; putting them at the same rank as ETT, WETT, and Sharyland; and,
7 (2) Lone Star has been included in the rankings, also with Pre-Tax ROR of 10.04%.

8 The Tejas and Cross Texas revisions are results of my determination that their
9 properly estimated costs of equity are 9.96%. This is the same cost of equity recently
10 authorized by the PUC¹ and used for ETT, WETT, and Sharyland on Attachment SC-3
11 of my direct testimony. I determined that Tejas' cost of equity should be increased
12 from the 9.62% proposed in their Crez Transmission Proposal (CTP) to 9.96% due to
13 the major disruptions that have occurred in the past few weeks in the capital markets
14 and the fact that Tejas' CTP did not make allowances for these disruptions.² I
15 determined that the 10.25% cost of equity that I had used in ranking Cross Texas in
16 my direct testimony was based on an example provided in the Cross Texas CTP rather
17 than the 9.96% cost of equity that they had in fact proposed to employ. As this
18 proposal was in accord with the costs of equity proposed in the CTPs of other
19 Interested TSPs, I determined that it was correct to revise Cross Texas' ranking
20 accordingly.

¹ *Application of Electric Transmission Texas, LLC for a Certificate of Convenience and Necessity, for Regulatory Approvals, and Initial Rates*, Docket No. 33734, Order on Rehearing at 7 (Dec. 21, 2007); *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 33309, Order at 9 (Oct. 18, 2007).

² Tejas CTP, pg 53 of 71, footnote 4.

1 Lone Star's inclusion in the rankings was the result of their provision of
2 information that had been unavailable to me at the time my direct testimony was filed.
3 This information, provided confidentially in item no. 896 filed at the Commission's
4 Central Records entitled *Second Supplement to the CREZ Transmission Plan*
5 *Proposal of Lone Star Transmission, LLC* allows me to conclude that the company's
6 pre-tax Rate of Return (ROR) will be at 10.04%, the same as Tejas, ETT, WETT,
7 Cross Texas, and Sharyland. Consequently, there was no basis on which to exclude
8 them from the rankings and they were included accordingly.

9 **Q. What is now the rank ordering of the applicants?**

10 A. The following list reflects the rank ordering of the applicants according to increasing
11 financing costs except that Tejas, ETT, WETT, Cross Texas, Sharyland, and Lone Star
12 each have the same ranking and thus appear in no particular order relative to each other:

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

1 The table entitled Comparison of Interested TSP's Rates of Return or Equivalent,
2 which is attached to this testimony as Attachment SC-R-A, includes supporting details
3 relating to the ordering above. It is an updated and revised version of Attachment SC-
4 3 to my direct testimony. Revisions on SC-R-A to SC-3 other than those cited above
5 include: Based on information provided in communications with Interested TSPs, I
6 adjusted LCRA's depreciation rate from 2.68 % to 3.24%; and, TNMP's capital
7 structure has been adjusted to 60% debt and 40% equity from 51% and 49%
8 respectively.

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

11 A. My conclusion is that all of the applicants are capable of financing the projects that
12 they have applied to build and operate, though not with equally advantageous pre-tax
13 RORs.

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

16 A. The testimony of myself, Michael Lee, and Brian Almon is that each of the applicants
17 are capable of building and operating the facilities that they have applied for in their
18 CTPs. As each of the Interested TSPs is capable of carrying out these tasks, assigning
19 the facilities to the companies with the lowest cost of capital is likely to result in the
20 CREZ transmission plan that is of the lowest cost and, consequently, in the public
21 interest as it provides the most potential benefits to consumers of electricity in Texas.

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

2 **A. Yes.**

Attachment

SC-R-A

Comparison of Interested TSP's Rates of Return or Equivalents

	<u>STEC</u>	<u>TMPA</u>	<u>Garland</u>	<u>CPS</u>	<u>LCRA</u>	<u>Tejas</u>	<u>EIT</u>	<u>WETT</u>	<u>Sharyland</u>	<u>Texas</u>	<u>Lone Star</u>	<u>Oncor</u>	<u>INMP</u>
(A) % Debt	6.24%	5.25%	50.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%
(B) Cost of Debt	6.24%	5.25%	4.90%	6.51%	6.51%	6.51%	6.51%	6.51%	6.51%	6.51%	7.08%	7.08%	7.14%
(C) % Equity			50.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%
(D) Cost of Equity			6.00%	9.96%	9.96%	9.96%	9.96%	9.96%	9.96%	9.96%	10.75%	10.75%	11.25%
(E) CoD w/Coverage	7.49%	7.88%	5.45%	8.55%	11.94%								
(F) Depreciation	2.75%	2.86%	2.76%	2.76%	3.24%								
(G) Rate of Return	4.74%	5.02%	5.45%	5.79%	8.70%	7.89%	7.89%	7.89%	7.89%	7.89%	8.55%	8.55%	8.79%
(H) Fed. Taxes Effect						2.15%	2.15%	2.15%	2.15%	2.15%	2.32%	2.32%	2.42%
(I)=(G)+(H) Pre-Tax ROR	4.74%	5.02%	5.45%	5.79%	8.70%	10.04%	10.04%	10.04%	10.04%	10.04%	10.04%	10.86%	11.21%

Data not derived from the CTP filings:

TMPA

Depreciation Rate: 2.86% - Source: Docket 21711 Application Gary Saleba Direct Testimony Page 28

CPS Energy

Rate of Return: 8.55% - Revenues minus expenses: 36,553,189 - Source: Docket 35466 Application Schedule 1 divided by Rate Base: 427,339,915--

Source: Docket 35466 Schedule IV-CF/2

Depreciation Rate: 2.76% - Source: Docket 33197 January 31, 2002 Deloitte & Touche Study Page 2 - (Current Depreciation Rate in study: 2.45%)

LCRA

Cost of Debt Including Debt Service Coverage: 11.94% - Source: Docket 35020 Page 4 of Order (Authorized) & Docket 35925 Application James Travis Direct Testimony - Page 8 and Schedule B (Docket 35925 is a proposed rate of return dated 7/25/2008)

Depreciation Rate: 3.24% - Source Docket 35020, Schedule C2B Depreciation of 37,172,572 divided by Schedule B Transmission Function Rate Base of 1,146,899,248.

Tejas, EIT, WETT, Sharyland, Cross, Texas

Rate of Return: 7.89% - Based on assumed debt/equity ratio: 60/40 and return on equity and cost of debt below

Return on Equity: 9.96% - Based on previous authorized ROEs in Texas

Cost of Debt: 6.51% - Based 10-yr US Treasury rate on October 24, 2008 + 2.75%

Lone Star

Pre-Tax ROR - Source: Docket 35665, Item 896, Confidential 2nd Supplement to the CTP

Oncor

Rate of Return: 8.55% - Source: Docket 35717 Application Keith Pruett Direct Testimony Page 9

Return on Equity: 10.75% - Source: Docket 35717 Application Samuel Hadaway Direct Testimony Page 33

Capital Structure: 60% debt - Source: Docket 35717 Application Keith Pruett Direct Testimony Page 18

Cost of Debt: Calculated based on 35% tax rate and stated capital structure, rate of return, and return on equity

INMP

Rate of Return: 8.79% - Source: Docket 36025 Application - Schedule II-C-2.1

Cost of Debt: 7.14% - Weighted average of short-term and long-term debt - Source: Docket 36025 Application - Schedule II-C-2.1