

Staff Presentation

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|---|
| <p style="text-align: right;">1214</p> <p>1 She's already said this man is a not an expert -- a 2 legal expert and now she's -- 3 MS. McCLENDON: Well, I've got an answer 4 for the record. No further questions. Thank you. 5 (Laughter) 6 JUDGE KANG: Well, that's the end of 7 that. 8 Commissioners, your questions? 9 CHAIRMAN SMITHERMAN: I don't have any. 10 COMM. ANDERSON: I don't have any. 11 COMM. NELSON: No. 12 JUDGE KANG: Okay. The next panel, 13 Panel No. 8. 14 CHAIRMAN SMITHERMAN: Thank you. 15 (Off the record) 16 (Exhibit Staff Nos. 12 and 13 marked) 17 JUDGE KANG: I believe the witnesses 18 haven't been sworn in yet -- two haven't. All right. 19 (Witnesses sworn) 20 JUDGE KANG: Thank you. First 21 witness -- I mean first party for cross-examination, 22 TNMP? 23 MR. SEAMSTER: Scott Seamster, TNMP, no 24 questions. 25 MR. MEDRANO: Your Honor, if I could ask</p> | <p style="text-align: right;">1216</p> <p>1 WITNESS LEE: Okay, Tejas, Cross Texas, 2 Isolux, ETT. 3 Q (BY MR. MEDRANO) Is that your only 4 correction? 5 A (Lee) Yes, it is. 6 MR. MEDRANO: Your Honor, I'd also like 7 to offer what has been marked as Staff's Exhibits 12 8 and 13, which are updates of Mr. Cutter's testimony. 9 Staff's 13 is highly sensitive confidential, and I 10 have copies for people who qualify to look at it. 11 JUDGE KANG: Are there any objections to 12 Commission Staff Exhibits 12 or 13? 13 MR. MCGRATH: Can we take a look at 14 them? 15 COMM. ANDERSON: Andres, is this the -- 16 what we were just given? 17 MR. MEDRANO: Yes. 18 (Off the record) 19 JUDGE KANG: Any objection to Commission 20 Staff Exhibits 12 or 13? 21 Mr. Rima? 22 MR. RIMA: Your Honor, I object to Staff 23 Exhibit 12, only to the extent that the return on 24 equity listed for Tejas is 9.96, which Mr. Cutter was 25 kind enough to increase what we actually filed. But</p> |
| <p style="text-align: right;">1215</p> <p>1 my witness about corrections. 2 CHAIRMAN SMITHERMAN: Oh, I'm sorry. Do 3 you have any corrections? 4 PANEL 8 (Other) 5 PRESENTATION ON BEHALF OF 6 COMMISSION STAFF AND ERCOT 7 DAN WOODFIN, T. BRIAN ALMON, 8 SLADE CUTTER AND MICHAEL LEE, 9 having been previously duly sworn, testified as 10 follows: 11 DIRECT EXAMINATION 12 BY MR. MEDRANO: 13 Q Mr. Lee, do you have any corrections you'd 14 like to make to your testimony. 15 A (Lee) Yes, I do. In my rebuttal testimony 16 on Page 7, line 8, to correspond to Staff Exhibit 10 17 that was submitted earlier, I need to add a little bit 18 here on Line -- Page 7, Line 8. After "TMPA" I need 19 to add the following: Tejas comma, Cross Texas comma, 20 Isolux comma, ETT comma. 21 CHAIRMAN SMITHERMAN: Say those again, 22 please. 23 WITNESS LEE: Do you have the right 24 spot? 25 CHAIRMAN SMITHERMAN: Yes.</p> | <p style="text-align: right;">1217</p> <p>1 the fact is what we have filed and what we have 2 requested and what we would accept is 9.62. If you 3 would make that correction, I have no objection. 4 MR. MEDRANO: I believe that point was 5 addressed in Mr. Cutter's testimony -- 6 MR. WEBB: I'm sorry, I can't hear you. 7 MR. MEDRANO: I believe that point is 8 addressed in Mr. Cutter's testimony in which the 9 original of that exhibit was attached and his reasons 10 for including that number. That objection goes to the 11 weight and not the admissibility of this exhibit. 12 MR. RIMA: I'm afraid. I didn't hear a 13 word he said. 14 JUDGE KANG: He basically explained that 15 what you wanted was already attached in Mr. Cutter's 16 testimony. Is that correct, Mr. Medrano? 17 MR. MEDRANO: Mr. Cutter's testimony 18 includes the explanation for why he used that number 19 instead of the number Mr. Rima suggested. To that 20 extent, the objection is to the content of the exhibit 21 and not to its admissibility. 22 MR. RIMA: Well, his explanation was 23 that we didn't -- at the time we made the offer 24 perhaps we didn't fully understand the market 25 conditions that would exist. We have made an offer.</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|---|
| <p style="text-align: right;">1218</p> <p>1 We stand behind that offer. We have not asked to 2 increase it. And to do a comparison that suggests 3 that our number is the same as some others have agreed 4 to takes away competitive advantage that we believe we 5 bring to the table.</p> <p>6 JUDGE KANG: What is your objection, 7 though?</p> <p>8 MR. RIMA: My objection is that the 9 number for Tejas for cost of equity is incorrect. 10 That number should be 9.62.</p> <p>11 JUDGE KANG: All right.</p> <p>12 MR. RIMA: And if they make that 13 correction, I have no objections to the exhibit.</p> <p>14 JUDGE KANG: I believe Mr. Cutter 15 already addressed that, so we're going to go ahead and 16 admit this as is. The objection is overruled.</p> <p>17 (Exhibit Staff Nos. 12 and 13 admitted)</p> <p>18 JUDGE KANG: All right. Any other 19 corrections or exhibits we need to take care of for 20 this panel?</p> <p>21 All right. First witness -- I mean 22 first party for cross-examination, TNMP.</p> <p>23 MR. SEAMSTER: Still no questions.</p> <p>24 JUDGE KANG: TIEC?</p> <p>25 MS. COOPER: Tammy Cooper, TIEC, no</p> | <p style="text-align: right;">1220</p> <p>1 A (Almon) I'll start off with that. It is in 2 my testimony that we could not reach a definitive 3 conclusion in evaluating those numbers, and I'll let 4 Mr. Lee follow up, if he would like.</p> <p>5 A (Lee) I have no follow-up unless you have a 6 specific question you'd like to ask about that.</p> <p>7 Q Well, my follow-up question would be y'all 8 have been through most of the hearing or heard a great 9 deal of it. Have you heard anything so far through 10 the course of the hearing that would cause you to 11 change your opinion?</p> <p>12 A (Almon) No, I have not.</p> <p>13 A (Lee) Nor have I.</p> <p>14 Q Now, I would like to ask you a series of 15 questions basically in your capacity as expert 16 witnesses in the field in which you work. Because if 17 we can't use the EPC construction costs as a reliable 18 gauge for having the Commission make a determination 19 on the hard choices they have in front of them, I want 20 to see if there's some other things that might be 21 useful to them, so I'd like you to follow along with 22 me.</p> <p>23 So these are hypothetical questions.</p> <p>24 I'm looking for some criteria the Commission might be 25 able to use in making a decision, and I would like for</p> |
| <p style="text-align: right;">1219</p> <p>1 questions.</p> <p>2 JUDGE KANG: WETT?</p> <p>3 MR. MALISH: Yes.</p> <p>4 CROSS-EXAMINATION</p> <p>5 BY MR. MALISH:</p> <p>6 Q All right, gentlemen, for the record, my name 7 is Chris Malish, and I represent Wind Energy 8 Transmission Texas, LLC.</p> <p>9 Mr. Woodfin, I don't have any questions 10 for you today.</p> <p>11 A (Woodfin) Wonderful.</p> <p>12 Q My questions will be directed primarily to 13 Staff as a panel, not necessarily to a person in 14 particular. because I understand that y'all 15 essentially work together to come up with your 16 recommendations. If necessary, I can try to pinpoint, 17 but I'll let y'all confer among yourselves to answer 18 these.</p> <p>19 And I am -- first of all -- and maybe 20 this is for Mr. Almon and maybe it's for Mr. Lee. My 21 understanding, based on your testimony on the 22 recommendations and the maps that y'all proposed was 23 that you found it unreliable to attempt to use the 24 estimates for the cost of construction as a basis for 25 making a decision. Is that true?</p> | <p style="text-align: right;">1221</p> <p>1 you to take as a baseline for answering these 2 questions that, basically, you're answering them in a 3 vacuum with, basically, all other things being equal. 4 Are you with me so far?</p> <p>5 A (Almon) Yes.</p> <p>6 Q And I tried to make this a 12-step plan, so 7 the first criteria: Would you agree that it would be 8 a useful criteria for the Commission to use in 9 awarding these projects that they should award 10 priority projects to incumbents for quick build-out?</p> <p>11 A (Almon) Yes.</p> <p>12 Q Mr. Lee?</p> <p>13 A (Lee) A qualified yes, but not unqualified.</p> <p>14 Q Okay. Would you like to expound?</p> <p>15 A (Lee) (No response)</p> <p>16 Q I'm not going to make you answer yes or no.</p> <p>17 A (Lee) I don't have much to expound on. I 18 think it's supposition a little bit to assume that the 19 incumbents can build everything faster.</p> <p>20 Q Okay.</p> <p>21 A (Lee) There's simply not been enough project 22 and construction planning done and presented to us to 23 make such an evaluation.</p> <p>24 Q Okay. Back to the panel as a whole. All 25 other things equal, would it be preferable to use as a</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|---|
| <p style="text-align: right;">1222</p> <p>1 criteria that whoever is awarded a project should have 2 large scale transmission line building experience to 3 minimize the risk of delayed delivery? 4 A (Almon) Well, I think that it would depend 5 upon what they were awarded. If it's a single line or 6 even another facility, they wouldn't necessarily have 7 to have large scale experience, if I understand that 8 term correctly. 9 Q If the Commission -- I would modify that. If 10 the Commission were to make a large scale award, 11 somewhere in the nature of half a billion dollars or 12 more, would large scale transmission line experience 13 be a helpful criteria for making a selection? 14 A (Almon) If you're saying that the utility 15 would have to have at least half a billion dollars in 16 existing transmission, I would say, no, that's not a 17 criteria. 18 Q I don't think you're -- I don't think we're 19 on the same page. All other things being equal, if 20 the Commission is going to make an award of \$500 21 million worth of transmission line build-out to a 22 single entity, all other things being equal, wouldn't 23 it be preferable to have that award to go to an entity 24 that already has some large scale transmission 25 building experience as opposed, for example, to an</p> | <p style="text-align: right;">1224</p> <p>1 use in making its decision that it should not 2 overstress incumbents which have huge commitments 3 already because this will minimize risk to the health 4 of the grid? 5 A (Almon) I would say yes. 6 Q All other things being equal, and this may 7 be, you know, hard to pinpoint for the reasons we 8 talked about with the difficulty in getting to the EPC 9 numbers, but to the extent possible the award should 10 be to some entity who can indicate a cost benefit to 11 ratepayers? In other words, less expensive? 12 A (Almon) Yes. 13 Q Another criteria: All other things being 14 equal, shouldn't the award of a large chunk -- if 15 we're going to use a large award -- go to those 16 applicants who have been able to demonstrate or 17 indicate that they will be able to complete 18 nonpriority projects as quickly as possible in order 19 to minimize lost opportunity costs and costs 20 associated with idling generation plant? 21 A (Almon) Yes. 22 Q Generally speaking, shouldn't facilities be 23 awarded only to entities which bid on them, basically, 24 in order to avoid corrupting the process, because, you 25 know, otherwise people who might have been interested</p> |
| <p style="text-align: right;">1223</p> <p>1 entity which had none or essentially none? 2 A (Almon) Yes. 3 Q Okay. Another criteria: All other things 4 being equal, would it be preferable for the Commission 5 to make a large scale award, if it were going to do 6 so -- and when I say "large scale award" I would like 7 for you to think about half a billion dollars is what 8 I mean by that. Okay? 9 All other things being equal, would it 10 be preferable for that award to go to a TSP or a CTP 11 applicant that is proportionally sized to the award 12 that it is seeking? In other words, shouldn't they be 13 big enough? 14 A (Almon) Right. They should have the 15 capability to complete the project. 16 Q This may be for you, Mr. Cutter. Again, all 17 other things being equal, a criteria that the 18 Commission should use for selecting a TSP for a large 19 scale award should be reasonably secure financing in 20 order to minimize the risk of noncompletion? 21 A (Cutter) Yes. 22 Q That's an easy one, wasn't it? 23 For the panel as a whole: All other 24 things being equal, to the extent it is possible, 25 would it not be a good criteria for the Commission to</p> | <p style="text-align: right;">1225</p> <p>1 in conducting discovery, for example, against someone 2 who they find ought to be a competitor or who is not a 3 competitor at the beginning point of the proceedings 4 may only find out that they are a competitor at the 5 end, that creates problems and potential for appeal. 6 Should I repeat that? 7 A (Almon) Well, I would agree with that with 8 the caveat that to extent that there -- the parties 9 may get together and reach a supplement, then that 10 would not be true. 11 Q And I take it that your caveat would mean a 12 universal settlement between all the parties so that 13 there's not the potential for just one party to make 14 that appeal? 15 A (Almon) Yes. 16 Q All right. Another criteria: The facility 17 should be awarded based on geographic contiguity to 18 try to cluster facilities together to maximize 19 efficiency and economies of scale? 20 A (Almon) Yes. 21 Q All right. This is going to be a sort of 22 multi-part hypothetical: Assuming that the Commission 23 is interested in bringing in a new entrant, and 24 assuming that the Commission would like that new 25 entrant to provide all of the O&M internally as</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|---|
| <p style="text-align: right;">1226</p> <p>1 opposed to contracting it out, for example, would it 2 not basically require an award of approximately -- 3 approximately -- \$1 billion to have a cost effective 4 internalized O&M structure? 5 A (Lee) I'd think I'd like to speak up on 6 that. 7 Q Okay. 8 A (Lee) I don't think we have the information 9 available to us to answer that question the way you 10 asked it. 11 Q Do you have a different way to answer it? 12 A (Lee) You -- your premises is that it might 13 take a billion dollars worth of facilities to have a 14 efficiently viable O&M organization. 15 Q Might be less? 16 A (Lee) Well, yes, it certainly might. I 17 think it's going to depend on the blend of facilities. 18 Q Okay. 19 A (Lee) And perhaps their geographical 20 locations. 21 Q Okay. 22 A (Lee) And some factors that your question 23 simply doesn't cover. 24 Q Could it be -- could it be -- do you have a 25 number in mind at all?</p> | <p style="text-align: right;">1228</p> <p>1 A (Lee) Let me comment. Your question 2 presupposes that the experience of building 3 substations would be beneficial, I suppose, because 4 the award would be for some substations? 5 Q Yes, it does. 6 A (Lee) Okay. So you're not assuming that 7 they need substation experience to build transmission 8 lines? 9 Q No. 10 A (Lee) Okay. All other things being equal, 11 it's a nicety if they have substation experience. It 12 would be a nicety if they had experience building 13 series compensation installations. 14 However, given that a great deal of the 15 engineering is going to be done probably on a contract 16 basis, and I'm assuming that anyone who is going to 17 contract for these facilities will contract with 18 someone who does have the requisite experience, I 19 don't know that there's much of a show stopper there. 20 MR. MALISH: Very good. No further 21 questions. I'll pass the panel. 22 JUDGE KANG: Cities? 23 MR. BREWSTER: No questions for the 24 panel. 25 JUDGE KANG: Luminant?</p> |
| <p style="text-align: right;">1227</p> <p>1 A (Lee) No, I certainly do not have a number 2 in mind. 3 Q Okay. All other things being equal, would it 4 be preferable to have an award of facilities -- I know 5 this is not a perfect world -- but all other things 6 being equal, would it be preferable to be able to make 7 an award to an entity which has no generation, 8 especially no wind generation, to avoid potential 9 taint of conflict of interest? 10 A (Almon) I would say it's not necessarily 11 preferable because we have, I think, regulations in 12 place, and we also have recommended that the 13 Commission look at that issue in a compliance docket. 14 Q Is it, nevertheless, frequently a concern 15 amongst customers or generators that even though there 16 are these rules that try to ring fence the generation 17 from the transmission, that people are still concerned 18 about it? 19 A (Almon) I don't have any personal knowledge 20 of that effect. 21 Q Okay. This will be my 12th and last one -- 22 criteria: Isn't it also very important, in addition 23 to the other things that we've talked about, to have 24 experience building substations as opposed to just the 25 lines, especially including series compensation banks?</p> | <p style="text-align: right;">1229</p> <p>1 MR. KEVER: Thank you. 2 CROSS-EXAMINATION 3 BY MR. KEVER: 4 Q Good afternoon. My name is Andy Kever. I 5 represent Luminant. 6 Mr. Almon, I have a couple of questions 7 just to be sure I understand the recommendation in 8 your Exhibit 11, which is your second supplemental 9 testimony. 10 A (Almon) Okay. 11 Q I would like to ask you if you would, please, 12 sir -- do you also have a copy of your rebuttal 13 testimony? 14 A (Almon) Yes, sir. 15 Q Would you please turn to Exhibit BA-R-A to 16 your rebuttal testimony, and to Exhibit BA-2S-A to 17 your second supplemental testimony? 18 CHAIRMAN SMITHERMAN: Andy, can you say 19 those again, please? 20 MR. KEVER: Yes, sir. It's Exhibit 21 BA-R-A to the rebuttal, and BA-2S-A to the second 22 supplemental. It's this (indicating) 23 CHAIRMAN SMITHERMAN: Okay. 24 A (Almon) Okay. I'm at those two places. 25 COMM. ANDERSON: No, wait.</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|--|
| <p style="text-align: right;">1230</p> <p>1 CHAIRMAN SMITHERMAN: Bates page I think 2 is 20 -- 15, Andy? Bates page 15? 3 MR. KEVER: For BA-R-A, yes, sir. 4 CHAIRMAN SMITHERMAN: Okay. 5 MR. KEVER: And Page 10 is the number I 6 have at the top of Exhibit BA-2S-A. 7 Are y'all ready? 8 CHAIRMAN SMITHERMAN: Yes. 9 Q (BY MR. KEVER) Mr. Almon, could you describe 10 for me what these two exhibits are intended to 11 accomplish? 12 A (Almon) What these exhibits attempted to 13 accomplish was I listed all the CREZ facilities in the 14 left-hand column and then the miles and the estimated 15 cost from ERCOT. 16 And then I broke the projects into four 17 categories -- default, priority, uncontested and 18 designated -- for each one of the exhibits. 19 Q Mr. Almon, is it correct that in your 20 second -- in the exhibit for your second supplemental 21 testimony that there are two priority projects for 22 which you have not included a recommendation? 23 A (Almon) That's correct. 24 Q Would you identify those for the record, 25 please, sir?</p> | <p style="text-align: right;">1232</p> <p>1 have reached agreement on that issue? 2 A (Almon) Yes, sir. 3 Q All right. Why have you left blank the other 4 two priority projects that we identified, the Central 5 Bluff to Bluff Creek double circuit, and the Bowman to 6 Oklaunion double circuit? 7 A (Almon) I left those blank because it was my 8 understanding that ETT had not reached a settlement 9 and there was maybe a potential that they could reach 10 a settlement by using these two particular projects 11 and maybe giving them to some other TSP. I didn't 12 want to foreclose that opportunity. 13 Q All right, sir. If such a settlement does 14 not occur by the time the Commission has to issue an 15 order in this case, what would your recommendation to 16 the Commission be with respect to those two priority 17 lines? 18 A (Almon) My recommendation would be that ETT 19 be awarded those two projects. And that's consistent 20 with my previous testimony. 21 MR. KEVER: Thank you, Your Honor, 22 that's all my questions. 23 JUDGE KANG: ETT? 24 MR. MCGRATH: Thank you. 25</p> |
| <p style="text-align: right;">1231</p> <p>1 A (Almon) Okay. On the Exhibit BA-2S-A, on 2 Page 10, the Bowman to Oklaunion double circuit 345 kV 3 line is a priority project and it is -- no TSP is 4 identified for that. 5 Q And who was -- which TSP was originally 6 identified in your rebuttal testimony? 7 A (Almon) It was ETT. 8 Q All right. 9 A (Almon) The other one is on Page 13 of this 10 same exhibit. That is the Central Bluff to Bluff 11 Creek double circuit 345 kV line. That is also 12 unmarked as far as the designation. 13 Q While you're on Page 13, Mr. Almon, is it 14 correct that you have changed the recommendation for 15 assignment of the priority line for the project just 16 below that Central Bluff to Bluff Creek being the 17 Bluff Creek to Brown double circuit 345 kV line? 18 A (Almon) Yes, that's correct. 19 Q Why did you make a change in the Bluff Creek 20 to Brown double circuit? 21 A (Almon) That was my understanding of the 22 parties that came together in the settlement that is 23 represented on my other exhibit. That was the -- my 24 representation of that. 25 Q So it's your understanding that some parties</p> | <p style="text-align: right;">1233</p> <p style="text-align: center;">CROSS-EXAMINATION</p> <p>1 BY MR. MCGRATH: 2 Q Mr. Almon, I do have one exhibit that's been 3 premarked as ETT Exhibit 47. I'll hand you a copy of 4 that. 5 Mr. Almon, I think most of my questions 6 are probably for you today. In your direct testimony, 7 you supported awarding the priority facilities to the 8 incumbent utilities. Is that right? 9 A (Almon) That's correct. 10 Q And you identified those incumbent utilities 11 as ETT, LCRA and Oncor. Is that right? 12 A (Almon) That's correct. 13 Q Please take a look at ETT Exhibit 47 that I 14 just handed you. Do you recognize this as a discovery 15 response that you sponsored the answer to? 16 A (Almon) Yes, it is. 17 Q Okay. And the question says: "Please 18 explain the basis for your conclusion that the 19 existing TSPs will be able to plan, certify and 20 construct the priority facilities faster than any new 21 company to Texas. Do you see that? 22 A (Almon) Yes. 23 Q That's -- the latter part is a quote out of 24 your testimony. Is that right? 25</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|---|
| <p style="text-align: right;">1234</p> <p>1 A (Almon) That is correct.</p> <p>2 Q Okay. Now your answer indicates, I think,</p> <p>3 probably three or four factors that you considered in</p> <p>4 reaching that conclusion. Is that right?</p> <p>5 A (Almon) Yes, that's correct.</p> <p>6 Q Okay. And one of those sort of at the end of</p> <p>7 the first line is the existing TSPs currently have</p> <p>8 experienced staff. Isn't that right?</p> <p>9 A (Almon) That's correct.</p> <p>10 Q The second one at the end of that sentence is</p> <p>11 that existing TSPs have built facilities in Texas?</p> <p>12 A (Almon) That's correct.</p> <p>13 Q Then moving on a little bit it says:</p> <p>14 Existing TSPs are more familiar with the process of</p> <p>15 obtaining a CCN in Texas."</p> <p>16 A (Almon) That's correct.</p> <p>17 Q Then, I guess, finally at the end there is a</p> <p>18 fourth factor about existing TSPs are more familiar</p> <p>19 with the facilities that will be needed to meet the</p> <p>20 challenges of building in Texas with its unique</p> <p>21 weather and geotechnical conditions and landowner</p> <p>22 concerns. Is that a fourth factor?</p> <p>23 A (Almon) Yes, it is.</p> <p>24 Q Now, your testimony addressed assigning the</p> <p>25 priority facilities to the incumbents. Is there any</p> | <p style="text-align: right;">1236</p> <p>1 have about it.</p> <p>2 Q Okay. Now, in your direct testimony you also</p> <p>3 recognize the value of grouping TSP facilities</p> <p>4 geographically. Is that right?</p> <p>5 A (Almon) That's correct.</p> <p>6 Q And one of the benefits of that is it</p> <p>7 facilitates coordination of decisions concerning</p> <p>8 routing within a single TSP as opposed to having to</p> <p>9 coordinate between adjacent TSPs?</p> <p>10 A (Almon) Yes, that's one of the factors.</p> <p>11 Q And I believe you also identify that grouping</p> <p>12 facilities geographically facilitates more efficient</p> <p>13 O&M of facilities once they're completed?</p> <p>14 A (Almon) That's correct.</p> <p>15 Q Is the reason for that because there are</p> <p>16 efficiencies in not having multiple O&M organizations</p> <p>17 in close proximity to each other?</p> <p>18 A (Almon) That's right.</p> <p>19 Q And I guess that consolidating O&M in a</p> <p>20 single entity rather than multiple entities you're</p> <p>21 probably likely to save money and avoid delay in the</p> <p>22 long-run?</p> <p>23 A (Almon) There is that possibility. I could</p> <p>24 probably think of situations where there would not be</p> <p>25 the case.</p> |
| <p style="text-align: right;">1235</p> <p>1 one of these four factors that wouldn't also apply to</p> <p>2 assigning any CREZ transmission facility to the</p> <p>3 incumbents?</p> <p>4 A (Almon) No, they would all apply.</p> <p>5 Q Okay. As I understand it, your Staff Exhibit</p> <p>6 11, which withdrew the recommendation to assign three</p> <p>7 priority facilities to ETT was essentially to</p> <p>8 encourage ETT to settle. Is that right?</p> <p>9 A (Almon) Well, to give ETT the opportunity to</p> <p>10 reach a settlement and to maybe trade-off those</p> <p>11 projects with other TSPs.</p> <p>12 Q I see. And this Staff Exhibit 11, we were</p> <p>13 first provided it just a couple of hours ago. Is that</p> <p>14 right?</p> <p>15 A (Almon) That's my understanding.</p> <p>16 Q So we really haven't had a whole lot of time</p> <p>17 to analyze or address it at this point, have we?</p> <p>18 CHAIRMAN SMITHERMAN: What does that</p> <p>19 look like?</p> <p>20 MR. MCGRATH: This is -- oh, I'm sorry,</p> <p>21 it's the second supplemental testimony.</p> <p>22 CHAIRMAN SMITHERMAN: Okay. Yeah, I've</p> <p>23 got it.</p> <p>24 A (Almon) I can't really say how fast you can</p> <p>25 analyze it. I'll be happy to answer any questions you</p> | <p style="text-align: right;">1237</p> <p>1 Q As I understand it, you recommend some</p> <p>2 compliance proceedings to follow after this case. Is</p> <p>3 that right?</p> <p>4 A (Almon) That's correct.</p> <p>5 Q And one of those would be to look at</p> <p>6 organizational structure and code of conduct for any</p> <p>7 nonincumbents that are selected?</p> <p>8 A (Almon) That's correct.</p> <p>9 Q And do you recognize in this case each of</p> <p>10 non-incumbents has significant relationships with</p> <p>11 competitive affiliates?</p> <p>12 A (Almon) I believe that's the case, yes.</p> <p>13 Q All right. For example, Lone Star is seeking</p> <p>14 to build transmission facilities in an area where they</p> <p>15 have a number of wind facilities?</p> <p>16 A (Almon) Yes.</p> <p>17 Q WETT is proposing to consider awarding</p> <p>18 contracts to its affiliate Isolux to build a lot of</p> <p>19 these facilities?</p> <p>20 A (Almon) Yes.</p> <p>21 Q To your knowledge, can a utility award</p> <p>22 hundreds of millions of dollars in contracts to an</p> <p>23 affiliate under Commission rules without competitively</p> <p>24 bidding those contracts?</p> <p>25 A (Almon) Yes, they can.</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|---|
| <p style="text-align: right;">1238</p> <p>1 Q How can they do that?</p> <p>2 A (Almon) Well, one that comes to mind -- and</p> <p>3 I may be wrong in how it was awarded -- but I believe</p> <p>4 ETT has a contract with AEP Services.</p> <p>5 Q So there's a service company provision where</p> <p>6 utilities can have a service company provide services</p> <p>7 to them? That's how AEP and ETT operates, is it not?</p> <p>8 A (Almon) Yes.</p> <p>9 Q Okay. Aside from the service company</p> <p>10 arrangement, can a utility award large contracts to an</p> <p>11 affiliate on a for-profit basis where the affiliate</p> <p>12 isn't providing those services at cost?</p> <p>13 A (Almon) I don't believe so.</p> <p>14 Q All right. So in the instance, for example,</p> <p>15 of WETT, I believe we heard them say -- or did you</p> <p>16 hear them say that Isolux does intend to make a profit</p> <p>17 on its services?</p> <p>18 A (Almon) I believe I did hear that, yes.</p> <p>19 Q So in that instance, in your opinion, would</p> <p>20 they need -- would WETT need to competitively bid that</p> <p>21 contract?</p> <p>22 A (Almon) I guess I can't really say at this</p> <p>23 time whether they would or would not, not knowing more</p> <p>24 details.</p> <p>25 Q Do you think that would be an important</p> | <p style="text-align: right;">1240</p> <p>1 your exhibit -- Staff Exhibit 11.</p> <p>2 A (Almon) Okay.</p> <p>3 Q On Page 18 of Staff Exhibit 11, Central C</p> <p>4 Collection Station in the far right-hand column, you</p> <p>5 have the words Lone Star. Is that correct?</p> <p>6 A (Almon) Yes.</p> <p>7 Q Now, when you flip back to the map, which is</p> <p>8 the last page of Staff Exhibit 11 and you see Central</p> <p>9 C on the map, sir?</p> <p>10 A (Almon) Yes, I do.</p> <p>11 Q And does that indicate -- I'm having trouble</p> <p>12 with the indication on the map. It appears on the map</p> <p>13 that Central C is actually shaded in a manner that</p> <p>14 indicates it would be an Oncor station. Is that</p> <p>15 correct?</p> <p>16 A (Almon) That's correct.</p> <p>17 Q And is the map the accurate reflection of</p> <p>18 your opinion or is it your Page 18?</p> <p>19 A (Almon) The map is the accurate reflection.</p> <p>20 MR. NYE: Okay. Thank you very much,</p> <p>21 sir.</p> <p>22 JUDGE KANG: Okay. Horizon?</p> <p>23 MR. SULLIVAN: Patrick Sullivan, no</p> <p>24 questions.</p> <p>25 JUDGE KANG: ERCOT?</p> |
| <p style="text-align: right;">1239</p> <p>1 factor for the Commission to consider in this case in</p> <p>2 selecting providers rather than waiting until a</p> <p>3 subsequent case to try and figure that out?</p> <p>4 A (Almon) I think that's one thing that should</p> <p>5 be considered.</p> <p>6 Q Now, the other purpose you've recommended a</p> <p>7 compliance proceeding for is to -- is for everybody</p> <p>8 that filed definitive plans for operation and</p> <p>9 maintenance and control centers. Is that right?</p> <p>10 A (Almon) That's correct.</p> <p>11 Q Some of the companies already have control</p> <p>12 centers, right?</p> <p>13 A (Almon) That's correct.</p> <p>14 Q And some of them already have some existing</p> <p>15 operations and maintenance facilities?</p> <p>16 A (Almon) That is correct.</p> <p>17 MR. MCGRATH: I believe that's all I</p> <p>18 have right now, Mr. Almon. Thank you.</p> <p>19 JUDGE KANG: Iberdrola?</p> <p>20 Oncor?</p> <p>21 MR. NYE: Yes, Your Honor. Allen Nye</p> <p>22 for Oncor.</p> <p>23 CROSS-EXAMINATION</p> <p>24 BY MR. NYE:</p> <p>25 Q Mr. Almon, just one clarifying question about</p> | <p style="text-align: right;">1241</p> <p>1 MS. COBOS: Lori Cobos, ERCOT, no</p> <p>2 questions.</p> <p>3 JUDGE KANG: AES Wind?</p> <p>4 MS. McCLENDON: Yes, Your Honor. If I</p> <p>5 could have just a second, please?</p> <p>6 CHAIRMAN SMITHERMAN: Could you tell us</p> <p>7 how much time she has?</p> <p>8 (Laughter)</p> <p>9 MS. McCLENDON: How much do I have, like</p> <p>10 30 minutes?</p> <p>11 JUDGE KANG: 25.</p> <p>12 COMM. ANDERSON: Does plugging in count?</p> <p>13 JUDGE KANG: The clock is running now.</p> <p>14 (Laughter)</p> <p>15 CROSS-EXAMINATION</p> <p>16 BY MS. McCLENDON:</p> <p>17 Q Good afternoon, panel. My name is Shannon</p> <p>18 McClendon. I'm here on behalf of AES Wind.</p> <p>19 Mr. Almon, would you tell us when the</p> <p>20 parties received your supplemental testimony?</p> <p>21 A (Almon) Supplemental or second supplemental?</p> <p>22 Q Second supplemental.</p> <p>23 A (Almon) I believe it was today.</p> <p>24 Q And do you know if it was this afternoon,</p> <p>25 this morning --</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|--|
| <p style="text-align: right;">1242</p> <p>1 A (Almon) I believe it was this afternoon.</p> <p>2 MS. McCLENDON: Chairman and</p> <p>3 Commissioners, if you'll bear with me, I'm trying to</p> <p>4 keep this as organized as I can, but this was the</p> <p>5 first time we had seen this. So I'll try to plug</p> <p>6 along and not use all 25 minutes.</p> <p>7 Q Mr. Almon, can you tell me whether or not AES</p> <p>8 Wind was invited to the negotiations?</p> <p>9 A (Almon) I do not know.</p> <p>10 Q Do you know who was invited?</p> <p>11 A (Almon) No, I do not.</p> <p>12 Q Do you know if any non-TSP was invited?</p> <p>13 A (Almon) I don't know.</p> <p>14 Q So you don't know if ETT was invited?</p> <p>15 A (Almon) No, I don't.</p> <p>16 Q Okay. Would you suspect that ETT probably</p> <p>17 wasn't since they're on the dashed lines -- the black</p> <p>18 dashed lines?</p> <p>19 MR. MEDRANO: Objection. The witness</p> <p>20 has already stated he does not know who was involved</p> <p>21 in negotiations.</p> <p>22 MS. McCLENDON: Withdrawn.</p> <p>23 Q (BY MS. McCLENDON) Now, I believe Mr. Kever</p> <p>24 took up a lot of my questioning, which I appreciated</p> <p>25 him doing, Mr. Almon, but you did state that the</p> | <p style="text-align: right;">1244</p> <p>1 me that this is what staff had divvied up for every</p> <p>2 TSP or interested TSP that was in the docket at that</p> <p>3 time?</p> <p>4 A (Almon) Subject to check, it looks like what</p> <p>5 Staff presented, yes.</p> <p>6 MS. McCLENDON: Your Honor, I move for</p> <p>7 admission of AES Wind Exhibit No. 6.</p> <p>8 JUDGE KANG: Any objections to AES --</p> <p>9 MR. MEDRANO: Subject to check, no</p> <p>10 objection.</p> <p>11 JUDGE KANG: AES Wind No. 7 is admitted.</p> <p>12 (Exhibit AES Wind No. 7 admitted)</p> <p>13 MS. McCLENDON: Thank you.</p> <p>14 CHAIRMAN SMITHERMAN: Shannon, just so</p> <p>15 we're following along with you, is this the same as</p> <p>16 the map that was in Mr. Almon's direct testimony or do</p> <p>17 you have copies that we can --</p> <p>18 MS. McCLENDON: I don't know if it's the</p> <p>19 same, but I do have copies that I can give to y'all.</p> <p>20 I'll give these to --</p> <p>21 CHAIRMAN SMITHERMAN: Like you, I'm</p> <p>22 trying to follow the various plans and so -- I really</p> <p>23 need a date stamp.</p> <p>24 COMM. ANDERSON: A time stamp.</p> <p>25 MS. McCLENDON: I apologize, Chairman,</p> |
| <p style="text-align: right;">1243</p> <p>1 Oklaunion and then part of the Central Bluff to Salado</p> <p>2 line are priority lines, correct?</p> <p>3 A (Almon) That's correct.</p> <p>4 Q And that you have parts of the second line in</p> <p>5 the Oklaunion all as a black dashed line in your</p> <p>6 exhibit. Is that correct?</p> <p>7 A (Almon) That's correct.</p> <p>8 Q And the dashed lines is non-settlement lines.</p> <p>9 Is that correct?</p> <p>10 A (Almon) That's correct.</p> <p>11 MS. McCLENDON: Okay. May I approach</p> <p>12 the witness, Your Honor?</p> <p>13 JUDGE KANG: Go ahead.</p> <p>14 Q (BY MS. McCLENDON) I'm going to put before you</p> <p>15 what has been marked as AES Wind Exhibit No. 7. I'm</p> <p>16 not sure if you'll need this or not, Mr. Lee, but just</p> <p>17 in case.</p> <p>18 Mr. Almon, would you agree with me that</p> <p>19 at some point not long ago, Staff thought it would be</p> <p>20 in the best public interest to allow all the TSPs and</p> <p>21 all the interested TSPs to have a bite at the apple to</p> <p>22 be able to build the CREZ lines?</p> <p>23 A (Almon) Yes, that's correct.</p> <p>24 Q And what's been marked here as AES Wind</p> <p>25 Exhibit No. 7, subject to check, would you agree with</p> | <p style="text-align: right;">1245</p> <p>1 for not knowing if it's the same map. I want to doubt</p> <p>2 it is just because it was not generated by Staff and</p> <p>3 so the colors at least may be a little bit different.</p> <p>4 MR. NOLAND: Excuse me, so we can follow</p> <p>5 this, can we ask if Ms. McClendon would identify again</p> <p>6 just exactly what this is?</p> <p>7 MS. McCLENDON: Yes, this is AES Wind</p> <p>8 Exhibit No. 7 that was given out the first day of</p> <p>9 hearing in a packet of -- it was one of the back</p> <p>10 pages. I think it was second-to-last.</p> <p>11 MR. NOLAND: Okay.</p> <p>12 MS. McCLENDON: Or last.</p> <p>13 MR. NOLAND: Thank you.</p> <p>14 COMM. ANDERSON: And this is the</p> <p>15 original, I guess, Staff proposal as -- or the staff</p> <p>16 proposal as of Monday -- no, because it includes --</p> <p>17 this is -- is this the original staff proposal?</p> <p>18 COMM. NELSON: This is the second staff</p> <p>19 proposal.</p> <p>20 MR. MEDRANO: Correct.</p> <p>21 COMM. ANDERSON: So the -- because it</p> <p>22 still has Tejas in it.</p> <p>23 MR. MEDRANO: Yes. This is the -- this</p> <p>24 is what our we filed in our rebuttal testimony. I</p> <p>25 believe, without checking, that was -- that was in</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|---|
| <p style="text-align: right;">1246</p> <p>1 October.</p> <p>2 COMM. ANDERSON: Okay.</p> <p>3 CHAIRMAN SMITHERMAN: I have the</p> <p>4 rebuttal right here.</p> <p>5 MS. McCLENDON: And, Commissioner</p> <p>6 Anderson, if it's helpful, I'll try to ask those</p> <p>7 questions so we've got the record clear on which ones</p> <p>8 of these exhibits it is.</p> <p>9 Q (BY MS. McCLENDON) Mr. Almon, can you tell me</p> <p>10 --</p> <p>11 CHAIRMAN SMITHERMAN: Shannon, give me</p> <p>12 just a second. Hold on.</p> <p>13 Yes, this looks like Mr. Almon's</p> <p>14 rebuttal plan. Do you agree with that, Brian? Let's</p> <p>15 just make sure we're all on the same page.</p> <p>16 MS. McCLENDON: And I appreciate that</p> <p>17 Mr. Chairman.</p> <p>18 WITNESS ALMON: No, I don't agree with</p> <p>19 that. I'm trying to figure out which one it is.</p> <p>20 COMM. NELSON: This is the one that I</p> <p>21 think came out after y'all did the e-mail saying you</p> <p>22 were going to divide them all up.</p> <p>23 WITNESS ALMON: Yeah.</p> <p>24 CHAIRMAN SMITHERMAN: Y'all want to take</p> <p>25 a few minutes? I'm looking at your rebuttal and it</p> | <p style="text-align: right;">1248</p> <p>1 On the homework assignment, do you want that to be</p> <p>2 sponsored testimony or just filed information?</p> <p>3 CHAIRMAN SMITHERMAN: Well, you know, it</p> <p>4 needs to be accurate.</p> <p>5 (Laughter)</p> <p>6 So I mean, if you just say it's filed</p> <p>7 information, you know --</p> <p>8 MR. TOWNSEND: Yeah, you can get</p> <p>9 together in testimony. We'll have a map and submit</p> <p>10 that as an exhibit as being true and accurate, I</p> <p>11 guess, like an RFI response that is sworn to as being</p> <p>12 true and accurate? A letter?</p> <p>13 CHAIRMAN SMITHERMAN: Particularly for</p> <p>14 the map, you know, that is really for demonstrative</p> <p>15 purposes for us to have a better understanding of</p> <p>16 where your current infrastructure is.</p> <p>17 MR. TOWNSEND: Right.</p> <p>18 CHAIRMAN SMITHERMAN: Now, with regard</p> <p>19 to the interest rates and the --</p> <p>20 COMM. ANDERSON: Financial, yeah.</p> <p>21 CHAIRMAN SMITHERMAN: -- and ROE, you</p> <p>22 know, that needs to be your best estimate based upon</p> <p>23 the data and the comps and the other things, so.</p> <p>24 COMM. NELSON: It needs to be whatever</p> <p>25 it needs to be for us to rely on if we want to rely on</p> |
| <p style="text-align: right;">1247</p> <p>1 looks to me like the map --</p> <p>2 WITNESS ALMON: It does not match the</p> <p>3 rebuttal testimony.</p> <p>4 MS. McCLENDON: Can we take a break,</p> <p>5 Chairman and Commissioners and maybe not all my time?</p> <p>6 (Laughter)</p> <p>7 CHAIRMAN SMITHERMAN: Yeah, stop the</p> <p>8 clock and let's take five.</p> <p>9 (Recess: 4:43 p.m. to 4:46 p.m.)</p> <p>10 CHAIRMAN SMITHERMAN: Okay, Lou.</p> <p>11 Y'all come on in from the back.</p> <p>12 Judge, let me ask you procedurally if</p> <p>13 what I'm going to suggest makes sense. We're going to</p> <p>14 stay here and finish this panel and then the</p> <p>15 testimony -- at least the oral testimony of this</p> <p>16 part of the hearing will be over. But in that we've</p> <p>17 given some homework assignments to the parties, I</p> <p>18 would like to keep the hearing open, if you will,</p> <p>19 through business tomorrow so that parties can file the</p> <p>20 homework assignments that we've asked of them, even</p> <p>21 though we won't be here and none of the witnesses will</p> <p>22 need to be here either. Does that sound solid?</p> <p>23 JUDGE KANG: We can do that.</p> <p>24 CHAIRMAN SMITHERMAN: Okay.</p> <p>25 UNIDENTIFIED SPEAKER: A clarification.</p> | <p style="text-align: right;">1249</p> <p>1 it for making our decision. So y'all are -- there's a</p> <p>2 lot of money being paid for attorneys in this room,</p> <p>3 so...</p> <p>4 MR. TOWNSEND: Let me suggest -- let me</p> <p>5 tell you what I have and will have for you and what</p> <p>6 else we might need. I'm going to have letters from</p> <p>7 First Southwest about TMPA and Garland and their</p> <p>8 ratings, this is what would be the rate and they'll</p> <p>9 give the evidence for why they say this would be the</p> <p>10 interest rate for the 1, 5, 10 --</p> <p>11 CHAIRMAN SMITHERMAN: Right, right.</p> <p>12 That's your financial advisor.</p> <p>13 MR. TOWNSEND: That's my financial</p> <p>14 advisor. And there will be a letter from them to us</p> <p>15 stating that. Now, do you need any more than that?</p> <p>16 CHAIRMAN SMITHERMAN: No. No.</p> <p>17 UNIDENTIFIED SPEAKER: You asked for</p> <p>18 supporting documents.</p> <p>19 CHAIRMAN SMITHERMAN: Yes.</p> <p>20 UNIDENTIFIED SPEAKER: So that would</p> <p>21 be --</p> <p>22 CHAIRMAN SMITHERMAN: Something, whether</p> <p>23 it's a listing of comparable deals that have happened</p> <p>24 in the market. I presume First Southwest will have</p> <p>25 some --</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | | | |
|------|--|------|--|
| 1250 | <p>1 MR. TOWNSEND: We have a comparable --</p> <p>2 CHAIRMAN SMITHERMAN: Okay.</p> <p>3 MR. TOWNSEND: -- you know, a recent</p> <p>4 issuance --</p> <p>5 CHAIRMAN SMITHERMAN: Recent deals,</p> <p>6 similarly-situated --</p> <p>7 MR. TOWNSEND: -- day before yesterday.</p> <p>8 CHAIRMAN SMITHERMAN: Paul?</p> <p>9 MR. SHINKAWA: We had considered</p> <p>10 submitting it as an addendum to the testimony of Don</p> <p>11 Kiser, our financial expert. The reason we were</p> <p>12 considering that is if that information becomes a</p> <p>13 significant part of the decision, we wanted it to be a</p> <p>14 part of the record as sworn testimony. Would that be</p> <p>15 acceptable or --</p> <p>16 CHAIRMAN SMITHERMAN: Judge, help me out</p> <p>17 here.</p> <p>18 JUDGE KANG: We can have them file them,</p> <p>19 and then if there are any objections to it -- the</p> <p>20 parties can file written objections Monday, and then</p> <p>21 we can -- we'll issue an order admitting them</p> <p>22 afterwards.</p> <p>23 MR. MEDRANO: The only complication I</p> <p>24 have there is that I heard a couple of people say that</p> <p>25 they were just going to make copies for the</p> | 1252 | <p>1 MS. McCLENDON: Mr. Chairman, as far as</p> <p>2 the confidential and those of us that have executed</p> <p>3 the certification for protective materials, would we</p> <p>4 just have the parties deliver it to us or --</p> <p>5 JUDGE KANG: Well, yeah, I guess.</p> <p>6 MS. BIGGS: It should be filed like any</p> <p>7 other pleading and served on all parties to the</p> <p>8 proceeding I think. That's just any suggestion.</p> <p>9 JUDGE KANG: Yeah, I believe so. And</p> <p>10 then part -- one party raised the number of copies</p> <p>11 that maybe we would want of the highly sensitive</p> <p>12 documents because ordinarily one is supposed to be</p> <p>13 produced, but since there's obviously three</p> <p>14 Commissioners, if we could have three copies so each</p> <p>15 one could have a copy of the highly sensitive --</p> <p>16 UNIDENTIFIED SPEAKER: Four altogether?</p> <p>17 MS. COOPER: Four for the purposes of</p> <p>18 having one for the parties --</p> <p>19 MS. CAMPBELL: -- our evidence if you</p> <p>20 enter it --</p> <p>21 MS. COOPER: Well, I guess if --</p> <p>22 JUDGE MONTELONGO: You'll file them</p> <p>23 tomorrow.</p> <p>24 MS. CAMPBELL: Well, I was not planning</p> <p>25 to file them downstairs. I was planning to just have</p> |
| 1251 | <p>1 Commissioners and they weren't going to put it on the</p> <p>2 list server and make it otherwise available. So if we</p> <p>3 have until Monday to make written objections, we</p> <p>4 need --</p> <p>5 JUDGE KANG: Well, yeah, if you would,</p> <p>6 also serve everybody so that they'll be able to see it</p> <p>7 and get any objection if they need to.</p> <p>8 MR. SHINKAWA: Our problem is with</p> <p>9 confidentials --</p> <p>10 UNIDENTIFIED SPEAKER: Yeah, there may</p> <p>11 be an issue with people making confidential filings if</p> <p>12 they don't go on --</p> <p>13 CHAIRMAN SMITHERMAN: Well, when I said</p> <p>14 this yesterday, I did say it could be confidential,</p> <p>15 because I think some of this is going to be</p> <p>16 confidential.</p> <p>17 MS. BIGGS: Just a suggestion, people</p> <p>18 could file it either as an exhibit to their testimony</p> <p>19 or could file it as a pleading, as long as you can</p> <p>20 treat it as sworn? You can mark it as Commissioners'</p> <p>21 exhibits. You could rule on Monday, go on the record</p> <p>22 as Commissioners' exhibits --</p> <p>23 JUDGE KANG: We can do that.</p> <p>24 CHAIRMAN SMITHERMAN: That would be</p> <p>25 fine. Everybody hear that?</p> | 1253 | <p>1 something to enter as exhibits.</p> <p>2 JUDGE KANG: We could have a -- if</p> <p>3 you-all want to, if it would simplify --</p> <p>4 JUDGE MONTELONGO: -- make arrangements</p> <p>5 to deliver it. If you're going to file it as an</p> <p>6 exhibit or submit it as an exhibit, it will have to be</p> <p>7 properly marked with whatever the next number is --</p> <p>8 MS. CAMPBELL: That's right, and give it</p> <p>9 to the court reporter.</p> <p>10 JUDGE MONTELONGO: And there will have</p> <p>11 to be enough copies, two for the court reporter, two</p> <p>12 for the appeals box --</p> <p>13 MS. CAMPBELL: Yeah, that's what I mean.</p> <p>14 That's what I told them was make 12 copies.</p> <p>15 JUDGE MONTELONGO: Yeah, we'll be here</p> <p>16 tomorrow.</p> <p>17 MS. McCLENDON: Jo, with all due</p> <p>18 respect -- and I do know where your service territory</p> <p>19 is -- I still feel like the parties need to be</p> <p>20 served --</p> <p>21 MS. CAMPBELL: We don't file things</p> <p>22 confidential, so we will list serve everybody with the</p> <p>23 new maps and the ratings --</p> <p>24 MS. McCLENDON: Thank you.</p> <p>25 MS. CAMPBELL: -- and the letter from</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | | | |
|------|---|------|--|
| 1254 | <p>1 CFC --</p> <p>2 MR. KEVER: And, Your Honor, just one</p> <p>3 more clarification. The parties that are making these</p> <p>4 filings have a list of parties who have signed --</p> <p>5 MS. CAMPBELL: Right.</p> <p>6 JUDGE KANG: And then there's the</p> <p>7 confidential and the highly sensitive --</p> <p>8 MR. KEVER: Right. And those folks --</p> <p>9 the parties that have signed the highly sensitive</p> <p>10 affidavit will receive copies of these filings</p> <p>11 simultaneously, or close thereto, with them being</p> <p>12 filed with the Commission. Is that also</p> <p>13 your understanding?</p> <p>14 JUDGE KANG: Well, in order for them to</p> <p>15 have an opportunity to object, that should be the</p> <p>16 case.</p> <p>17 MR. KEVER: Right.</p> <p>18 JUDGE MONTELONGO: If it's another</p> <p>19 exhibit and you're required to serve your exhibits on</p> <p>20 the other parties as well, to the extent that there's</p> <p>21 limits -- because of their confidentiality, then you</p> <p>22 should know what those are and who should get them and</p> <p>23 who shouldn't, but treat them like you would any other</p> <p>24 exhibit.</p> <p>25 JUDGE KANG: If you have any questions</p> | 1256 | <p>1 trying a courier?</p> <p>2 CHAIRMAN SMITHERMAN: You know, why</p> <p>3 can't all the attorneys be here tomorrow? We had it</p> <p>4 scheduled for a hearing for all day tomorrow. We're</p> <p>5 not going to be here, but they're going to be here at,</p> <p>6 what, 9:30. You'll gavel it open.</p> <p>7 MR. RIMA: I think that's an excellent</p> <p>8 idea and we can trade exhibits at that time.</p> <p>9 JUDGE KANG: Just to simplify things,</p> <p>10 we'll get up here tomorrow at 9:30 --</p> <p>11 MR. RIMA: I'm sorry, did I hear 10</p> <p>12 o'clock?</p> <p>13 (Laughter)</p> <p>14 JUDGE KANG: Ten o'clock.</p> <p>15 MS. CAMPBELL: Could we maybe schedule</p> <p>16 it for a little later than 9:30? Because, you know,</p> <p>17 my people are just making these things and --</p> <p>18 JUDGE KANG: Okay.</p> <p>19 MR. TOWNSEND: We can do that after --</p> <p>20 JUDGE KANG: Yeah, we'll take care of</p> <p>21 that later.</p> <p>22 MR. TOWNSEND: We blocked out tomorrow</p> <p>23 anyway --</p> <p>24 UNIDENTIFIED SPEAKER: Do I have to wear</p> <p>25 a suit?</p> |
| 1255 | <p>1 about -- if it's going to be helpful to you -- I do</p> <p>2 have a list of the parties that have signed the</p> <p>3 confidential protective order and highly sensitive --</p> <p>4 but there's also a little discrepancy I found in it.</p> <p>5 One person signed two of them, one on both lines and</p> <p>6 another on one line. So I'm treating that person as</p> <p>7 a -- not being entitled to highly sensitive.</p> <p>8 MS. CAMPBELL: Also I have some exhibits</p> <p>9 that were never admitted. Could we at least before</p> <p>10 everybody disappears --</p> <p>11 JUDGE KANG: -- today -- we can take</p> <p>12 care of that. I haven't forgotten about you or</p> <p>13 Mr. Rima. I've wrote them down and we will take care</p> <p>14 of them before we all go home.</p> <p>15 MR. RIMA: I'm still back on the filings</p> <p>16 for tomorrow.</p> <p>17 JUDGE KANG: All right.</p> <p>18 MR. RIMA: With regard to the filings</p> <p>19 that are being filed as confidential, most of the</p> <p>20 parties have provided service of the highly sensitive</p> <p>21 materials by mail. That isn't going to give us time</p> <p>22 to do anything. I'm not quite sure how it is -- we</p> <p>23 can't e-mail it to other parties and claim it as</p> <p>24 highly sensitive --</p> <p>25 JUDGE KANG: That's a -- how about</p> | 1257 | <p>1 COMM. NELSON: No.</p> <p>2 CHAIRMAN SMITHERMAN: You're going to</p> <p>3 bill for tomorrow anyway, aren't you?</p> <p>4 (Laughter)</p> <p>5 CHAIRMAN SMITHERMAN: So where do we go</p> <p>6 from here?</p> <p>7 MS. McCLENDON: Thank you, Mr. Chair.</p> <p>8 Q (BY MS. McCLENDON) If I could, Mr. Almon, would</p> <p>9 you agree with me that AES Wind Exhibit No. 7 is</p> <p>10 identical to the attachment in your rebuttal testimony</p> <p>11 except for the purple line that indicates TMPA should</p> <p>12 actually be Tejas? And that the Garland and CPS lines</p> <p>13 are actually joint with LCRA -- 70 percent Garland,</p> <p>14 30 percent the utility -- 70 percent the MOU -- I mean</p> <p>15 the muni?</p> <p>16 COMM. ANDERSON: Shannon, I'm sorry,</p> <p>17 will you slow down and --</p> <p>18 MS. McCLENDON: Yes.</p> <p>19 COMM. ANDERSON: I'm a little slower on</p> <p>20 marking it on my map.</p> <p>21 MS. McCLENDON: Yes, sir. And I</p> <p>22 would -- since we're going to be here tomorrow and --</p> <p>23 we will make a revision to this and make sure y'all</p> <p>24 get that as well.</p> <p>25 COMM. ANDERSON: What?</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | | | |
|------|--|------|--|
| 1258 | <p>1 MS. McCLENDON: The purple -- light 2 purple line on top up here that indicates that it's 3 TMAP, that should be a green line that says Tejas. 4 5 COMM. ANDERSON: Okay. 6 Q (BY MS. McCLENDON) At the bottom there's a 7 black line that's Garland and a teal line that's CPS. 8 Those are Garland and CPS lines, but they're in joint 9 ownership with LCRA on both of those, with the munis 10 getting 70 percent and LCRA having 30 percent. 11 A (Almon) Also one additional correction. The 12 line from Kendall up to Brown, to me it appears that 13 it's marked LCRA, but that is also a CPS-LCRA line, 14 joint line. 15 Q Are you talking about at the bottom there? 16 A (Almon) At the bottom. 17 Q That's that teal color. 18 A (Almon) Well, from Kendall up to Brown, 19 going to the northeast, that is -- also should be 20 teal. 21 MS. McCLENDON: May I approach, Your 22 Honor? 23 JUDGE KANG: Yes. 24 MS. McCLENDON: Thank you. 25 (Off the record) 26 MS. McCLENDON: Commissioner Anderson, I</p> | 1260 | <p>1 Q And one of the reasons for that is that Staff 2 has changed their opinion -- or after further 3 evaluation -- found that Tejas was no longer 4 qualified. Is that correct? 5 A (Almon) That's correct. 6 Q Are there any other reasons? 7 A (Almon) Well, the other reason is the fact 8 that we have indications from the parties that are 9 shown on the map that's included in my second 10 supplemental that they have reached a settlement as 11 far as the lines that are indicated on that exhibit of 12 mine in the second supplemental. 13 Q And the second supplemental would be the 14 settlement map plus STEC. Is that correct? 15 A (Almon) That's correct. 16 Q And if we were to look at that map exhibit to 17 your testimony, on the black dashed lines where the 18 priority lines are, would you agree with me that 19 there's a yellow substation there at Oklaunion? 20 A (Almon) Yes, that's correct. 21 Q And that would be where ETT would have been. 22 Is that correct? 23 A (Almon) Yes. 24 Q And then the same with the Central down to 25 Brown or part to Brown --</p> |
| 1259 | <p>1 do stand corrected. The teal line should continue 2 going north and then northeast. Like I said, I 3 apologize, this is kind of last minute. I didn't know 4 Staff was going to be on today. 5 COMM. NELSON: So it ends at the orange 6 section? 7 MS. McCLENDON: That's correct, 8 Commissioner. 9 CHAIRMAN SMITHERMAN: Just to be clear, 10 if I'm looking at Brian's rebuttal testimony, he's got 11 a map in there, and you're trying to make your map 12 look like that? 13 MS. McCLENDON: Yes, sir, but prettier. 14 CHAIRMAN SMITHERMAN: In color. Okay. 15 Q (BY MS. McCLENDON) Mr. Almon, would you agree 16 with me that the Commission -- specifically you and 17 your department as well as legal -- y'all don't have a 18 color printing facility. Is that correct? 19 A (Almon) Well, it's not the printing 20 facilities, it's the capability to draw maps like 21 this. 22 Q Okay. Thank you. And would you agree with 23 me that this no longer reflects Staff's plan -- 24 current plan? 25 A (Almon) That's correct.</p> | 1261 | <p>1 A (Almon) Yes. 2 Q There's a yellow dot as well. And that's 3 because that was originally ETT's. Is that correct? 4 A (Almon) That's correct. 5 Q Mr. Woodfin -- I'd like to think that's it 6 for you, Mr. Almon, but -- I'm hoping it is. 7 Mr. Woodfin, would you please tell me 8 what ERCOT has been doing as far as the priority lines 9 and the default lines since the final order in 10 Docket 33672? 11 A (Woodfin) I guess the -- we haven't been 12 doing a lot on the default dockets because the TOs are 13 working on those at this point. 14 The priority lines, there were a couple 15 of those that the Oklaunion-Bowman line -- I say a 16 couple -- it was really the Oklaunion-Bowman line that 17 there was, I believe, a project -- or a Regional 18 Planning Group review filed on that. And we -- 19 because of some of the action that went on in this 20 case, we have put that review on hold. 21 Q Okay. And can you tell me whether or not you 22 have spent any time with ETT, LCRA or Oncor regarding 23 these priority lines at all? 24 A (Woodfin) The priority lines? 25 Q Yes. And I mean even before 33672 to today.</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|---|
| <p style="text-align: right;">1262</p> <p>1 A (Woodfin) Yes, we spent some time working on 2 the Oklaunion-Bowman was in the five-year plan last 3 year, and I'm not -- I'm not sure about the other 4 priority line. 5 Q Would you agree with me that the final order 6 in 33672 basically directed ERCOT and ETT and Oncor 7 and LCRA to keep working on those lines despite this 8 proceeding, 35665? 9 A (Woodfin) Well, I'm not sure exactly what -- 10 I'm not going to interpret the order. 11 Q Okay. Well, what was your understanding of 12 what -- at the end of 33672 and before you -- before 13 the motions for severance were not granted, what was 14 your understanding of what ERCOT and those three 15 parties should be doing? 16 A (Woodfin) Generally I think it was that we 17 needed to work on whichever mechanism got those lines 18 completed fastest. 19 Q And during that time you were working with 20 those three TSPs? 21 A (Woodfin) I know at least on that one 22 project that there was a project -- an RPG project 23 that was submitted. 24 Q And you're not testifying that you did not 25 work with the other -- regarding the other priority</p> | <p style="text-align: right;">1264</p> <p>1 my understanding was that the order in this docket 2 superceded that. 3 Q The order denying the motions for severance. 4 Is that right? 5 A (Woodfin) Yes. 6 Q Okay. And let me ask you this -- if there 7 were parties -- say we get a Final Order in this case 8 and it designates any of these TSPs to build it, but 9 say specifically the incumbents are to build the 10 priority lines. If any party were to file an appeal 11 of that final order, say, because they don't believe 12 the Commission has the jurisdiction to allow 13 competition in transmission facilities in Texas -- 14 MS. COBOS: Your Honor, I'm going to 15 have to object. I think Ms. McClendon is asking Dan 16 legal questions that he has to speculate about. 17 MS. McCLENDON: I think I can rephrase. 18 Q (BY MS. McCLENDON) Mr. Woodfin, what has been 19 the experience of ERCOT regarding the issuance of a 20 final order? How does ERCOT interpret that and how do 21 you interpret that? 22 MS. COBOS: Objection, I think she's 23 still asking a legal question. 24 Q (BY MS. McCLENDON) Mr. Woodfin, does ERCOT, 25 including you, continue on with an order from the</p> |
| <p style="text-align: right;">1263</p> <p>1 lines, are you, during that period of time? 2 A (Woodfin) I'm just right now not thinking of 3 any specific actions that we're taking on those other 4 priority lines. 5 Q That's fair enough. And can you tell us why 6 ERCOT kind of put the brakes on as well as, I guess, 7 the TSPs, but kind of put the brakes on going forward 8 with these priority lines? 9 A (Woodfin) I think part of it was that 10 essentially the need for those lines is already 11 established in the -- because they were deemed a part 12 of the CREZ lines. It was unclear as to how we would 13 assign those lines if we completed any review of them 14 to a TSP. And so there was really not a -- there 15 wouldn't have been any logical outcome of a normal RPG 16 review that would have benefited anyone from that. We 17 were going to have to wait on this docket to be 18 completed before we could do anything with those lines 19 anyway. 20 Q And that's despite the fact that the language 21 in the Final Order on 33672 said if it's more 22 expedient to complete these projects by the incumbent 23 transmission providers that you should go ahead and do 24 that? 25 A (Woodfin) No, I'm -- I'm not a lawyer, but</p> | <p style="text-align: right;">1265</p> <p>1 Commission if it's final unless there is a TRO that's 2 been issued otherwise? And let me say it this way: 3 Do you, along with everybody at ERCOT, do you in your 4 expert opinion agree that ERCOT takes a final order 5 from the Commission and acts on it until it is 6 overturned? 7 A (Woodfin) I think I'd seek advice from 8 counsel before doing anything. 9 MS. COBOS: I'll -- 10 A (Woodfin) -- before doing anything. 11 Q So was it your counsel that told you to stop 12 working on the expedition of the priority lines 13 because of the denial of the motion to sever? 14 A (Woodfin) I think we had a discussion about 15 it, so, yes. 16 Q They were the ones who directed you to stop? 17 A (Woodfin) I don't know that they directed, 18 but we did have a discussion about it. 19 Q Why did you stop? 20 A (Woodfin) My impression coming out of that 21 was that we really -- there wasn't any logical reason 22 to continue. 23 Q From a non-legal perspective and in your 24 expert testimony -- I think you and I have had a 25 discussion about this on more than one occasion --</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | | | |
|------|---|------|---|
| 1266 | <p>1 would you agree with me that ERCOT tends to go forward 2 when they get a final order from this Commission or 3 whatever the actions are, unless they're told 4 otherwise? 5 A (Woodfin) I think that was the advice that I 6 had generally gotten, yes. 7 MS. McCLENDON: Thank you. That's all I 8 have. Thank you. 9 JUDGE KANG: Tejas? 10 CROSS-EXAMINATION 11 BY MR. RIMA: 12 Q Good afternoon, panel. I'm Bob Rima. I 13 represent Tejas Transmission. 14 Mr. Cutter, let me start with you. And 15 I want to go back to what has been marked as Staff 16 Exhibit 12. And Staff Exhibit 12 is the new 17 comparison that you have provided. Do you have that 18 available to you? 19 A (Cutter) I do. I'm looking at it. 20 Q Okay. And under Tejas Transmission, you have 21 included a return on equity -- a cost of equity -- of 22 9.96 percent. Do you see that? 23 A (Cutter) I do. 24 Q Is that the return on equity that Tejas 25 requested?</p> | 1268 | <p>1 equity, would you agree that the effect of the 2 comparison that you have made here is that you have 3 removed a competitive advantage that Tejas has 4 offered? 5 A (Cutter) I'm struggling with the idea of 6 Tejas having offered it and that -- as I say, the 7 offer was conditional, and I don't know that, given 8 developments since the offer was made, that it's -- it 9 is something they offered. 10 Q I understand that. And the premise of my 11 question was, assuming that Tejas continues today to 12 hold out that it will accept a 9.62 percent return on 13 equity, do you agree that your comparison actually has 14 taken a competitive advantage away from the Tejas 15 proposal? 16 A (Cutter) I think the nature of these bids 17 have enough ambiguity and subjectivity to them that 18 several of the parties to whom 9.96 has been assigned 19 could argue for a lower cost of equity. I think in 20 the absence of -- my intent here was to group these 21 entities in an approximately financially equal manner. 22 I don't purport to have it to the last decimal place. 23 I don't -- 24 Q Thank you. Do you have a copy of your 25 supplemental testimony there, sir?</p> |
| 1267 | <p>1 A (Cutter) No, they requested 2.62. 2 Q And how did it get from 9.62 to 9.96? 3 A (Cutter) Well, the request, as I read it, 4 was conditional. And I felt, given the circumstances 5 that I didn't have enough confidence it would be 9.62 6 in light of the several other parties having been 7 assigned a 9.96 on the basis of -- 8 Q You're going to have to talk into the 9 microphone at the same time here. I'm sorry. 10 A (Cutter) I felt that the 9.62 commitment 11 that was in the CTP was conditional, and that given 12 the current circumstances -- it was in fact 13 conditional upon there being no extraordinary 14 circumstances or something to that effect. And I felt 15 that in light of what has happened in the capital 16 markets since then that very possibly it could be 17 more. And that, in all fairness, given no further -- 18 I had assigned a 9.96 to several of the new incumbents 19 solely on the basis of their willingness to accept the 20 Commission's determination. 21 Q Okay. And if Tejas' position continues to 22 be, in light of the language that you cited regarding, 23 you know, changing conditions, if even in light of 24 those changing conditions Tejas' position continues to 25 be that they would except a 9.62 percent return on</p> | 1269 | <p>1 A (Cutter) I do. 2 Q With reference to Page 3 of your supplemental 3 testimony, would it be a fair summary of your 4 testimony to say that because of recent events in the 5 financial markets that affected Tejas' parent, Babcock 6 & Brown, you concluded that it was a significant risk 7 that Babcock & Brown would not be able to fund Tejas 8 development of CREZ facilities? 9 A (Cutter) Yes, that's true. 10 Q And as a result of that opinion, you withdrew 11 your recommendation that Tejas was financially 12 qualified to construct a portion of the CREZ 13 facilities. Is that correct? 14 A (Cutter) Yes, it is. 15 MR. RIMA: Is it okay to approach the 16 witness? 17 MR. KANG: Go ahead. 18 MR. RIMA: Thank you. 19 Mr. Noland, have you provided the 20 Commissioners with the copies of SU-26? 21 MR. NOLAND: We have not yet, but we can 22 do that now. 23 MR. RIMA: Would you be willing to do 24 that, please, sir? 25 MR. NOLAND: Yes. Would it be helpful</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|--|
| <p style="text-align: right;">1270</p> <p>1 for me to explain what the nature of our agreement is 2 or are we going to -- 3 MR. RIMA: Yeah, I'll go ahead and do 4 it. That would be fine. 5 Your Honor and Commissioners, I have 6 handed the witness two exhibits. One is Tejas 7 Transmission Exhibit No. 13, which is a press release. 8 And I have offered -- and I have provided him with a 9 copy of what has been marked as SU-26, which is a copy 10 of an article from the Australian Business -- I don't 11 know what it is, something associated with the Wall 12 Street Journal, a news article. 13 Do you have wrote of those? Are you -- 14 MR. NOLAND: I have actually not asked 15 SU-26 to be marked. 16 MR. RIMA: Well, I was about to explain 17 that, but I wanted him to have the documents first. 18 MR. NOLAND: Perhaps I should do that 19 now. 20 CHAIRMAN SMITHERMAN: We have 26, but 21 that's all we have. Is there something else? 22 MR. RIMA: You don't have 13, Tejas 13? 23 That should have been distributed this morning. 24 CHAIRMAN SMITHERMAN: Give us a second. 25 MR. RIMA: It has not been admitted yet,</p> | <p style="text-align: right;">1272</p> <p>1 And just for the record, I'm asking you 2 to identify as Exhibit SU-26 an article that happened 3 in today's version of an Australian Wall Street 4 Journal, which is a description of the deal with the 5 banks that was reached by Babcock & Brown that was 6 announced in a press release that was Mr. Rima's 7 exhibit. 8 WITNESS CUTTER: I believe so, sir. 9 MR. NOLAND: And I'm asking that this 10 one be identified, which is Mr. Rima's exhibit, as a 11 press release, is to provide a third-party evaluation 12 of what the deal was, just to make it complete. So I 13 would ask that you identify it as SU Exhibit 26 and, 14 along with Mr. Rima's exhibit, be admitted into 15 evidence. 16 MS. NELSON: Mr. Rima, it may be that we 17 will have additional questions of the gentlemen or the 18 witnesses from Tejas, based on these articles. Are 19 there still people here? 20 MR. RIMA: Yes, Commissioner. We still 21 have Mr. Parquet here, who would be happy to answer 22 additional questions. 23 COMM. NELSON: All right. 24 MR. RIMA: I'm not sure how we came out 25 there, but I would also offer Tejas Exhibit 13 into</p> |
| <p style="text-align: right;">1271</p> <p>1 but it is available for discussion. 2 CHAIRMAN SMITHERMAN: I don't think it 3 was admitted. 4 MR. RIMA: It hasn't been admitted yet, 5 but it is available for discussion. 6 MS. BATCHELOR: It wasn't admitted but 7 it was distributed. You don't have them? 8 COMM. ANDERSON: No. 9 MR. RIMA: Your Honor, can we go off my 10 clock for a minute while we resolve this? 11 MS. BATCHELOR: You're off the clock. 12 MR. RIMA: Thank you. 13 (Off the record) 14 MR. RIMA: Do you have both? 15 The situation is this: Given the order 16 of cross-examination, I end up in front of Sharyland. 17 We both had some objections to each other's exhibits. 18 We have worked that out, and we've reached an 19 agreement that neither of us will object to the 20 other's exhibit coming into evidence. Therefore, I 21 would like to talk about both of these items. And if 22 you don't mind taking it out of order, I guess we 23 could both offer these into evidence at this time. 24 MR. NOLAND: I think that would be the 25 way to go.</p> | <p style="text-align: right;">1273</p> <p>1 evidence. 2 JUDGE KANG: Are in any objections to 3 Tejas Exhibit 13 or Sharyland Exhibit 26? 4 Hearing no objections, Tejas Exhibit No. 5 13 and Sharyland Exhibit 26 are admitted. 6 (Exhibit Tejas No. 13 marked & admitted) 7 (Exhibit SU No. 26 marked & admitted) 8 MR. RIMA: Thank you. 9 Q (BY MR. RIMA) Mr. Cutter, I've handled you 10 what has been admitted into evidence as Tejas Exhibit 11 13, and I would like you to take a look at it, please. 12 This is a press release issued by Babcock & Brown on 13 December 4, 2008. And just, if things are not 14 confusing enough in this docket, I would point out 15 that they are a day ahead of us. 16 (Laughter) 17 I just want that to be clear. 18 In looking at that, would you please go 19 down to the paragraph marked "New Funding Facility" 20 and read that paragraph for us, please, out loud. 21 A (Cutter) "New Funding Facility. A group of 22 Babcock & Brown's existing lenders under the corporate 23 facility have need to provide the additional 24 \$150 million facility to assist with funding the 25 business through 31 December 2009. This facility will</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|--|
| <p style="text-align: right;">1274</p> <p>1 rank ahead of the existing corporate facilities. The 2 facility will be available to be used to fund certain 3 infrastructure asset development projects in North 4 America and other planned cash outflows." 5 Q All right. And dropping down under the 6 heading "Suspension of Financial Covenants," the 7 second paragraph indicates, does it not, that the 8 banking syndicate has suspended the financial 9 covenants from the existing facilities; therefore, 10 Babcock & Brown will have no obligation to comply with 11 these covenants at December 31, 2008. Do you see 12 that? 13 A (Cutter) Yes, I do. And that is what it 14 says. 15 Q Would you agree that that's a very important 16 item? 17 A (Cutter) Yes, I would. 18 Q Okay. 19 A (Cutter) I do. 20 Q And looking over now at SU Exhibit 26, the 21 headline of that exhibit is "Deal gives Babcock & 22 Brown \$150 million and two months." Do you see that? 23 A (Cutter) I do. 24 Q Look from the bottom of the first page -- 25 one, two, three, four -- the fifth paragraph up. And</p> | <p style="text-align: right;">1276</p> <p>1 the veracity of. 2 MR. RIMA: Well, Your Honor, I'm asking 3 him simply if, in reading SU Exhibit 26, and he looks 4 at this paragraph, if he thinks they relate, and I 5 think he's entitled to have an opinion on that -- 6 JUDGE KANG: Well, Mr. Cutter has an 7 opinion, after seeing both documents. 8 Mr. Cutter go ahead and answer the 9 question. 10 A (Cutter) They appear to report essentially 11 the same facts from different perspectives. 12 Q (BY MR. RIMA) And the last part of that 13 paragraph indicates that the revised business plan 14 that Babcock & Brown has to come up with by 15 January 9th, in fact, is something that's been under 16 discussion since November of 2008, doesn't it? 17 A (Cutter) Yes, that's true. 18 Q Were you here yesterday when Mr. Parquet and 19 the Chairman were having a discussion and the 20 Chairman -- and I don't want to put words in his 21 mouth -- but basically told Mr. Parquet that, "As to 22 the commitments made by BBIFNA to support Tejas, we 23 needed to think about something to beef them up?" 24 A (Cutter) I was. 25 Q And after that dialogue occurred, do you</p> |
| <p style="text-align: right;">1275</p> <p>1 the first part of that, which again this is a 2 newspaper article, says, "The cash will keep the 3 troubled investment bank alive for two months." Do 4 you see that? 5 A (Cutter) I do. 6 Q All right. Go back now, if you would, to 7 Tejas Exhibit 13. And looking at the -- oh, I guess 8 it's the third page of that exhibit, at the top of the 9 page is a paragraph that talks about "Babcock & Brown 10 has undertaken..." Are you at that -- 11 A (Cutter) Yes, I see it. 12 Q All right. Do you want to take a second and 13 read that paragraph to yourself. I'm not going to ask 14 you to read that out loud. 15 A (Cutter) Okay. 16 Q All right. All right. Do you think it's 17 fair to assume in the Wall Street -- or the Australian 18 Business document, SU-26, when they refer to, "The 19 cash will keep the troubled investment bank alive for 20 two months," they were actually referring to this 21 paragraph where it requires that Babcock & Brown 22 provide a revised business plan by January? 23 MR. MEDRANO: I'm going to object to 24 this. This is asking for speculation on the part of 25 the witness, for information he couldn't possibly know</p> | <p style="text-align: right;">1277</p> <p>1 recall that I asked you to think about that question 2 so that I could actually inquire if you had some 3 thoughts or ideas regarding what Babcock & Brown or 4 Tejas or BBIFNA could do? 5 A (Cutter) Yes. 6 Q And have you thought about it since 7 yesterday? 8 A (Cutter) Yes, I have. 9 Q Do you have some comments that you would 10 like -- 11 JUDGE KANG: You have three minutes. 12 Q -- to share with us regarding what could be 13 done? 14 A (Cutter) I believe that it would be possible 15 for a contract of some form to be offered to indicate 16 a relationship between BBIFNA and Tejas that would -- 17 you know, were it available today, and after review, 18 it's possible that such an agreement could be 19 forwarded that would improve Tejas' financial 20 condition. 21 Q And you were worried about -- 22 INTERCOM INTERRUPTION: May I have your 23 attention, please. 24 MS. NELSON: Oh, my gosh! 25 INTERCOM INTERRUPTION: May I have your</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|---|
| <p style="text-align: right;">1278</p> <p>1 attention, please.</p> <p>2 MR. RIMA: Should I continue?</p> <p>3 JUDGE KANG: Yes.</p> <p>4 Q (BY MR. RIMA) Would you recommend, for example,</p> <p>5 that Tejas can consider putting the --</p> <p>6 INTERCOM INTERRUPTION: May I have your</p> <p>7 attention, please. We will be testing the fire alarm</p> <p>8 system this afternoon. Please disregard all the</p> <p>9 alarms.</p> <p>10 CHAIRMAN SMITHERMAN: Let's take a</p> <p>11 five-minute break. Nobody can do cross with that</p> <p>12 going on.</p> <p>13 (Off the record)</p> <p>14 COMM. SMITHERMAN: Okay. Everybody grab</p> <p>15 a seat. If you're in settlement negotiations, go back</p> <p>16 in the back, please.</p> <p>17 MR. RIMA: Your Honor, could I request</p> <p>18 to have a minute back, given the confusion?</p> <p>19 JUDGE KANG: We did stop the clock while</p> <p>20 the testing was going on.</p> <p>21 MR. RIMA: I know. But I tried to ask</p> <p>22 the same question about three times, and somebody</p> <p>23 talked over the speaker.</p> <p>24 CHAIRMAN SMITHERMAN: Well, how about</p> <p>25 30 seconds?</p> | <p style="text-align: right;">1280</p> <p>1 exactly what currently the relationship is.</p> <p>2 MR. RIMA: Yes. I think we can call</p> <p>3 Mr. Parquet back. I can't testify, Commissioner. I'm</p> <p>4 sorry.</p> <p>5 COMM. ANDERSON: I'm sorry. Go ahead</p> <p>6 and continue so we can wrap this up.</p> <p>7 MS. NELSON: The other thing is that I</p> <p>8 think the Chairman testified -- or didn't testify --</p> <p>9 stated yesterday -- sorry -- that, you know, the</p> <p>10 start-up costs -- I mean, I don't know that you're</p> <p>11 going to satisfy any of us by putting in start-up</p> <p>12 costs.</p> <p>13 COMM. ANDERSON: The other point is, I</p> <p>14 recognize that to the extent it makes you any -- gives</p> <p>15 you any comfort, or Tejas, that BBIFNA itself might be</p> <p>16 better off if Babcock & Brown went away. I mean,</p> <p>17 BBIFNA, it does have substantial assets and is an</p> <p>18 entity that's significant in itself. Whether they</p> <p>19 have a commitment or whether they're obligated to</p> <p>20 follow through is an entirely different question. And</p> <p>21 that would be more the issue, I suppose, as I reflect</p> <p>22 on all the different proposals, that will be on my</p> <p>23 mind, as opposed to whether there's \$15 million in a</p> <p>24 development fund.</p> <p>25 MR. RIMA: Thank you.</p> |
| <p style="text-align: right;">1279</p> <p>1 (Laughter)</p> <p>2 MR. RIMA: Forty-five?</p> <p>3 (Laughter)</p> <p>4 Q (BY MR. RIMA) Okay. If Babcock & Brown</p> <p>5 basically put the \$15 million that's required for the</p> <p>6 development phase into a lockbox, would that increase</p> <p>7 your comfort level?</p> <p>8 A (Cutter) Well, if you mean by a lockbox</p> <p>9 that, you know, it's absolutely incontrovertible that</p> <p>10 the money had been taken out of Babcock & Brown's</p> <p>11 control and put into BBIFNA and if it were done in a</p> <p>12 timely fashion, which I'm not certain when that was,</p> <p>13 but in a timely fashion by the Commission's</p> <p>14 determination, yes.</p> <p>15 COMM. ANDERSON: And you can stop his</p> <p>16 time, in fairness. I'm going to ask a question.</p> <p>17 Q (Anderson) Wouldn't that, though -- I don't</p> <p>18 see an arrangement under which -- that that wouldn't</p> <p>19 be a preference, a preferential transfer in a</p> <p>20 bankruptcy, because BBIFNA's would be I think deemed</p> <p>21 an affiliate.</p> <p>22 MR. RIMA: I can't --</p> <p>23 Q (Anderson) -- or a fraudulent conveyance, if</p> <p>24 you will, or at least arguably, particularly since</p> <p>25 BBIFNA would arguably be an affiliate, not knowing</p> | <p style="text-align: right;">1281</p> <p>1 Q (BY MR. RIMA) Certainly back here and using</p> <p>2 my time, would it also give you additional comfort</p> <p>3 that if BBIFNA made a commitment that if Babcock &</p> <p>4 Brown failed to perform its development activities, it</p> <p>5 would step in or guarantee Tejas' performance?</p> <p>6 A (Cutter) Yes, given the nature of the</p> <p>7 commitment, you know, provided the commitment is --</p> <p>8 Q And would it make you more comfortable still</p> <p>9 if there was a written commitment from BBIFNA, that it</p> <p>10 stands ready to fund the CTP facilities, subject only</p> <p>11 to due diligence, review, documentation and the other</p> <p>12 typical matters that are considered in such a</p> <p>13 transaction?</p> <p>14 A (Cutter) I would have to have evidence of</p> <p>15 BBIFNA's financial capacity. I understand informally</p> <p>16 that they have a significant financial capacity, but I</p> <p>17 would need to actually have that documented.</p> <p>18 Q Okay. And looking at the combination of</p> <p>19 things I've just discussed, if those things were to</p> <p>20 happen, would that change your opinion with regard to</p> <p>21 Tejas qualifications in this proceeding?</p> <p>22 A (Cutter) I just want to reiterate that this</p> <p>23 is -- given it's done in a timely fashion. As of</p> <p>24 today, no.</p> <p>25 Q As of today. But if you actually saw the</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|--|
| <p style="text-align: right;">1282</p> <p>1 evidence of those things, the answer would be yes? 2 A (Cutter) Well, if that evidence that you're 3 promising for a future date were here today, I would 4 say yes. 5 Q Okay. No, I'm not asking you to change your 6 opinion today. 7 A (Cutter) Okay. 8 Q But your opinion would change if you saw 9 evidence of the things that I just identified? 10 A (Cutter) That's correct. 11 MR. RIMA: Thank you. 12 How much time do I have? 13 JUDGE KANG: Fifteen seconds. 14 MR. RIMA: Fifteen seconds. In that 15 case, I would like use my 15 seconds to say thank 16 y'all very much. 17 JUDGE KANG: All right. Cross Texas? 18 MR. ANDERSON: No questions. 19 JUDGE KANG: CPS Energy? 20 MS. ESCOBEDO: Thank you. 21 CROSS-EXAMINATION 22 BY MS. ESCOBEDO: 23 Q Good afternoon, panel. I'm Pat Escobedo with 24 CPS Energy. And I'm going to start with some 25 questions for Mr. Cutter.</p> | <p style="text-align: right;">1284</p> <p>1 construct, maintain and operate and finance CREZ 2 transmission lines, have you not? 3 A (Almon) That's correct. 4 Q But it's Staff's position that CPS Energy 5 should only be assigned CTP facilities as partners in 6 joint ventures with another TSP so that any 7 transmission line in which we have ownership interest 8 undergoes the CCN process at the Commission? 9 A (Almon) That's correct. 10 Q So if CPS Energy is able to reach agreement 11 in principle with another TSP, that will take care of 12 that concern for you? 13 A (Almon) Yes, as long as that other TSP was 14 not a municipal. 15 Q Right. I understand. A TSP that also 16 underwent the CCN process at the Commission. Now, in 17 response to Staff's first RFI to LCRA TSC -- and this 18 would have been BA-1-2 -- you asked for a list of 19 recently constructed transmission lines, the CCN 20 estimated cost and the actual completed cost, do you 21 recall that? 22 A (Almon) Yes. 23 Q LCRA TSC listed as one of its projects the 24 20-mile Kendall to Cagnon line. Is that correct? 25 A (Almon) Yes.</p> |
| <p style="text-align: right;">1283</p> <p>1 Mr. Cutter, in Staff Exhibit 12, you 2 provide a corrected pre-tax rate of return of 7.3 3 percent for CPS Energy. Is that correct? 4 A (Cutter) That's correct. 5 Q CPS Energy witness David Jungman also 6 calculated a 7.3 percent pre-tax rate of return. When 7 he testified Tuesday, were you present when he 8 testified? 9 A (Cutter) Yes. 10 Q Do you agree with how Mr. Jungman spelled out 11 the calculation for reaching that same 7.3 percent 12 rate of return that you now have reached? 13 A (Cutter) Yes. 14 Q And the correction resulted from using a 2008 15 net plant-in-service figure rather than a 2006 figure. 16 Is that correct? 17 A (Cutter) That's correct. 18 Q And that 2008 figure came from Docket 35466? 19 A (Cutter) I don't have that confidential 20 document with me, but I'll accept that. 21 Q Subject to check? 22 A (Cutter) Subject did check. 23 Q Thank you very much Mr. Cutter. 24 Mr. Almon, my questions are for you now. 25 You have determined that CPS Energy is qualified to</p> | <p style="text-align: right;">1285</p> <p>1 Q Do you recall that LCRA TSC listed its 2 estimated cost of \$28,856,400? 3 A (Almon) I don't recall that. 4 Q Okay. Do you recall whether it listed its 5 actual as \$45,772,947? 6 A (Almon) I don't recall that. 7 Q Would you agree that estimates such as the 8 20-mile estimate that you requested can differ greatly 9 from actuals? 10 A (Almon) Yes, I would agree with that. 11 Q Okay. And if you have -- do you have a paper 12 and pencil there before you? 13 A (Almon) Yes. 14 Q Could you calculate for me, if we were to 15 round the estimated, LCRA TSC estimated cost of almost 16 \$229 million (sic) -- 17 A (Almon) What was that number again? 18 Q \$29 million -- it was actually \$28,856,400 -- 19 and we rounded the actual to \$46 million -- it was 20 actually \$45,772,947 -- aren't we getting close to 21 almost double the actual, almost double the estimated? 22 A (Almon) Yes, it's getting close to double. 23 Q I think actually, if you take time to 24 calculate it, it's 1.6 times greater. And that's 25 actually all I have. Thank you very much.</p> |

| | |
|--|---|
| <p style="text-align: right;">1286</p> <p>1 A (Almon) Okay.</p> <p>2 MS. ESCOBEDO: Pass the panel.</p> <p>3 JUDGE KANG: Sharyland?</p> <p>4 MR. NOLAND: No questions, Your Honor.</p> <p>5 JUDGE KANG: STEC?</p> <p>6 MS. CAMPBELL: I had five. You said I</p> <p>7 had four minutes and I shouldn't waste it.</p> <p>8 (Laughter)</p> <p>9 CROSS-EXAMINATION</p> <p>10 BY MS. CAMPBELL:</p> <p>11 Q A couple of questions for Mr. Cutter.</p> <p>12 Mr. Cutter, do you know the credit rating of the</p> <p>13 majority of electric utilities in the United States</p> <p>14 and would you tell us what that is?</p> <p>15 A (Cutter) It's a Triple B I'm sure. The last</p> <p>16 time I knew officially it was A minus, but it's</p> <p>17 declined since then.</p> <p>18 Q And leaving aside the capital structure, if</p> <p>19 an entity -- and I'm talking about investor-owned</p> <p>20 utilities, because a lot of the others -- Public Power</p> <p>21 is not credit-rated. But if an investor-owned</p> <p>22 utility, and leaving aside their capital structure, if</p> <p>23 they were maintaining an A rating, would they not have</p> <p>24 to have a higher equity return than a Triple-B rated</p> <p>25 utility, just on the equity part, the return on</p> | <p style="text-align: right;">1288</p> <p>1 Q Or, actually, did you -- you did not say</p> <p>2 today. It was during the course of the hearing.</p> <p>3 Correct?</p> <p>4 A (Almon) That's correct.</p> <p>5 Q Have you been here to hear the testimony of</p> <p>6 each and every witness throughout this hearing,</p> <p>7 including their cross-examination, rebuttal and the</p> <p>8 clarification questions by the Commission?</p> <p>9 A (Almon) I have heard most of them.</p> <p>10 Q And there's some that you have may missed?</p> <p>11 A (Almon) Yes.</p> <p>12 Q And, Mr. Cutter, I ask you the same question.</p> <p>13 Have you been here to hear the entire testimony of all</p> <p>14 the witnesses --</p> <p>15 A (Cutter) I have not.</p> <p>16 Q -- including clarification questions by the</p> <p>17 Commissioners?</p> <p>18 A (Cutter) No, I have not.</p> <p>19 Q And, Mr. Lee, I ask you the same question.</p> <p>20 Have you been here the whole time to hear all of the</p> <p>21 questions and answers by the witness and the</p> <p>22 clarification questions by the Commission?</p> <p>23 A (Lee) Pretty much all of them. I can't say</p> <p>24 for sure all, but --</p> <p>25 Q Pretty much all, but you may not have heard</p> |
| <p style="text-align: right;">1287</p> <p>1 equity?</p> <p>2 A (Cutter) Well, I don't want to read too much</p> <p>3 into your question, but --</p> <p>4 Q No. I'm just asking the question. If you</p> <p>5 were wanting to keep that utility at, say, a Double A,</p> <p>6 wouldn't they have to have a better return?</p> <p>7 A (Cutter) In combination with their capital</p> <p>8 structure, in all probability, yes.</p> <p>9 MS. CAMPBELL: Thank you.</p> <p>10 Do I have any more time or have we used</p> <p>11 it up?</p> <p>12 JUDGE KANG: Three minutes.</p> <p>13 MS. CAMPBELL: Thank you.</p> <p>14 JUDGE KANG: LCRA?</p> <p>15 MR. SHINKAWA: LCRA TSP, I have some</p> <p>16 questions.</p> <p>17 CROSS-EXAMINATION</p> <p>18 BY MR. SHINKAWA:</p> <p>19 Q Mr. Almon, earlier when you presented your</p> <p>20 second supplemental testimony --</p> <p>21 A (Almon) Yes.</p> <p>22 Q -- you testified that there was nothing that</p> <p>23 you had heard here today that would make you -- that</p> <p>24 would change your testimony?</p> <p>25 A (Almon) That's correct.</p> | <p style="text-align: right;">1289</p> <p>1 all of it, or you did?</p> <p>2 A (Lee) Well, I think I've heard all of it,</p> <p>3 but I may have missed some. And if I did, I didn't</p> <p>4 know it.</p> <p>5 Q Very well. Thank you. Mr. Almon, referring</p> <p>6 back to your Staff Exhibit 11, which is your second</p> <p>7 supplemental testimony, referring you to Page 15, you</p> <p>8 reviewed the -- do that you have, sir?</p> <p>9 A (Almon) Yes, I do.</p> <p>10 Q You reviewed the Joint Parties' joint filing</p> <p>11 that was filed, the original one, on September 12th?</p> <p>12 A (Almon) Yes.</p> <p>13 Q Do you recall that the Joint Parties together</p> <p>14 filed applications for all of the outstanding CREZ</p> <p>15 projects -- together?</p> <p>16 A (Almon) Yes.</p> <p>17 Q Do you recall whether the second item from</p> <p>18 the bottom on Page 15 was requested by LCRA TSC or by</p> <p>19 ETT? That would be the 50 percent compensation on</p> <p>20 McCamey D to Kendall.</p> <p>21 A (Almon) I can't recall offhand.</p> <p>22 Q If ETT had requested that originally, rather</p> <p>23 than LCRA, and that nothing had changed, as stated in</p> <p>24 any of the testimony at this hearing or in any of the</p> <p>25 settlement agreements, would you agree that ETT should</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|--|
| <p style="text-align: right;">1290</p> <p>1 receive that instead of LCRA?</p> <p>2 A (Almon) No. As I stated in my second</p> <p>3 supplemental testimony, I would have removed ETT from</p> <p>4 that designation.</p> <p>5 Q But you would not place LCRA in that</p> <p>6 designation if it had not requested it, would you?</p> <p>7 A (Almon) No, I would not. I would leave it</p> <p>8 unassigned.</p> <p>9 Q So if a subsequent examination should reveal</p> <p>10 that LCRA TSC had not requested it, you would change</p> <p>11 it to unassigned?</p> <p>12 A (Almon) Yes.</p> <p>13 Q And then I refer you to Page 17, same</p> <p>14 document. The third item down is the 100 MVAR</p> <p>15 reactive compensation on McCamey D?</p> <p>16 A (Almon) Okay.</p> <p>17 Q And if this was also an item not requested by</p> <p>18 LCRA TSC in its original filing or any subsequent</p> <p>19 filing, would you be willing to change that to reflect</p> <p>20 that it was not requested by LCRA?</p> <p>21 A (Almon) Yes.</p> <p>22 MR. SHINKAWA: May I have a moment,</p> <p>23 please?</p> <p>24 JUDGE KANG: Sure.</p> <p>25 (Pause in proceeding)</p> | <p style="text-align: right;">1292</p> <p>1 MR. SHINKAWA: He said he had no</p> <p>2 knowledge of Katrina. I'm asking a hypothetical.</p> <p>3 JUDGE KANG: Mr. Almon can go ahead and</p> <p>4 answer that question.</p> <p>5 A (Almon) As a hypothetical, it may be</p> <p>6 possible that -- if construction crews are diverted to</p> <p>7 other activity, it may raise the costs on the initial</p> <p>8 construction.</p> <p>9 Q (BY MR. SHINKAWA) So the unavailability in a</p> <p>10 situation where there was a large disaster could</p> <p>11 affect the final cost of construction?</p> <p>12 A (Almon) That's a possibility.</p> <p>13 Q Would it also make a difference if the</p> <p>14 Kendall construction, or any construction, were single</p> <p>15 pole tubular steel as opposed to an estimate for</p> <p>16 lattice towers?</p> <p>17 A (Almon) Under the same assumption of a</p> <p>18 disaster?</p> <p>19 Q Yes.</p> <p>20 A (Almon) I don't see where that would make</p> <p>21 any difference. Both of them may be scarce in</p> <p>22 obtaining the structure or materials to complete the</p> <p>23 original project.</p> <p>24 Q So in a hypothetical situation, a natural</p> <p>25 disaster could drastically affect the estimates for</p> |
| <p style="text-align: right;">1291</p> <p>1 Q (BY MR. SHINKAWA) Mr. Almon, with regard to</p> <p>2 the estimates that LCRA submitted on the Kendall to</p> <p>3 Cagnon project and the subsequent filing of the costs</p> <p>4 afterwards, would you agree or disagree with me that</p> <p>5 if the estimates were pre-Katrina and that the actual</p> <p>6 construction was completed post-Katrina, that that</p> <p>7 might be different if Katrina had never occurred?</p> <p>8 MS. NELSON: Would you repeat that</p> <p>9 question.</p> <p>10 MR. SHINKAWA: Maybe I need to rephrase</p> <p>11 it. I think I left part of it out.</p> <p>12 Q (BY MR. SHINKAWA) Mr. Almon, with respect to</p> <p>13 the Kendall to Cagnon estimates and the final costs on</p> <p>14 the construction, do you believe that -- first of all,</p> <p>15 do you believe that Katrina had an effect on</p> <p>16 construction costs, heavy constructions costs in the</p> <p>17 Texas area?</p> <p>18 A (Almon) I don't have any knowledge to that</p> <p>19 effect.</p> <p>20 Q If there were large number of crews that had</p> <p>21 to be converted, contractors, would that not make it</p> <p>22 more difficult to find contractors and you would have</p> <p>23 to pay premiums to get them?</p> <p>24 MR. MEDRANO: I have to object. The</p> <p>25 witness said he has no knowledge.</p> | <p style="text-align: right;">1293</p> <p>1 construction, could it not?</p> <p>2 A (Almon) Well, it would not affect the</p> <p>3 initial estimates. It would possibly affect the</p> <p>4 actual cost.</p> <p>5 MR. SHINKAWA: Thank you, sir. I have</p> <p>6 no further questioned.</p> <p>7 MS. BATCHELOR: Would you state your</p> <p>8 name?</p> <p>9 MR. SHINKAWA: Paul Shinkawa, LCRA TSC.</p> <p>10 JUDGE KANG: Longfellow Ranch?</p> <p>11 MS. McCLENDON: I don't think they have</p> <p>12 any time left.</p> <p>13 JUDGE KANG: That's right.</p> <p>14 Garland?</p> <p>15 MR. TOWNSEND: Two questions.</p> <p>16 JUDGE KANG: You've got three minutes.</p> <p>17 MR. TOWNSEND: Three.</p> <p>18 CROSS-EXAMINATION</p> <p>19 BY MR. TOWNSEND:</p> <p>20 Q Mr. Cutter, I have given you copies of</p> <p>21 certain exhibits -- TMPA-7, TMPA-6 and Garland 13. Do</p> <p>22 you see those?</p> <p>23 A (Cutter) I do.</p> <p>24 Q And your Staff Exhibit 12, I see by the</p> <p>25 notes, are based on TMPA Exhibit 7 for the Garland and</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | | | |
|------|--|------|--|
| 1294 | <p>1 TMPA figures on your Staff Exhibit 12. Is that 2 correct?</p> <p>3 A (Cutter) Would you repeat that, please.</p> <p>4 Q The figures on Staff Exhibit 12 for Garland 5 and TMPA are based on Exhibit TMPA-7?</p> <p>6 A (Cutter) Okay. That's correct.</p> <p>7 Q Is that correct?</p> <p>8 A (Cutter) That's correct.</p> <p>9 Q All right. And you see the Garland figure on 10 TMPA-7 comes from Garland Exhibit 13. Is that 11 correct?</p> <p>12 A (Cutter) Yes.</p> <p>13 Q It's 7.26 imputed rate of return?</p> <p>14 A (Cutter) Right.</p> <p>15 Q And going back to TMPA Exhibit 7, all of 16 those, it shows that the depreciation rate used for 17 those calculations was 40 years correct?</p> <p>18 A (Cutter) Yes. Doing the arithmetic, yes, 19 that would be true.</p> <p>20 Q All right. And, I mean, you can also see the 21 assumptions on Garland Exhibit 13, depreciation years 22 40. And TMPA-6, I think you do a calculation and it 23 works out to be 40 years. Correct?</p> <p>24 A (Cutter) Okay.</p> <p>25 Q Looking at Staff Exhibit 12, LCRA's return</p> | 1296 | <p>1 line of questioning. I objected about this earlier, 2 that they shouldn't have double the time as anybody 3 else gets time, but to ask the same question.</p> <p>4 MR. KANG: It's a different entity.</p> <p>5 MR. MEDRANO: If it's different 6 questions on a different subject, fine.</p> <p>7 JUDGE KANG: Two entities. It might be 8 the same attorney. There's two entities, two parties.</p> <p>9 MR. MEDRANO: But if it's the exact same 10 question he was about to ask, I object to that 11 question.</p> <p>12 JUDGE KANG: I'm not going to let him go 13 on. He's going to step back and we're going to see if 14 Edison has any, and then we'll get back to TMPA.</p> <p>15 Does Edison have any?</p> <p>16 MR. BICKHAM: David Bickham. Edison 17 Mission, no questions.</p> <p>18 JUDGE KANG: Okay. TMPA?</p> <p>19 MR. TOWNSEND: Thank you.</p> <p>20 CROSS-EXAMINATION</p> <p>21 BY MR. TOWNSEND:</p> <p>22 Q Mr. Cutter, Lambeth Townsend representing 23 TMPA. (Laughter) I just want to know if you use -- 24 in calculating an MOU's debt service coverage, the 25 amount of depreciation affects an imputed rate of</p> |
| 1295 | <p>1 figure, 8.7, is a result of subtracting a certain 2 amount of depreciation. Is that correct?</p> <p>3 A (Cutter) That's correct.</p> <p>4 Q Do you know whether that percentage equates 5 to approximately 30.85 year depreciation rate?</p> <p>6 A (Cutter) No, I don't. I don't know that it 7 doesn't.</p> <p>8 Q All right. I'm going to show you LCRA's 9 testimony, cross-rebuttal of Mr. Don Kiser, Exhibit 10 DK-CR-1 where they calculate the 8.7 percent rate of 11 return, and they're using a depreciation amount. If 12 you divide that into the line showing transmission 13 rate base, what do you get as depreciation -- years of 14 depreciation?</p> <p>15 A (Cutter) 30.8.</p> <p>16 Q Years?</p> <p>17 A (Cutter) Right. 30.8 something years.</p> <p>18 Q Right. So if Garland and TMPA had used a 19 30-year depreciation --</p> <p>20 MR. KANG: Mr. Townsend, you're out of 21 time.</p> <p>22 MR. TOWNSEND: Okay.</p> <p>23 JUDGE KANG: All right. Let's go ahead 24 and go on to --</p> <p>25 MR. MEDRANO: I object if it's the same</p> | 1297 | <p>1 return. Is that correct?</p> <p>2 A (Cutter) That's correct.</p> <p>3 Q And if you use 30 years versus 40 years, you 4 have more depreciation to subtract from the debt 5 service requirement to ultimately calculate your 6 imputed rate of return. Is that right?</p> <p>7 A (Cutter) That's right.</p> <p>8 Q So if we were to look at what I think you 9 have as TMPA Exhibit 6 --</p> <p>10 A (Cutter) Okay.</p> <p>11 Q -- and the depreciation amount there of 7.5 12 approximately million dollars is based on a 40-year, 13 if you change that to a 30-year depreciation rate, 14 original cost of \$302.5 million, would that give you 15 about \$10 million as depreciation?</p> <p>16 A (Cutter) Yes.</p> <p>17 Q And if you had \$10 million worth of 18 depreciation dollars to subtract from the annual debt 19 service, then the available cash for debt service 20 would be about \$6.68 million. Is that correct?</p> <p>21 A (Cutter) That's correct.</p> <p>22 Q And then if you applied the 1.5 times and you 23 had a return required of about \$25 million. Is that 24 correct?</p> <p>25 A (Cutter) That's correct.</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|--|
| <p style="text-align: right;">1298</p> <p>1 Q And if you divide that required return of 2 \$25 million by the construction cost of 3 \$302.5 million, you would have an imputed rate of 4 return of 8.27. Is that correct? 5 A (Cutter) Yes, that's correct. 6 Q And looking at your Staff Exhibit 12, if TMPA 7 had used a 30-year depreciation rate similar to LCRA, 8 TMPA's pre-tax rate of return would be lower than 9 LCRA's -- is that correct? -- based on the 10 calculation. 11 A (Cutter) Yes, that's true. 12 Q Okay. Thank you Mr. Cutter. 13 Mr. Almon, I have a few questions of 14 you. What we have in Staff Exhibit 11 is your second 15 supplemental testimony and a third Staff 16 recommendation. Is that correct? 17 A (Almon) That's correct. 18 Q And in your original recommendation, you 19 recommended that TMPA be designated to construct 20 approximately \$302.5 million worth of construction. 21 Is that correct? 22 A (Almon) That's correct. 23 Q Okay. As I understand your testimony from 24 that time was based on that it was a low-cost provider 25 and it was an experienced transmission service</p> | <p style="text-align: right;">1300</p> <p>1 Q (BY MR. TOWNSEND) All right. And I'm looking at 2 your second supplemental testimony, Staff Exhibit 11, 3 Page 4, beginning Lines 16 through 20. And this is a 4 question about TMPA. 5 (Laughter) 6 A (Almon) Excuse me. Is that Page 4, the 7 second supplemental? 8 Q Staff exhibit 11. And I'm looking at Page -- 9 well, excuse me. Page 6. I was looking at the date. 10 Page 6. It's been a long three or four days. Please 11 bear with me. Page 6, Lines 16 through 20. 12 A (Almon) Yes. 13 Q And in there you state that you have concerns 14 not related to its financial or operational 15 qualifications about assigning CTP facilities to TMPA 16 but, instead, other concerns. And I'll say the other 17 concerns have been -- do I understand them to be not 18 requiring to have a CCN here at the Commission? Is 19 that one of the concerns? 20 A (Almon) Well, they're primarily focused on 21 the testimony of Mr. Goodlet. 22 Q All right. And do you recall what it was 23 about his testimony that give you concern? I know CCN 24 was one issue. And if they jointly own, that would 25 address that issue. Correct?</p> |
| <p style="text-align: right;">1299</p> <p>1 provider. Is that correct? 2 A (Almon) That's correct. 3 Q Okay. And since that initial recommendation, 4 in your rebuttal you start recommending -- in your 5 rebuttal and in this second supplemental, you continue 6 to recommend that TMPA not be designated to construct 7 any of the transmission. Is that correct? 8 A (Almon) As long as they remain a separate 9 entity from anybody else, no joint venturing. 10 Q TMPA? 11 A (Almon) No. I take that back. No. You're 12 correct. 13 Q Okay. As far as Garland, you said as long as 14 they -- 15 MR. MEDRANO: That sounds like a 16 question for Garland. I admit that. It's TMPA's 17 lawyer. 18 JUDGE KANG: Mr. Townsend? 19 Q (BY MR. TOWNSEND) Well, I'm just trying to 20 clarify your answer. The way you answered the 21 question is because if Garland did jointly own with 22 someone, you're recommending that they still be 23 designated? 24 A (Almon) That was true for both Garland and 25 CPS.</p> | <p style="text-align: right;">1301</p> <p>1 A (Almon) Yes. 2 Q All right. Then other than the CCN issue, 3 what is the issue with TMPA that gives you concern? 4 A (Almon) Well, I think the -- as I recall, 5 the lack of support from the TMPA board on these, 6 moving forward with these projects. 7 Q Okay. I have what's been marked as TMPA 8 Exhibit 10 that I would like to distribute, if 9 possible. We'll take a minute to give this to the 10 Court Reporter and the Commissioners. 11 (Exhibit TMPA No. 10 marked) 12 COMM. ANDERSON: Counsel, I have a 13 question. 14 MR. TOWNSEND: Yes, sir. 15 COMM. ANDERSON: Can you tell me what 16 the vote was at the board meeting? 17 MR. TOWNSEND: The vote was 6-0. 18 COMM. ANDERSON: Any directors -- aren't 19 there eight directors? 20 MR. TOWNSEND: There are eight 21 directors. And the Bryan members, as the letter said 22 in Commissioner Exhibit 2, did not attend. 23 And, Your Honor, I have this exhibit to 24 respond to Commissioners Exhibit 2, and offer this 25 exhibit as a resolution of TMPA and move its</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|--|
| <p style="text-align: right;">1302</p> <p>1 admission.</p> <p>2 JUDGE KANG: Are there any objections to</p> <p>3 TPA Exhibit 10?</p> <p>4 MR. MEDRANO: I object. It's hearsay.</p> <p>5 We don't have any of the commissioners who voted on</p> <p>6 this present. It's not self-authenticating.</p> <p>7 JUDGE KANG: Are you sure it's not</p> <p>8 self-authenticating?</p> <p>9 MR. TOWNSEND: It's got the board</p> <p>10 president and the seal of the . . .</p> <p>11 MR. MEDRANO: I think that given the</p> <p>12 letter of yesterday, this is under extreme question as</p> <p>13 to its validity, and I would object on that basis.</p> <p>14 MR. TOWNSEND: Your Honor, I think it's</p> <p>15 just as valid as the letter you received yesterday, as</p> <p>16 far as hearsay.</p> <p>17 JUDGE KANG: I'm going to overrule the</p> <p>18 objection, and it's going to be admitted.</p> <p>19 (Exhibit TPA No. 10 admitted)</p> <p>20 MS. NELSON: I have a question, which is</p> <p>21 the same thing I asked to Tejas. Do you have a</p> <p>22 witness here that we can question about this?</p> <p>23 MR. TOWNSEND: Well, we do have a TPA</p> <p>24 witness that's here.</p> <p>25 COMM. NELSON: Okay.</p> | <p style="text-align: right;">1304</p> <p>1 correct?</p> <p>2 A (Almon) You know, availability of financing</p> <p>3 on reasonable terms.</p> <p>4 Q All right. Does it also express a</p> <p>5 willingness to co-own the facilities for which it is</p> <p>6 selected to construct?</p> <p>7 A (Almon) Yes, it says that.</p> <p>8 Q Okay. Now, does that address some of your</p> <p>9 concerns about TPA being designated to construct?</p> <p>10 A (Almon) Yes, they do.</p> <p>11 Q All right. Are there any other concerns,</p> <p>12 other than these that are addressed in this</p> <p>13 resolution, that you have?</p> <p>14 A (Almon) No.</p> <p>15 MR. TOWNSEND: Thank you. Those are all</p> <p>16 the questions I have.</p> <p>17 JUDGE KANG: Lone Star?</p> <p>18 MR. HUGHES: Your Honor, I was going to</p> <p>19 respond to Jo's last statement, but I'm getting my two</p> <p>20 minutes back.</p> <p>21 (Laughter)</p> <p>22 JUDGE KANG: Commission Staff?</p> <p>23 MR. MEDRANO: No recross, Your Honor.</p> <p>24 JUDGE KANG: ERCOT, any redirect?</p> <p>25 MS. COBOS: Yes. Lori Cobos on behalf</p> |
| <p style="text-align: right;">1303</p> <p>1 MR. TOWNSEND: And while he was here, he</p> <p>2 was not able to attend the entire board meeting, but</p> <p>3 Mr. Eric Schroeder is here and will be happy to resume</p> <p>4 the stand.</p> <p>5 MS. NELSON: Okay. You can finish your</p> <p>6 cross-examination.</p> <p>7 Q (BY MR. TOWNSEND) Mr. Almon, have you had a</p> <p>8 chance to review this?</p> <p>9 A (Almon) I don't have it.</p> <p>10 Q Oh, you don't have it. (Laughter). I</p> <p>11 thought I handed you one as I walked by, but I guess I</p> <p>12 was trying to accommodate everybody else. There we</p> <p>13 go. Now, would you take a minute to review that.</p> <p>14 A (Almon) Okay.</p> <p>15 Q And, Mr. Almon, do you understand this</p> <p>16 resolution to be a board action stating that it's</p> <p>17 committed to constructing the -- that it ratifies and</p> <p>18 adopts, confirms the filing on September the 12th and</p> <p>19 committed to constructing the facilities that are</p> <p>20 applied for?</p> <p>21 A (Almon) Yes, but they have made their</p> <p>22 commitment subject to some conditions.</p> <p>23 Q And those being that -- that once they know</p> <p>24 exactly what they're awarded, that they budget those</p> <p>25 funds and are able to get the financing. Is that</p> | <p style="text-align: right;">1305</p> <p>1 of ERCOT.</p> <p>2 REDIRECT EXAMINATION</p> <p>3 BY MS. COBOS:</p> <p>4 Q Mr. Woodfin, is it your understanding that</p> <p>5 the priority lines are CREZ lines that are part of</p> <p>6 this TSP selection proceeding?</p> <p>7 A (Woodfin) Yes, they are.</p> <p>8 Q Have they been designated by the Commission</p> <p>9 to any TSP?</p> <p>10 A (Woodfin) No, not yet.</p> <p>11 Q Are you aware of any directive from the</p> <p>12 Commission requiring ERCOT to move forward with the</p> <p>13 priority lines in the RPG process?</p> <p>14 A (Woodfin) No.</p> <p>15 MS. COBOS: Okay. Thank you, Your</p> <p>16 Honor.</p> <p>17 JUDGE KANG: Staff?</p> <p>18 REDIRECT EXAMINATION</p> <p>19 BY MR. MEDRANO:</p> <p>20 Q Mr. Cutter, your current recommendation</p> <p>21 regarding Tejas is not financially qualified. Is that</p> <p>22 correct?</p> <p>23 A (Cutter) That's correct.</p> <p>24 Q Has anything that has been shown to you this</p> <p>25 afternoon at the hearing changed your recommendation</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|--|
| <p style="text-align: right;">1306</p> <p>1 in that respect?</p> <p>2 A (Cutter) No.</p> <p>3 Q Mr. Almon, have you had a moment to review</p> <p>4 what's been marked as Commissioner Exhibit 3?</p> <p>5 A (Almon) Yes, I have.</p> <p>6 Q And was that a letter written by two of the</p> <p>7 board members of TMPA?</p> <p>8 A (Almon) Yes, it is.</p> <p>9 Q And does consideration of that exhibit cause</p> <p>10 you any pause in your statements regarding your</p> <p>11 reconsideration of TMPA that you made after reviewing</p> <p>12 TMPA Exhibit 10?</p> <p>13 A (Almon) Well, it gives me some concern that</p> <p>14 two of the representatives of the board represent a</p> <p>15 particular owner of TMPA and evidently had strong</p> <p>16 concerns about the resolution that was passed.</p> <p>17 Q So would that factor into your current</p> <p>18 recommendation regarding TMPA?</p> <p>19 A (Almon) Well, I would recommend that the</p> <p>20 Commission seriously consider these two documents</p> <p>21 and -- it gives me some concern, but I don't have</p> <p>22 enough information to really determine if it would</p> <p>23 necessarily change my opinion.</p> <p>24 COMM. NELSON: So you're going to pass</p> <p>25 it off to us?</p> | <p style="text-align: right;">1308</p> <p>1 this discussion, so you know that it's a resolution</p> <p>2 passed by -- I'll let you read it. I'll give you a</p> <p>3 second.</p> <p>4 A (Cutter) Okay.</p> <p>5 Q (Nelson) Okay. Now, No. 5 is the one I'm</p> <p>6 really concerned about --</p> <p>7 A (Cutter) Okay.</p> <p>8 Q (Nelson) -- Paragraph 5. Have the other</p> <p>9 companies that applied -- are you ready for my</p> <p>10 question?</p> <p>11 A (Cutter) I am.</p> <p>12 Q (Nelson) Have the other companies -- could</p> <p>13 you just read -- I know it's been read, but read 5</p> <p>14 into the record.</p> <p>15 A (Cutter) Okay. Item 5 from TMPA Exhibit 10:</p> <p>16 "That the commitments herein are subject to the Agency</p> <p>17 budgeting funds, once the cost of the facilities</p> <p>18 assigned to the Agency is known, the availability of</p> <p>19 financing on reasonable terms and review and approval</p> <p>20 of construction, co-ownership, and other major</p> <p>21 contracts."</p> <p>22 Q (Nelson) Are there -- and this goes to both</p> <p>23 of you -- and, obviously, Mr. Cutter for the financial</p> <p>24 and you for the technical. Are there disclaimers that</p> <p>25 are as broad as this in applicants -- in the other</p> |
| <p style="text-align: right;">1307</p> <p>1 (Laughter)</p> <p>2 A (Almon) Well, the resolution was passed. I</p> <p>3 mean, evidently their bylaws do not require that all</p> <p>4 the members be represented at the meeting, which to me</p> <p>5 is a little strange, but that's their bylaws. And it</p> <p>6 speaks for itself, I think, the resolution that they</p> <p>7 are behind their CTP proposal.</p> <p>8 MR. MEDRANO: Nothing further.</p> <p>9 JUDGE KANG: Commissioners, your</p> <p>10 questions?</p> <p>11 CHAIRMAN SMITHERMAN: Staff, you guys</p> <p>12 have any questions first?</p> <p>13 MS. BATCHELOR: No.</p> <p>14 CHAIRMAN SMITHERMAN: Donna?</p> <p>15 COMM. NELSON: I have one.</p> <p>16 CLARIFYING EXAMINATION</p> <p>17 BY THE COMMISSION:</p> <p>18 Q (Nelson) First, to either Mr. Cutter or</p> <p>19 Mr. Almon. With respect to the last exhibit you were</p> <p>20 given, TMPA Exhibit 10, Mr. Cutter, have you had an</p> <p>21 opportunity to review that?</p> <p>22 A (Cutter) No.</p> <p>23 MR. MEDRANO: We can clear it out and</p> <p>24 see what he's got.</p> <p>25 Q (Nelson) Okay. Well, you've listened to</p> | <p style="text-align: right;">1309</p> <p>1 companies' applications?</p> <p>2 A (Cutter) I don't think so. There may be</p> <p>3 one, but --</p> <p>4 Q (Nelson) Who would that be?</p> <p>5 A (Cutter) I don't recall.</p> <p>6 Q (Nelson) Okay.</p> <p>7 A (Almon) I don't recall any.</p> <p>8 Q (Nelson) You don't recall any this broad?</p> <p>9 A (Almon) No.</p> <p>10 Q (Nelson) Okay. And with respect to the</p> <p>11 Babcock & Brown exhibits, Mr. Cutter, I know that you</p> <p>12 just testified, based on redirect from your attorney,</p> <p>13 that you haven't changed your mind about the -- I</p> <p>14 believe you made representations that you would review</p> <p>15 evidence in the future if it came in in a timely</p> <p>16 manner. Would that be correct?</p> <p>17 A (Cutter) That's right. That's the</p> <p>18 difference between his question and the earlier one.</p> <p>19 Q (Nelson) Right. So does it cause you</p> <p>20 concern that the Wall Street Journal article in -- I'm</p> <p>21 so bleary now because the day has been so long, I</p> <p>22 don't know how to tell you to get to it, but it's</p> <p>23 about four or five up from the bottom, SU-26.</p> <p>24 A (Cutter) Yes. "The cash will keep the</p> <p>25 troubled investment bank alive for two" --</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|--|
| <p style="text-align: right;">1310</p> <p>1 Q (Nelson) Well, and the one before that, 2 "They still have some very big challenges. It is 3 still a very highly leveraged company and asset 4 markets are not looking like they will recover." Does 5 that cause you concern, that statement? 6 A (Cutter) Well, I consider it's certainly 7 something to take into consideration. I don't -- you 8 know, I think that it and the press release each have 9 their perspective and somewhere between them is 10 probably truer. 11 MS. NELSON: Okay. And I don't have any 12 other questions of Staff, but I will have other 13 questions of the two witnesses for these two 14 companies. 15 COMM. ANDERSON: I have a couple of 16 questions. 17 Q (Anderson) I guess since you're on -- and 18 I'll go to Mr. Cutter first. Do you have 19 Commissioners exhibit -- I think -- is it 2, the 20 letter from the directors -- Commissioners Exhibit 2 21 before you? 22 A (Cutter) I don't. 23 COMM. ANDERSON: Do you have a copy? 24 CHAIRMAN SMITHERMAN: Is that 2 or 3, 25 Lambeth?</p> | <p style="text-align: right;">1312</p> <p>1 but at least with respect to the City of Bryan. 2 A (Cutter) Okay. 3 Q (Anderson) Actually it does -- it indicates 4 member cities. So apparently there's a master 5 agreement. And then it goes on to say that, 6 therefore, the financing in paragraph -- I had it a 7 minute ago -- they have to go outside -- they'd have 8 to have financing that was not dependent on revenues. 9 The way I read it is if -- they have to get financing 10 that's not dependent on revenue out of the power sales 11 contracts. Is that the way you -- actually go back 12 to -- also understand Paragraph No. 2. Actually I 13 guess it's 2 through 4. 14 A (Cutter) Okay. Well, it seems that 15 Paragraphs 2, 3 and 4 are -- rather 2 and 3 are 16 related to -- 17 Q (Anderson) Well, 2 and 4 really relate to 18 the power sales contract, whether going through with 19 this transaction would violate the terms of the power 20 sales contract. 21 A (Cutter) Right. 22 Q (Anderson) Assuming that were a correct 23 assumption, therefore Garland would have to go out and 24 finance outside of their existing revenue -- 25 A (Cutter) Right.</p> |
| <p style="text-align: right;">1311</p> <p>1 COMM. ANDERSON: I think it's 2. 2 COMM. NELSON: I think it's 3. 3 COMM. ANDERSON: Is it 3? 4 COMM. NELSON: Yeah. 5 CHAIRMAN SMITHERMAN: Lambeth referred 6 to it as 3. 7 COMM. ANDERSON: Commissioner Exhibit 3, 8 I think, the letter from the two directors. 9 MR. TOWNSEND: That is Commissioner 2, 10 the letter from the -- 11 COMM. ANDERSON: Oh, it's 2? 12 (Simultaneous discussion) 13 COMM. ANDERSON: It is Commissioner 14 Exhibit 2. Could you give that to Mr. Cutter? 15 Q (ANDERSON) If you look at -- look at 16 paragraph numbered No. 2 on Page 3, Page 2 of the 17 letter, it's Page 3 of the document, I guess. 18 A (Cutter) Okay. 19 Q (Anderson) And No. 3 and No. 4, it makes 20 allegations that the -- regardless of whether there 21 was board approval or not that it would result in a 22 violation of the power sales contract I guess with the 23 City of Bryan. I don't know if it exists with all the 24 members, whether it's the same provision in all the -- 25 whether it's a master agreement or separate agreements</p> | <p style="text-align: right;">1313</p> <p>1 Q (Anderson) -- would that cause you any 2 concern about their ability to finance it on 3 reasonable terms regardless of their -- I mean, let me 4 put it this way: How would a rating agency rating -- 5 I guess they'd have to resort to what amounted to 6 project financing of some sort, even if they were on 7 the hook. One way or the other, that would affect the 8 rating, wouldn't it? 9 A (Cutter) Yes, I think it would. I think, 10 though, that these projects seem to have -- seem to be 11 highly regarded by investors, and I don't know that 12 they would end up worse off. 13 Q (Anderson) Okay. And this is a question for 14 Mr. Almon or Mr. Lee, whoever is best able to answer 15 it. Does a -- does an applicant who has extensive 16 experience with 400 and 500 kV but not 345, in your 17 experience, does that make a difference really, their 18 technical ability to build and operate these lines, 19 the fact they have never operated or built the 345, 20 but have built lines with greater capacity? 21 A (Almon) Well, I'll start off, and then let 22 Mr. Lee chime in. We do have some 500-kV lines in 23 Texas. 24 Q (Anderson) Oh, we do? Okay. 25 A (Almon) And to me it doesn't give me a whole</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|---|
| <p style="text-align: right;">1314</p> <p>1 lot of concern that the different voltages -- they're 2 both very high capacity, high voltage. I mean, if it 3 was a 69 kV, then you might say "Well, there's some 4 concern there. They had never built anything bigger 5 than that." But the difference between 345 and 500, 6 the structures are very similar. Mike?</p> <p>7 A (Lee) No, I don't think that should be a 8 cause for concern. In very general terms, going up in 9 voltage is much more problematic than going down. The 10 400 is very close to 345. And when you get up to 500, 11 there are some differences in the hardware. You have 12 to be aware of that and buy the right hardware. 13 There's some design considerations, but I think it's 14 much easier to go down in voltage, and I would not 15 think that would be any cause for concern at all.</p> <p>16 Q (Anderson) You heard all the discussions 17 yesterday about the different type of poling. I'm 18 assuming, based on your various recommendations, that 19 in terms of reliability and what not, you've got no 20 problems with any of the proposals with respect to -- 21 with how they -- the proposals that you recommended 22 are included in your second rebuttal amended -- 23 whatever proposal, that you're actually comfortable 24 with the technical aspects of it.</p> <p>25 A (Lee) I might ask you to clarify that. I</p> | <p style="text-align: right;">1316</p> <p>1 Q (Smitherman) I do have something to talk to 2 you about.</p> <p>3 A (Woodfin) Okay.</p> <p>4 Q (Smitherman) But in your own words, do you 5 want to tell us what it is that we should keep in our 6 minds, flexibility, involving ERCOT in the process?</p> <p>7 A (Woodfin) I think to some extent we were a 8 little concerned with some of the language in some of 9 the testimony that seemed to be -- folks seemed to be 10 thinking that they're going to go out and change 11 things or that --</p> <p>12 Q (Smitherman) Pull that mic a little closer.</p> <p>13 A (Woodfin) They're going to go out and change 14 things or that -- or alternatively that the exact 15 specifications that we had put into the CTO study were 16 exactly what needed to be built and that they couldn't 17 vary from that.</p> <p>18 I think you've heard some of this today 19 where folks talk about exactly 50 percent compensation 20 or so many hundred MEGAVARS being exactly what they 21 would like to be awarded, and I think there's some -- 22 as we get into further study, there is going to have 23 to be some flexibility around sizing those things as 24 we do further studies once we know exactly how long 25 the lines are and so forth.</p> |
| <p style="text-align: right;">1315</p> <p>1 think you said something about poles, and I was --</p> <p>2 Q (Anderson) Well, it's just -- I mean, 3 there's no -- that's not a factor in your mind, at 4 least technically. The issue is cost, one of cost, 5 not --</p> <p>6 A (Lee) I saw no issues between the applicants 7 that were significant with regard to the type of 8 structures they were going to use. I think all of the 9 structures they have proposed are well established for 10 this type of use.</p> <p>11 Having said that, the requirement on the 12 utility is to do a professional and adequate job of 13 specifying a sturdy enough, strong enough, big enough 14 structure for the application, but the types of 15 structures themselves are well established. So 16 assuming the utility does its usual good job, then I 17 don't see any significant technical issues here.</p> <p>18 COMM. ANDERSON: Okay. That's all I 19 have.</p> <p>20 Q (Smitherman) Dan, let me ask you a couple of 21 questions. I keep rereading your testimony to try to 22 understand why you're here.</p> <p>23 (Laughter)</p> <p>24 A (Woodfin) Just to give you an opportunity to 25 ask me questions.</p> | <p style="text-align: right;">1317</p> <p>1 Q (Smitherman) Shannon asked you a series of 2 questions about projects not going forward, and then 3 your attorney redirected you on that, and I asked 4 Jason to go get me a copy of the CREZ order.</p> <p>5 A (Woodfin) Good, because we didn't have that.</p> <p>6 Q (Smitherman) And I guess I was a little 7 surprised by your revelation that at some point you 8 all had stopped working on these projects, and you 9 were waiting for us to come to some resolution here in 10 the docket because I'm looking at this language in 11 here that says that "While the Commission designates 12 these lines as part of the selected CREZ transmission 13 solution" -- and then there's a comma -- "but directs 14 that if it is more expedient to complete this project 15 by the incumbent transmission service providers or 16 others through ERCOT's customary resource planning 17 group process, that process may be utilized to achieve 18 the stated goal," and then it goes on and on and on.</p> <p>19 A (Woodfin) I think there -- I think there 20 was --</p> <p>21 Q (Smitherman) Do you want to -- do you want 22 to help me understand why I shouldn't be concerned 23 about your statement?</p> <p>24 A (Woodfin) I mean, when we go through an RPG 25 review, there's several things that you get out of</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|--|
| <p style="text-align: right;">1318</p> <p>1 that. One is really a justification of either the 2 reliability or the economic need for the project. But 3 because these are CREZ facilities, the need is 4 already --</p> <p>5 Q (Smitherman) Right. We don't have to show 6 necessity. We've already established that.</p> <p>7 A (Woodfin) We -- the second piece would be 8 just to make sure there's no technical problems 9 with -- that they're going to cause a reliability 10 problem if you put the project in or something like 11 that, and that's already established through all the 12 studies we did for the CTO study.</p> <p>13 And so the last piece that really -- it 14 kind of -- as we discussed this in RPG -- basically 15 related to the one project that was actually proposed, 16 folks felt like really the only thing that going 17 through the RPG process was doing was assigning the 18 ownership of the line. And since that was part and 19 parcel of this project and those were considered CREZ 20 facilities, we didn't really want to walk on this 21 process.</p> <p>22 Q (Smitherman) So would it be a better 23 characterization to say that you just sort of abated 24 that process, pending the designation of --</p> <p>25 A (Woodfin) Yes, yes.</p> | <p style="text-align: right;">1320</p> <p>1 Q (Smitherman) And while you're at it, go 2 ahead and open up as well your rebuttal testimony, 3 Bates Page 27, which is your Exhibit BAR-B. Now, I 4 have them side by side here because I want to do some 5 comparisons.</p> <p>6 A (Almon) Okay.</p> <p>7 Q (Smitherman) Ready?</p> <p>8 A Yeah.</p> <p>9 Q (Smitherman) So the direct testimony was 10 Staff's first set of recommendations. Right?</p> <p>11 A (Almon) Yes.</p> <p>12 Q (Smitherman) And I note in there a couple 13 of, to me, what are interesting. One is you have zero 14 for Cross Texas. You have ETT at -- these are dollar 15 amounts. Right?</p> <p>16 A (Woodfin) Yes, they are.</p> <p>17 Q (Smitherman) -- at a billion two. You 18 have -- let's skip over Garland. You have Isolux at 19 1,000,188; LCRA at 747; and then Oncor at 561; 20 Sharyland at zero -- and I'll skip over STEC -- Tejas 21 at 540.98; and TPA at 305, okay? So those are the 22 numbers. Right?</p> <p>23 A (Almon) Yes.</p> <p>24 Q (Smitherman) So let's just kind of compare 25 them. As you went from that recommendation to your</p> |
| <p style="text-align: right;">1319</p> <p>1 Q (Smitherman) -- of the TSP? Because I think 2 some good issues were raised, that if there's appeals 3 in this docket, if for some reason this thing gets 4 mired in litigation.</p> <p>5 What we've said consistently is these 6 projects need to be built ASAP. And so I want to make 7 sure we continue to communicate that, that whichever 8 path is going to get these projects done the quickest, 9 that's the path we want to pursue.</p> <p>10 Now, we're going to do our part in short 11 order to name the TSPs for these segments, but it 12 could get to the point where it might get out of our 13 control, and it might get stopped by -- at the 14 courthouse, and I don't want to stop these projects.</p> <p>15 A (Woodfin) Yes, sir.</p> <p>16 CHAIRMAN SMITHERMAN: Thank you for 17 coming.</p> <p>18 (Laughter)</p> <p>19 Q (Smitherman) Brian, let me talk to you a 20 little bit because I want to try to understand the 21 evolution of the Staff's proposal. So I'm going to 22 start by looking at your direct testimony, and in 23 particular, I'm looking at Bates Page 49, which is 24 also your 49. This is Exhibit BA-6</p> <p>25 A (Almon) Okay.</p> | <p style="text-align: right;">1321</p> <p>1 next recommendation, there are a couple of what I 2 would consider pretty dramatic changes, and I want you 3 to help me understand why you all changed your 4 recommendation. For example, you took Cross Texas 5 from zero and assigned it 533 million.</p> <p>6 A (Almon) Yes.</p> <p>7 Q (Smitherman) What was your thought process 8 there?</p> <p>9 A (Almon) I think most of the changes were 10 primarily on the financial side that we got further 11 information about their financial capabilities.</p> <p>12 Q (Smitherman) Okay. And in giving them that 13 amount, you took it from a couple of other places.</p> <p>14 A (Almon) Yes.</p> <p>15 Q (Smitherman) Okay. Now, for example, let's 16 look at the ETT line in your second recommendation, 17 again, which is Exhibit BAR-B. You took ETT down to 18 592. I guess I could -- I might surmise that you took 19 from ETT and gave to Cross Texas, but that's probably 20 not exactly correct.</p> <p>21 A (Almon) Well, from just the appearance of 22 the numbers, that did, you know, happen to some 23 extent. They're the same projects.</p> <p>24 Q (Smitherman) But let me ask you -- yeah. 25 But in taking from some, did you make a conclusion</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|--|
| <p style="text-align: right;">1322</p> <p>1 that they were less creditworthy, or did you just need 2 to go find some to give to Cross Texas? 3 A (Almon) Essentially just trying to find 4 facilities to give it to the ones that we didn't give 5 it to originally, yes. 6 Q (Smitherman) So you made a judgment that you 7 had become more comfortable with Cross Texas, for 8 example, on the financial side, but you didn't 9 necessarily conclude that you had turned negative on 10 the financial issue with others? 11 A (Almon) That's correct. 12 Q (Smitherman) Would that be accurate? 13 A (Almon) That's correct. 14 Q (Smitherman) Look at Isolux. You took them 15 from 1.1 billion down to 502 million, and explain to 16 me why you did that. Same rationale, you had to 17 find -- you had to find something to give somebody 18 else something else? 19 A (Almon) Right, and I think Isolux was one of 20 the TSPs that indicated that half a billion was their 21 minimum. So that sort of set a target to where I 22 wanted to get to in giving them some projects. 23 Q (Smitherman) And then you also took Lone 24 Star -- I mean, excuse me -- LCRA down from 747 to 25 444.</p> | <p style="text-align: right;">1324</p> <p>1 through this whole process because we felt it would be 2 beneficial, both to the Commission and to everybody 3 involved. And this was sort of one of the underlying 4 goals in the rebuttal. 5 COMM. ANDERSON: Can I -- 6 CHAIRMAN SMITHERMAN: I have some more, 7 but go ahead, yeah. 8 Q (Anderson) So it's not necessarily what you 9 would view as the ideal outcome, rather it was -- it 10 was to get an outcome that moved the process forward. 11 Would that be fair? 12 A (Almon) Well, all the utilities, we felt, 13 indicated to us that they had the capability to 14 finance and construct when we got down to it. You 15 know, then we had a few problems with some of the 16 munis, some issues there, but -- 17 Q (Anderson) And you dealt with that with 18 joint venturing? 19 A (Almon) Right. 20 Q (Anderson) -- or the joint ownership to be 21 more technically accurate? 22 A (Almon) And really we saw no reason to give 23 one, say, two billion dollars and then cut everybody 24 back to a proportional share. Nobody stood out that 25 they said "Well, we need to give it to one particular</p> |
| <p style="text-align: right;">1323</p> <p>1 A (Almon) Yes. Well, that was primarily 2 working the joint ventures with the City of Garland 3 and CPS. So that naturally brought their interest 4 down because they were joint venturing. 5 Q (Smitherman) And then you added -- you took 6 Lone Star and gave them 563. And on your first 7 recommendation, I can't find Lone Star. Did you not 8 apportion them anything? 9 A (Almon) No. They were at zero. 10 Q (Smitherman) Zero, okay. 11 A (Almon) Again, the financial, they had not 12 provided sufficient information to Mr. Cutter. 13 Q (Smitherman) Well, I don't want to put words 14 in your mouth, but your second recommendation, looks 15 like to me, that you're trying to give a bunch of 16 folks the same slice of the pie, the same size. Was 17 that -- was that part of your thought process, about 18 500 million? 19 A (Almon) That's probably true for most of 20 them, and I think in conversations with some of them, 21 like I said, that they indicated that would be their 22 kind of minimum where they would like to be. And this 23 was an attempt, I think, to get the parties thinking 24 about a potential settlement. Staff and all the 25 parties really tried very hard to reach a settlement</p> | <p style="text-align: right;">1325</p> <p>1 entity because they are so much better." 2 Q (Anderson) How do you-all -- and this is -- 3 well, I guess it has some financial implications, too, 4 but there have been some parties and some witnesses 5 who have expressed -- I think while they say they're 6 willing if that's what it -- what it takes to joint 7 ownership or take smaller pieces, does -- at what -- 8 how to phrase this question -- are there any 9 advantages to fewer -- I guess fewer but larger TSPs? 10 I mean, at one -- at one end of the spectrum, you're 11 minimizing risk, you're spreading cost, financing -- 12 or available financing. 13 The flip side is do too many TSPs 14 building out, will it delay the process because of 15 coordination? In other words, is it going to 16 complicate the actual buildout because both the 17 processing of CCNs as well as just the technical -- 18 you don't want to build a line to nowhere, if you 19 will. In other words, one party builds the line and 20 gets it done, but there are no gathering facilities, 21 or the substation is not ready. 22 I'm just wondering -- did you look at it 23 in terms of -- what's preferred or best in terms of 24 getting the project done, or did you believe 25 settlement actually -- whatever the complications of a</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | | | |
|------|--|------|---|
| 1326 | <p>1 larger pool, having a settlement will facilitate it? 2 I'm trying to, you know, see if -- 3 A (Almon) Right. 4 Q (Anderson) The purposes of our decision, or 5 at least my decisionmaking, how to sort of weigh 6 those -- 7 A (Almon) Well, I think there's no doubt 8 that -- 9 Q (Anderson) -- those factors. 10 A (Almon) -- the more TSPs involved in 11 building out the CREZ, there's going to be a need for 12 more coordination and I think both on the CCN process, 13 construction and operations. I mean, Dan can address 14 the operational aspects of the coordination problems 15 that you're going to encounter. But I think all these 16 companies have the experience to sit down and figure 17 that out. We didn't really see anybody here that was, 18 you know, Joe Plumber who just doesn't have any 19 resources or knowhow. I think they're all capable of 20 doing what they say they can do. 21 Q (Smitherman) So just to be clear, Brian, 22 there was not either an explicit or implicit goal of 23 giving everybody an equal piece of the pie? Because I 24 could -- I could read that as an implicit goal when I 25 look at Exhibit BAR-B.</p> | 1328 | <p>1 Q (Smitherman) Do you understand what I'm 2 saying? 3 A (Almon) We didn't take that position, and I 4 think that we all agreed I think from the several 5 times you've said that there's real benefits to 6 bringing newcomers into Texas, and, you know, 7 technology, financing and everything. Even though 8 there could be coordination problems, I think the 9 benefits outweigh the difficulties of coordinating. 10 Q (Smitherman) Your third recommendation, and 11 I'm having a little hard time following it, and I just 12 want to understand it because it's part of an NUS 13 filing that I said on Monday I wasn't going to 14 consider, but no one seems to have objected to 15 discussing it today. 16 MR. TOWNSEND: Yeah, I was out of the 17 room apparently when they offered it. 18 (Laughter) 19 Q (Smitherman) And what I don't have, maybe 20 you're preparing this now, Brian, is the same sort of 21 tabulation of dollar amount that we had with the first 22 two proposals. Is that -- 23 A (Almon) Right, I have -- I have prepared one 24 like that. 25 Q (Smitherman) You do have one now?</p> |
| 1327 | <p>1 A (Almon) No, no, there wasn't. 2 Q (Smitherman) I wanted to make sure we 3 hadn't -- that we hadn't communicated perhaps that we 4 thought that was a worthy objective because I don't 5 think we have. 6 A (Almon) No, no, you haven't. 7 Q (Smitherman) I don't think it's a goal. 8 Would you agree with me? 9 A (Almon) I agree with you. 10 Q (Smitherman) Okay. I guess the other thing 11 that I'm -- that I'm wondering is, did you all think 12 that we have a collections of TSPs and munis here in 13 Texas, in ERCOT that we're familiar with, we have a 14 fairly high degree of understanding about them, and 15 for the most part they're creditworthy, did you 16 consider that to knock them out of their place, 17 someone would have to give you a proposal that was 18 superior to theirs, or was your thought process that, 19 "Well, we're just looking to treat everybody at the 20 same standard?" And so for these new entrants that, 21 to some degree, we don't know anything about, we're 22 not going to say "Because of our level of familiarity 23 with the incumbents that the other guys have to knock 24 them out." 25 A (Almon) No, we didn't take that position.</p> | 1329 | <p>1 A (Almon) It's not in my testimony, but I do 2 have one. 3 Q (Smitherman) Okay. Well, we'd like to see 4 it at some point. 5 A (Almon) Okay. 6 Q (Smitherman) This, just in looking at the 7 math, seems to -- seems to be pretty dramatically 8 different from the second recommendation. And if I'm 9 wrong, tell me, but perhaps you can describe for me 10 why you like this one or you find this last 11 permutation to be acceptable. 12 A (Almon) Well, there are differences, but I 13 don't think it's too much different from some of the 14 original proposals, and I like this because there are 15 a number of parties who have come together and reached 16 agreement, and they do fit the criteria that we were 17 looking for. I mean, they're -- they're 18 geographically bundled together, the different 19 parties, and that's something we were looking for 20 and -- 21 Q (Smitherman) Well, I guess the thing that 22 I'm scratching my head about is, in your first 23 proposal, you had a billion one for Isolux, you had a 24 billion two for ETT, and now they're not even part of 25 this.</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|--|
| <p style="text-align: right;">1330</p> <p>1 A (Almon) Well --</p> <p>2 Q (Smitherman) My understanding of this is</p> <p>3 that black dashed lines is sort of the "to be</p> <p>4 determined" category.</p> <p>5 A (Almon) Right, right. And the black lines,</p> <p>6 from my calculations and subject to correction that</p> <p>7 certain parties have pointed out to me today, is \$1.4</p> <p>8 billion. That is unassigned. That's more or less the</p> <p>9 black lines. And it's not an attempt to exclude ETT</p> <p>10 from any final determination, but you might say that</p> <p>11 the remaining parties that have not been assigned</p> <p>12 anything in my exhibit. You know, it's up for grabs</p> <p>13 at the 1.4 billion.</p> <p>14 Q (Smitherman) So the 1.4 billion is up for</p> <p>15 grabs among the parties that you've excluded, but I</p> <p>16 guess ostensibly it's up for grabs between ETT, Isolux</p> <p>17 and Cross Texas. Is that the way you look at it?</p> <p>18 A (Almon) Well, Tejas is not in there and also</p> <p>19 the munis.</p> <p>20 Q (Smitherman) But I thought -- I assume Tejas</p> <p>21 is not in there because of the judgments y'all have</p> <p>22 recently made.</p> <p>23 A (Almon) Right. And the munis would have to</p> <p>24 joint ventures, so they'll fit in somewhere, but</p> <p>25 you're right, those three would have to work something</p> | <p style="text-align: right;">1332</p> <p>1 recommendations, I assume you-all would be comfortable</p> <p>2 with any of them except for your now position on</p> <p>3 Tejas?</p> <p>4 A (Almon) Well, we would want the joint</p> <p>5 venture with the municipalities.</p> <p>6 Q (Smitherman) And the muni issue?</p> <p>7 A (Almon) Yes.</p> <p>8 Q (Smitherman) Okay.</p> <p>9 A (Almon) Yes.</p> <p>10 CHAIRMAN SMITHERMAN: Do you guys have</p> <p>11 anything to add to that?</p> <p>12 COMM. ANDERSON: May I?</p> <p>13 CHAIRMAN SMITHERMAN: Go ahead.</p> <p>14 Q (Anderson) You heard my question about</p> <p>15 the -- about the too many cooks in the kitchen, I</p> <p>16 guess, question. I mean, from ERCOT's perspective,</p> <p>17 is giving everybody a piece -- just how -- if you put</p> <p>18 it on a spectrum, if you will, how complicated does it</p> <p>19 get to integrate both from a construction to get to</p> <p>20 the point of energizing and also just operationally --</p> <p>21 A (Woodfin) I mean, I think --</p> <p>22 Q (Anderson) -- as opposed to having fewer</p> <p>23 operators?</p> <p>24 A (Woodfin) Sure. I mean, I don't think</p> <p>25 there's anything insurmountable with having more</p> |
| <p style="text-align: right;">1331</p> <p>1 out.</p> <p>2 COMM. NELSON: I have a follow-up about</p> <p>3 the munis question when you get to a place where I can</p> <p>4 ask it.</p> <p>5 COMM. ANDERSON: And actually I have a</p> <p>6 question for Mr. Woodfin. Sorry.</p> <p>7 CHAIRMAN SMITHERMAN: Let me just -- let</p> <p>8 me make one more.</p> <p>9 COMM. ANDERSON: Sure, let you finish?</p> <p>10 CHAIRMAN SMITHERMAN: Yeah.</p> <p>11 Q (Smitherman) Brian, when you can get us that</p> <p>12 revised page that looks like this --</p> <p>13 A (Almon) Okay.</p> <p>14 Q (Smitherman) -- that would be very helpful.</p> <p>15 I guess it's just a little -- it's just a little</p> <p>16 confusing to me that between ETT and Isolux in your</p> <p>17 first recommendation they had 2.4 billion, and now</p> <p>18 you're recommendation is that they -- that they need</p> <p>19 to split a billion four among themselves and possibly</p> <p>20 Cross Texas, and I don't understand the theory behind</p> <p>21 that other than it looked like you had to make room</p> <p>22 for Lone Star.</p> <p>23 A (Almon) Well, I think the major driver was</p> <p>24 our attempt to reach a settlement in this proceeding.</p> <p>25 Q (Smitherman) Of the three Staff</p> | <p style="text-align: right;">1333</p> <p>1 cooks. It obviously gets more complicated</p> <p>2 coordinating, not only during the -- there's some</p> <p>3 additional studies that we need to do. And so the</p> <p>4 more cooks you have in that process, the harder it's</p> <p>5 going to be. Once the lines become operational</p> <p>6 there's -- well, I guess during the construction phase</p> <p>7 there's going to be more coordination in terms of</p> <p>8 outages and so forth.</p> <p>9 When you get to the actual put the lines</p> <p>10 in operation stage, I think the interconnection</p> <p>11 process is going to be more complex because we'll have</p> <p>12 to decide which way any new generator needs to go to</p> <p>13 hook up to one person's -- or one entity's line versus</p> <p>14 another.</p> <p>15 And then from like a voltage management</p> <p>16 standpoint from operations, I think we'll have to</p> <p>17 change our procedures if you have more entities, and</p> <p>18 we may have to do that anyway just because of the</p> <p>19 nature of the flows on these lines due to the wind. I</p> <p>20 think any of those are surmountable with procedural</p> <p>21 changes and so forth.</p> <p>22 In terms of how much complexity is going</p> <p>23 to be, you know, I don't know what that curve looks</p> <p>24 like.</p> <p>25 Q (Anderson) Is there -- does it -- as a</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|--|
| <p style="text-align: right;">1334</p> <p>1 practical matter, does it get less -- let's say you 2 had at least five or four. Is that significantly less 3 complex than or problematic -- actually you haven't 4 said problematic, but less complex than whatever the 5 total number of applicants is or something close to 6 it? I mean, I'm trying to get a sense of whether 7 we're going to create either inordinate delay or any 8 significant delay or complications in getting it 9 completed versus minimizing -- minimizing post-order 10 disputes.</p> <p>11 A (Woodfin) Yeah, I really don't know if that 12 curve is linear or nonlinear, you know, in terms of 13 more versus complexity. I don't have a good feel for 14 that.</p> <p>15 Q (Anderson) So you don't really have an 16 opinion one way or the other or view?</p> <p>17 A (Woodfin) (Nodded)</p> <p>18 COMM. ANDERSON: Okay. Sorry.</p> <p>19 Q (Nelson) Do you have an opinion as to 20 whether or not if you had the number of parties that 21 staff had in its public interest assignment, which is 22 I think almost everybody who is a party here, whether 23 that would increase ERCOT costs for managing the grid?</p> <p>24 A (Woodfin) Yeah, I believe that it will 25 increase the cost. Now, to what degree, I don't know,</p> | <p style="text-align: right;">1336</p> <p>1 or nine TSPs as opposed to -- as opposed to four or 2 five?</p> <p>3 A (Woodfin) I think to some extent -- as far 4 as CREZ as a whole, I'm not sure it would go up that 5 much. I don't want to say it's none, but I don't 6 think it's a lot. Most of the places that you would 7 see an increase are in things like -- some in 8 operations perhaps. I mean, we --</p> <p>9 Q (Anderson) Is that attributable to the CREZ 10 or to the number?</p> <p>11 A (Woodfin) I think the part in CREZ is more a 12 function of just having -- the part in operation is 13 more a function of the CREZ because I really think 14 this voltage management thing is going to be an issue 15 that they have to deal with regardless of how many TOs 16 they have. I think most of the increase, if any, on 17 coordinating from a planning perspective and an 18 operating perspective, to answer your question about 19 nodal, is kind of separate.</p> <p>20 CHAIRMAN SMITHERMAN: Well, let's don't 21 get into nodal too much.</p> <p>22 COMM. NELSON: Okay. I have a couple 23 more questions, but they are for Staff. Did you want 24 to go on with him?</p> <p>25 Q (Anderson) I was just -- I'm not trying</p> |
| <p style="text-align: right;">1335</p> <p>1 but I think it would be some.</p> <p>2 Q (Nelson) Okay.</p> <p>3 Q (Anderson) Would that cost be -- that's a 4 good question, a really good question.</p> <p>5 Q (Nelson) Well, and I'm concerned and I'm 6 scared to ask, but would it have any effect on a great 7 big project you have going on?</p> <p>8 A (Woodfin) Oh.</p> <p>9 Q (Nelson) No?</p> <p>10 A (Woodfin) No, I said "Oh." 11 (Laughter)</p> <p>12 Q (Nelson) Oh.</p> <p>13 A (Woodfin) I'll see if I can avoid that 14 question.</p> <p>15 Q (Nelson) That's something you should have 16 just thought and not said.</p> <p>17 Q (Anderson) Let me -- let me try to flesh 18 that question out a little bit. Is ERCOT's cost going 19 to go up with the CREZ anyway managing the addition, 20 whether it's two, whether it's -- well, it would be at 21 least probably three even if -- or four, actually, 22 just with -- if you only used incumbents, maybe even 23 five. So is the cost going to go up? How would you 24 assess the cost increase for just the CREZ itself, if 25 any, versus -- versus having, you know, seven or eight</p> | <p style="text-align: right;">1337</p> <p>1 to --</p> <p>2 A (Woodfin) Sure.</p> <p>3 Q (Anderson) -- I could catch you. I'm just 4 trying to factor into our decisionmaking process what 5 those -- you know, what the relevant costs, if any, 6 are?</p> <p>7 A (Woodfin) I think it is going to be more 8 complex, but in terms of, you know, saying it will 9 take ten extra people or -- it would be hard to say.</p> <p>10 COMM. NELSON: I just don't want to run 11 into a situation where we get hit with a big fee 12 increase because we picked 12 instead of 5.</p> <p>13 COMM. ANDERSON: That's what I'm trying 14 to get my arms around.</p> <p>15 A (Woodfin) I don't -- I don't think it's 16 that.</p> <p>17 COMM. ANDERSON: I'm sorry. Did you get 18 that? Okay.</p> <p>19 Q (Nelson) Okay. Let me ask you a couple more 20 questions. Staff, were you here -- and I think this 21 is probably the both of you, but perhaps more to 22 Mr. Almon. Were you here when LCRA testified in 23 response to a question from me that -- and this 24 question is going to have two parts -- that it would 25 extend the time negotiating with CPS or City of</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | | | |
|------|---|------|---|
| 1338 | <p>1 Garland would cause a delay because it would take 2 them, they estimate, about eight months. So for those 3 priorities lines, it could cause a delay. Did you 4 hear that testimony?</p> <p>5 A (Almon) No, I did not.</p> <p>6 Q (Nelson) Okay. And then the other fact 7 that -- I don't know if it was just directly spoken 8 but were you present when LCRA seemed to indicate they 9 are not interested? They're interested in doing a 10 point to point, like owning half of one half of a line 11 but not jointly owning because they would run into 12 issues with that? Were you there when that --</p> <p>13 A (Almon) That was reported to me. I didn't 14 hear it directly.</p> <p>15 Q (Nelson) Okay. So those two facts together, 16 do they cause you to reassess your recommendations 17 with respect to LCRA and the munis teaming up?</p> <p>18 A (Almon) Well, I think they could maybe still 19 have an ownership, a particular part of the project 20 separately but file one CCN. That's the, you know, 21 the point that we're trying to make is that we want 22 them to come in to the Commission.</p> <p>23 Q (Nelson) Right, but I don't think anyone has 24 determined from a legal standpoint that if LCRA owns 25 half the line -- and this is my technical</p> | 1340 | <p>1 of months or whatever. And they had, in my opinion, a 2 lot of problems getting that line through the citizens 3 of San Antonio, and that is primarily the reason why 4 we have incorporated this recommendation in our 5 testimony.</p> <p>6 Q (Anderson) But your recommendation is that 7 it be -- that the whole assigned line would be jointly 8 owned from the beginning to the end; in other words, 9 it would be undivided interest.</p> <p>10 (Simultaneous discussion)</p> <p>11 A (Almon) Whatever it would take for them to 12 legally have to, you know, be here for the entire line 13 for the CCN.</p> <p>14 Q (Anderson) For the entire process. I'm not 15 sure how LCRA feels. This is a great deal, but I 16 understand.</p> <p>17 A (Almon) Well, maybe there's another TSP that 18 will take them on. I don't know.</p> <p>19 Q (Anderson) All right.</p> <p>20 Q (Smitherman) Brian, one last question from 21 me. While my colleagues were speaking, I went back 22 and looked through my notes briefly. I want to talk 23 about Cross Texas because in your first 24 recommendation, you had them for zero, and then in 25 your second recommendation, you bumped them up to 533.</p> |
| 1339 | <p>1 description -- LCRA owns half a line and the city owns 2 the other half whether they could have a CCN for the 3 entire portion.</p> <p>4 A (Almon) Well, we have had a case recently 5 where two TSPs -- they split the line ownership, but 6 they filed one CCN.</p> <p>7 Q (Nelson) But that's the entire line.</p> <p>8 Q (Smitherman) Of the entire line, or each of 9 them had a distinct segment of the line?</p> <p>10 A (Almon) Each of them had a distinct segment 11 of the line and they filed a joint CCN.</p> <p>12 Q (Anderson) But that was two TSPs.</p> <p>13 Q (Nelson) And they filed a joint CCN. The 14 municipalities have told us that they can't -- that 15 they are legally unable to do that.</p> <p>16 Q (Anderson) In other words, they would have 17 to -- it would have to be undivided joint ownership in 18 the entire line.</p> <p>19 A (Almon) Well, I would say that that would 20 give me grave concern because I remember the 21 Cagnon-to-Kendall line and one part was built by LCRA 22 and another by CPS. I personally followed the CPS 23 activities very closely because we were very concerned 24 about the timing of it. You don't want half the line 25 built and waiting for the other half for some number</p> | 1341 | <p>1 And I just want to make sure that I understand the 2 reason that you changed that, because as I went back 3 and looked through my notes, I can tell you that I 4 thought that the Cross Texas financial plan was the 5 weakest of any of them I had seen.</p> <p>6 A (Cutter) Bryan's choice on that was a result 7 of my having made a mistake on interpreting Cross 8 Texas' proposal and what state -- what return on 9 equity they were willing to accept. They had included 10 in their proposal sort of an incentive-based-type plan 11 that I interpreted as culminating or being the 12 equivalent of a 10.25 return on equity, and in further 13 discussions, we determined that wasn't the case.</p> <p>14 Q (Smitherman) So is that the reason that you 15 changed your recommendation for the second proposal?</p> <p>16 A (Cutter) That's the reason -- that's the 17 reason that I reduced their cost of capital and 18 consequently put them in the same category. That was 19 all we had at that point to distinguish them from 20 anyone else and --</p> <p>21 Q (Smitherman) So just to be clear, in the 22 case of Tejas, you changed your recommendations in a 23 negative way based on some new information or some 24 additional analysis of their financial situation?</p> <p>25 A (Cutter) That's correct.</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|--|--|
| <p style="text-align: right;">1342</p> <p>1 Q (Smitherman) Okay. With regard to taking 2 Cross Texas from zero up to 533, that was not as a 3 result of you becoming more comfortable with their 4 financial situation, but rather that you had made a 5 mistake in an earlier calculation? 6 A (Cutter) That's correct. 7 Q (Smitherman) Okay. 8 MS. EXCOBEDO: Mr. Chairman, before you 9 adjourn for the day, may I make a short statement? 10 CHAIRMAN SMITHERMAN: Are you 11 testifying? 12 MS. ESCOBEDO: I am not testifying. I'm 13 just making a statement for your consideration. CPS 14 Energy and STEC have reached an agreement in principle 15 to do a joint ownership, and I'll just make you aware 16 of that. We're also talking to other TSPs. 17 CHAIRMAN SMITHERMAN: And I assume 18 you'll file something reflecting that? 19 MS. CAMPBELL: I want to clarify. What 20 we have said is -- 21 (Laughter) 22 MS. CAMPBELL: -- is that -- 23 CHAIRMAN SMITHERMAN: It's always good 24 to put these things in writing. 25 MS. CAMPBELL: Well, we have said that</p> | <p style="text-align: right;">1344</p> <p>1 CHAIRMAN SMITHERMAN: Well, let's -- 2 MR. TOWNSEND: But I wanted to let you 3 know so we could include it in the brief just like -- 4 CHAIRMAN SMITHERMAN: Let's summarize by 5 saying this: We encourage additional conversation on 6 settlement. This is one of those things that is -- it 7 is going to be difficult for us to do. Now, we'll do 8 it. We'll make some decisions if you-all are unable 9 to come to an agreement, and you sort of know how we 10 feel about NUSs these days. 11 So to the extent that you can continue 12 talking, continue working, try to figure this out, I 13 encourage that. I assume that both of you encourage 14 it as well. 15 COMM. NELSON: I do, and I especially 16 think you need to learn from the lesson that you don't 17 want to disadvantage major parties in the case if you 18 bring an NUS to us. 19 CHAIRMAN SMITHERMAN: And just remember 20 the principles where we started this on morning was, 21 you know, we've got the language in PURA. We need to 22 move with speed, in particular on the priority lines. 23 We're interested in costs. We're interested in cheap 24 capital and taking advantage of some of the 25 competitive advantages that some people have with</p> |
| <p style="text-align: right;">1343</p> <p>1 if we could negotiate something by -- so that we could 2 attach it and put it in our brief on the 19th so it 3 wouldn't hold up anything, and that gives us several 4 weeks to try to work with either CPS or Garland if 5 they want to work with us. We would take a minority 6 interest because we don't want to build a big line 7 other than what we're asking for, but we would take a 8 minority interest so that we could come in for 9 the CCN, and that would be if y'all decided to give 10 either of them a line. 11 CHAIRMAN SMITHERMAN: Okay. 12 MR. TOWNSEND: And, Your Honors, I'd 13 also like to make a statement that TMPA has been 14 discussing favorably with other TSPs to jointly own 15 anything that is designated TMPA. And as the 16 resolution shows, the board is committed to 17 co-ownership. 18 COMM. ANDERSON: When you say jointly, 19 you mean an undivided interest in -- 20 MR. TOWNSEND: Undivided interest; 21 undivided interest. 22 COMM. ANDERSON: -- in segment or 23 whatever it would be. 24 MR. TOWNSEND: Not splitting it into 25 quarters or thirds or whatever.</p> | <p style="text-align: right;">1345</p> <p>1 regard to access to capital and debt that others may 2 have with regard to infrastructure on the ground and 3 territories that they're already working with and that 4 others may with experience in other countries. Okay? 5 So let's take advantage of all the assets here and see 6 if we can put something -- thanks everyone for working 7 hard and being here. 8 COMM. ANDERSON: May I make a comment? 9 CHAIRMAN SMITHERMAN: Sure. 10 COMM. ANDERSON: Because this is my 11 first experience with this particular process, I want 12 to make a couple of observations. First I want to 13 commend the ALJs and the staff as well. I also want 14 to make an observation that of all the cases I've been 15 involved in in my legal career, this may be the best 16 or the most well counseled, which I guess is not 17 surprising giving the dollars involved, but compared 18 to some things I've been involved in over the years, 19 it was a pleasure listening to the lawyers. 20 MR. SULLIVAN: Commissioners, this is 21 Patrick Sullivan for Horizon Wind Energy. I would 22 just like to remind the parties that we are parties in 23 this proceedings as well. And if there are settlement 24 discussions, we would like to be a part of them. We 25 have not been included to date except in the general</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|--|
| <p style="text-align: right;">1346</p> <p>1 settlement discussions that were conducted by staff. 2 So in the discussions, we would like to at least be 3 consulted somewhat so we can have input on the effect 4 that might have on our interest in this proceedings as 5 well. Thank you. 6 COMM. NELSON: Okay. Let me -- I'd like 7 to thank everybody, too, especially I know that 8 everybody in this room or the vast majority of you 9 worked through the Thanksgiving holidays in order to 10 be here and to present evidence, and we appreciate 11 the -- I think the distinction between here and, you 12 know, civil trials is that everybody is pretty 13 courteous to everybody else because they know they're 14 going to be back in front of us. So it does make 15 being here a pleasure. 16 COMM. ANDERSON: But they're also 17 prepared, and the arguments have been uniformly well 18 made, I think, and their examination of the witnesses, 19 which has not always been the case in my experience. 20 CHAIRMAN SMITHERMAN: Mr. Rima? 21 MR. RIMA: Mr. Chairman, I know you're 22 trying to shut things down. 23 CHAIRMAN SMITHERMAN: You're standing 24 between me and a Christmas party. 25 (Laughter)</p> | <p style="text-align: right;">1348</p> <p>1 record. The faster you get ready, the faster we can 2 go home. That worked pretty well. 3 (Laughter) 4 JUDGE KANG: Ms. Campbell, I believe 5 you've got some exhibits for us? 6 MS. CAMPBELL: Right. STEC Exhibit 7 is 7 Item No. 15; STEC Exhibit 8 is the whole -- it's 8 Isolux 2-5. I believe that's right. And STEC 9 Exhibit 9 is JP-CT-1-13 and that is B -- in response 10 to B. And 10 I just had -- 11 THE REPORTER: I'm sorry, 10 is what? 12 What was the last word? 13 MS. CAMPBELL: The 10? It's the one 14 that I just gave out, and it is JP-CT 2-4. 15 THE REPORTER: I'm sorry. Ms. Campbell, 16 it's not because of you. But I'm still having a lot 17 of problems hearing, and we're on the record. So the 18 court reporter is going to tell you, sit down and be 19 quiet until I'm through, because you're making my job 20 really hard. Thank you. 21 JUDGE MONTELONGO: Ms. Campbell, come up 22 to the microphone. 23 MS. CAMPBELL: Oh, okay. And that's the 24 first time I've ever had to talk into a mic. 25 (Laughter)</p> |
| <p style="text-align: right;">1347</p> <p>1 COMM. NELSON: His daughter's Christmas 2 party. 3 MR. RIMA: I believe the Commission has 4 indicated they would like to talk to Mr. Parquet for a 5 couple of minutes. 6 COMM. NELSON: No, I've since -- you 7 know, I reviewed those documents and I decided if you 8 guys didn't think you needed to put on one of your 9 witnesses to ask questions about that document, then I 10 wasn't going to. 11 MR. RIMA: Well, Commissioner, I had no 12 opportunity to do that. 13 COMM. NELSON: I understand that, but 14 I'm -- I'm just going to let the document stand. 15 MR. RIMA: Thank you. 16 CHAIRMAN SMITHERMAN: Judge, we'll turn 17 it over to you. 18 JUDGE KANG: All right. We've got some 19 housekeeping matters to take care of. Ms. Campbell, I 20 believe you had some exhibits we still have -- 21 (Simultaneous discussion) 22 MR. KANG: Let's go ahead and take a 23 break and come back in ten minutes. 24 (Recess: 7:07 p.m. to 7:15 p.m.) 25 JUDGE KANG: Let's go back on the</p> | <p style="text-align: right;">1349</p> <p>1 THE REPORTER: No. You had to for me 2 one other time. 3 MS. CAMPBELL: Did I? Okay. 4 Well, STEC Exhibit 10 is JP-CT 2-4. Did 5 you have the ones previous to that? 6 THE REPORTER: Yes. 7 MS. CAMPBELL: Okay. STEC Exhibit 11 is 8 JP-CT 1-17, and Cross Texas has optional completeness 9 on that one. 10 UNIDENTIFIED SPEAKER: That's correct. 11 MS. CAMPBELL: 12 -- STEC-12 is JP-TT 12 2-8. The rest of them are all Tejas, and Tejas has 13 agreed that they have no problems with any of them. 14 Can we shorten it to that? 15 MR. RIMA: Yes, that's correct. 16 MS. CAMPBELL: That's 14 through 17. 17 JUDGE KANG: Okay. 18 MS. CAMPBELL: Do you want me to call 19 out what the others are? You're just okay with that? 20 THE REPORTER: I can hear you fine now. 21 MS. CAMPBELL: Okay. 22 JUDGE KANG: All right. Are there any 23 objections to STEC Exhibits 7 through 12 and 14 24 through 17? 25 (No response)</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

| | |
|---|--|
| <p style="text-align: right;">1350</p> <p>1 JUDGE KANG: All right. Hearing none, 2 STEC Exhibits 7 through 12 and 14 through 17 are 3 admitted. 4 (Exhibit STEC Nos. 7 through 12 and 14 5 through 17 admitted) 6 JUDGE KANG: All right. And, Ms. Drews, 7 did you have -- 8 MS. DREWS: Yes, Your Honor. 9 JUDGE KANG: Oh, there you are. 10 MS. DREWS: Thank you. In the 11 Commissioners' questioning of Mr. Hayden yesterday, 12 there were references to clarifying his qualifications 13 in the testimony and the CTP proposal. So there is an 14 errata Lone Star Exhibit 36 that I put outside for the 15 parties some time back, and we would move admission. 16 JUDGE KANG: Are there any objections to 17 Lone Star 36? 18 (No response) 19 JUDGE KANG: Given no objections, Lone 20 Star 36 is admitted. 21 (Exhibit Lone Star No. 36 marked and 22 admitted) 23 MS. DREWS: Thank you, Your Honor. 24 JUDGE KANG: Any there any other 25 exhibits we need to take care of?</p> | <p style="text-align: right;">1352</p> <p>1 take care of all the exhibits tomorrow, and that will 2 be it. Okay? 3 MS. CAMPBELL: You know, I'm certainly 4 willing to do it later if that would help them. I 5 realize that this is hard for people to get things in. 6 MR. GUY: It just seemed like a reason 7 why we needed to do it earlier was -- 8 THE REPORTER: Who is speaking? 9 MR. GUY: I'm sorry. James Guy on 10 behalf of Sharyland Utilities. It seems that a 11 problem in moving it earlier was the problem of people 12 having and delivering those exhibits to the other 13 parties, and so as long as we figure out a way to take 14 care of that, and I wanted to clarify is there going 15 to be -- to the extent we raise any objections, are 16 those going to be raised tomorrow? 17 JUDGE KANG: You should. You know, if 18 you have -- if you're going to raise an objection, we 19 want to take care of everything tomorrow if at all 20 possible. 21 MS. CAMPBELL: Well, because the maps -- 22 you know, you're really talking a lot of work in 23 making up the maps. If we have maps that they can 24 view -- I mean, because I just told my people make 12 25 maps of each map they're making and send out those</p> |
| <p style="text-align: right;">1351</p> <p>1 (No response) 2 JUDGE KANG: All right. All right. 3 Then let's talk about the prehearing conference where 4 we're going to take care of the homework the 5 Commissioners talked about. Let's get back tomorrow 6 at 1:30 if that works for everybody -- unless somebody 7 has extreme objections to that, we'll make it 1:30. 8 All right? 9 MR. BOUCHEY: One question I'd like to 10 ask -- Jim Bouchey for Sharyland -- is originally the 11 concept was we're going to have until the close of 12 business tomorrow to provide the materials. 13 JUDGE KANG: Well, things change, yeah. 14 Life is tough. I'm sorry, you know, but we're going 15 to be doing it at 1:30. Do what you can. Bring it 16 in. If not, well, that's it. All right? 17 MR. BOUCHEY: And am I correct that what 18 we're bringing is in the form of exhibits which -- 19 JUDGE KANG: It will be in the form of 20 exhibits, and we'll take care of it all tomorrow. Get 21 them all -- have them all marked, have them all ready. 22 We're going to take care of all of it tomorrow. 23 There's not going to be -- there's not going to be 24 like a filing and then you're going to have a chance to 25 object to it in a writing on Monday. We're going to</p> | <p style="text-align: right;">1353</p> <p>1 maps on the ListServe to all the parties. But that 2 doesn't mean you're going to be home in time to -- 3 those that have offices in Austin I guess will get it. 4 JUDGE KANG: Well, would it help if we 5 had it at 3:00? 6 MR. BUSHEE: That would be helpful, Your 7 Honor. 8 JUDGE KANG: All right. Ms. Escobedo? 9 MS. ESCOBEDO: Should we mark those 10 exhibits for each of the individual parties versus the 11 Commissioners? 12 JUDGE KANG: Yeah, that will be helpful 13 because I don't know what they would want as their own 14 exhibits. So go ahead and do that, and we'll meet at 15 3:00 tomorrow. All right? Wait. 16 (Discussion off the record) 17 JUDGE KANG: All right. A couple more 18 things to go yet. We've got to deal with our 19 confidentials. We'll need seven copies of them. So 20 remember that, we'll need seven copies of confidential 21 exhibits. 22 And we also have -- oh, Staff -- is 23 Staff here? 24 (No response) 25 JUDGE KANG: Oh, okay. Well, Staff</p> |

PUC: 35665 HOM 12/4/2008
VOLUME 5

1354

1 needs to update, as I believe the Commissioners asked,
2 Mr. Almon's testimony. There was a chart or something
3 in there that they wanted updated, and I think that's
4 it.

5 Briefing schedule. Okay. I would
6 actually suggest that you-all file a proposed briefing
7 schedule sometime, like sometime next week, if you can
8 get together and agree to a briefing schedule unless
9 you want to take care of it here, either way.

10 (Simultaneous discussion)

11 MS. CAMPBELL: The outline or are you
12 talking about the dates?

13 JUDGE KANG: The dates.

14 MS. DREWS: Your Honor, didn't you
15 already set a December -- a single December 19th --

16 JUDGE KANG: I think that may have been
17 true.

18 MS. CAMPBELL: That's why I mentioned
19 the 19th in my --

20 JUDGE MONTELONGO: One at a time.

21 MS. CAMPBELL: Sorry.

22 MR. GUY: I have a copy of the order if
23 that would --

24 JUDGE KANG: That would be great.

25 Well, we already took care of it. So it

1355

1 is going to be on the 19th, and it's one brief,
2 December 19th. All right?

3 Is there anything else we need to
4 address, any other matters you can think of?

5 (No response)

6 JUDGE KANG: All right. Thank you. I
7 appreciate your help.

8 (Proceedings recessed at 7:24 p.m.)

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25