

June 14, 2013

**VIA RESS AND COURIER**

Ms. Kirsten Walli  
**ONTARIO ENERGY BOARD**  
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File No. T981761

Dear Ms. Walli:

**Re: EB-2011-0140: East-West Tie Designation Proceeding.**

**Correction of the Record in Respect of the Lone Star Transmission project costs relied on by NextBridge.**

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We write as legal counsel to NextBridge to correct misstatements made by EWT LP in its reply argument regarding the costs of projects NextBridge relied on in its application.

Lone Star Transmission, LLC (Lone Star) is an affiliate of one of the NextBridge partners, NextEra Energy Canada LLC. NextBridge referred to Lone Star's CREZ transmission project in Texas in its Application, and again in its response to Board Interrogatory 32 to all Applicants. Lone Star is an example of a successful transmission project upon which NextBridge relies in support of its Application for designation.

In response to the Board's Interrogatory 32 to all Applicants, NextBridge provided cost information for the Lone Star project. EWT LP asserted in its Reply Argument that the Lone Star cost information provided by NextBridge is false. In so doing, EWT LP has mischaracterized the evidence that is on the public record in Texas and has misled the Board, to NextBridge's prejudice. EWT LP's statements require correction.

At page 9, lines 15 through 21 of its Reply Argument, EWT LP states:

*In its interrogatory responses, UCT indicates that Lone Star's CREZ projects were completed for \$731.6 million, \$62.5 million less than the budget of \$794.1 million that was included in Lone Star's Certification of Convenience and Necessity ("CCN") filing.*

*However, the budget of \$794.1 million quoted by UCT is not the budget approved by the PUC in granting the CCN. In fact, in granting the CCN the total budgeted amount for Lone Star's expenditures was \$681.1 million. Furthermore the PUC's current estimate for Lone Star's portion of the CREZ program is \$768.9 million.*

These EWT LP statements mischaracterize the regulatory process in Texas for Certificate of Convenience and Necessity (CCN) approvals of CREZ projects, which applied primarily to route and land issues. Following is correction of these mischaracterizations.

1. EWT LP states that *"in granting the CCN the total budgeted amount for Lone Star's expenditures was \$681.1 million"*.

The citations provided by EWT LP in support of this statement indicate that EWT LP devised the \$681.1 million figure by adding up a subset of the project costs. EWT LP included only those costs addressed by the Public Utility Commission of Texas (PUCT) in various paragraphs of its CCN orders issued in late 2010, which in some cases were estimated by the PUCT itself. This figure mischaracterizes project costs for the following reasons:

- (a) The PUCT's CCN orders did not find that \$681.1 million represented Lone Star's total project costs. The CCN orders addressed only a subset of the total project costs (such as transmission line land and construction costs, and substation construction costs), and excluded other relevant project costs that were included in Lone Star's prefiled CCN cost estimate (such as substation land, substation property taxes, substation AFUDC and series compensation costs).<sup>1</sup>
- (b) The route chosen by the PUCT was not the route originally recommended by Lone Star. For this reason, the PUCT CCN orders directed Lone Star to *"update the reporting of the project...prior to construction to reflect its final estimated cost and schedule..."*.<sup>2</sup> [Emphasis added.] Attached is Lone Star's PUCT April 2011 filing of total estimated project costs prior to commencing construction, which was \$794.1 million.<sup>3</sup> This is the total pre-construction project cost estimate relied on by NextBridge in its evidence in this proceeding.

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<sup>1</sup> Attached to this letter is Exhibit DM-6 filed by Lone Star with its CCN application indicating Lone Star's preferred route estimated project costs. We have amended the exhibit by adding a column on the left hand side of the page indicating the PUCT estimated costs which EWT LP cites. The total of this column matches EWT LP's *"total budgeted amount"* figure. This exhibit demonstrates that The PUCT order paragraphs cited by EWT LP cover only those components of the project costs in respect of which a finding or direction was made. The order did not cover other non-contentious project costs.

<sup>2</sup> PUCT Docket 38230, Ordering paragraph 11; PUCT Docket 38642, Ordering paragraph 10.

<sup>3</sup> Filed with the PUCT in docket 37902, see page 2.



2. EWT LP further states: *“the PUC’s current estimate for Lone Star’s portion of the CREZ program is \$768.9 million”*.

The \$768.9 million figure referred to by EWT LP was not a PUCT estimate. It was an estimate provided by Lone Star in a status filing made before its project was placed in service, and reflected a decrease from Lone Star’s original \$794.1 million for the PUCT’s chosen route.

Monthly status filings are required of CREZ project developers to update the PUCT on progress of the approved projects. Lone Star’s monthly status filings subsequent to the filing of its original post-CCN order estimate have continued to show lower estimated final costs. While the Lone Star project is complete and in service, cost reconciliation continues, and a final report will be filed with the PUCT in due course.

The \$731.6 million completed cost figure included by NextBridge in its response to Board interrogatory 32 filed in this proceeding was the Lone Star estimate for the completed project on March 28, 2013 when the interrogatory response was filed. Lone Star continues to expect its final completion cost to be comparable to the information filed by NextBridge at that time.

***In summary, the correct information for the Lone Star CREZ project costs is as follows:***

1. ***Lone Star’s initial pre-construction project estimate at the time of its post-CCN approval compliance filing required by the PUCT was \$794.1 million, as stated in NextBridge’s Response to Board Interrogatory 32 to all Applicants.***
2. ***Lone Star’s completion cost information at the time of NextBridge filing its interrogatory responses in this proceeding was \$731.6 million, as stated in NextBridge’s Response to Interrogatory 32 to all Applicants.***
3. ***Lone Star continues to expect its final completion cost to be comparable to the information filed by NextBridge in this proceeding.***

The PUCT CCN approval process described above, which includes: i) a post CCN Order final cost and schedule estimate compliance filing; ii) monthly cost (and schedule) updates; and iii) final cost reconciliation once the project is in service, applies equally to the WETT project relied on by EWT LP in this proceeding. EWT LP partner Brookfield is a participant in the WETT CREZ project, and EWT LP should thus be well aware of this process, and the correct characterization of the various stages and filings involved in this process.

We trust that this clarifies the facts on this topic.

Yours truly,



Ian A. Mondrow

Attachments

- c. Oliver Romaniuk (Upper Canada Transmission, Inc.)  
Jennifer Lea (Ontario Energy Board)  
Parties of Record

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**Lone Star: Comparison of Preferred Route Estimated Cost to CTO Estimate**

EWT LP Reference (Docket #/ Para. #) \$ in MM	Scope	Lone Star Project Costs	CTO Estimate	Difference	Miles		\$'/Mile		
					Lone Star Project Costs	CTO Estimate	Lone Star Project Costs	CTO Estimate	Difference
(38230/143) \$164	Central A to Central C Double Circuit (Line Construction)	\$126,200,000	\$141,000,000	-10%	90.5	75.0	\$1,400,000	\$1,880,000	-26%
(38230/200) \$377.6+\$2	Central C to Sam Switch Double Circuit (Line Construction)	\$275,400,000	\$278,240,000	-1%	187.2	148.0	\$1,470,000	\$1,880,000	-22%
(38230/200) \$54.3	Sam Switch to Navarro Single Circuit (Line Construction)	\$41,700,000	\$30,000,000	39%	33.3	20.0	\$1,250,000	\$1,500,000	-17%
(38642/102)	50% Compensation on Central C to Navarro/Sam Switch	\$64,800,000	\$60,000,000	8%					
	150 MVAR Reactive Compensation on Central C	\$3,800,000	\$4,500,000	-16%					
	Additional Reactive Equipment per ERCOT Study	\$4,700,000	\$0						
	Subtotal: T-Line	\$516,600,000	\$513,740,000		310.9	243.0			
(38230/31A) \$34.2	Navarro 345 kV station	\$34,200,000	\$30,000,000	14%					
(38230/202) \$21.8	Sam Switch 345 kV station	\$21,800,000	\$20,000,000	9%					
(38230/202) \$27.2	Central C (West Shackleford) 345 kV station	\$27,200,000	\$0						
	Subtotal: Substations	\$83,200,000	\$50,000,000						
	Other: ROW acquisition	\$51,000,000	\$0						
	Other: CCN Application Costs	\$34,900,000	\$0						
	Other: Property Taxes	\$15,500,000	\$0						
	Other: Estimated AFUDC	\$66,600,000	\$0						
<b>TOTAL: \$681.1</b>	<b>Grand Total Including Other Costs</b>	<b>\$767,800,000</b>	<b>\$563,740,000</b>						

Weighted Averages		
\$1,425,723	\$1,848,724	-23%



Control Number: 37858



Item Number: 34

Addendum StartPage: 0

PUC PROJECT NO. 37858

REPORTING BY THE CREZ §  
DESIGNATED TRANSMISSION §  
SERVICE PROVIDER PURSUANT TO §  
SUBST. R. 25.216(F) AND THE ORDER §  
ON REMAND IN DOCKET NO. 37902 §

PUBLIC UTILITY COMMISSION  
OF  
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**LONE STAR TRANSMISSION LLC'S  
SIX MONTH COMPLIANCE FILING**

COMES NOW Lone Star Transmission LLC ("Lone Star") and files this Six Month Compliance Filing pursuant to the reporting requirements of P.U.C. SUBST. R. 25.216(f) and the Order on Remand in Docket No. 37902.<sup>1</sup> Consistent with those requirements, Lone Star is providing an updated cost estimate and anticipated implementation schedule based on the latest available information. This estimate is subject to change as the project continues to progress.<sup>2</sup>

**I. INTRODUCTION**

Lone Star submitted its filing for a Certificate of Convenience and Necessity ("CCN") for the CREZ facilities it was awarded on May 24, 2010 in Docket No. 38230.<sup>3</sup> Lone Star settled with landowners on the location of one of the three segments of the project, the approximately 36-mile portion from the Sam Switch station to the Navarro station. This portion was severed and moved to Docket No. 38642,<sup>4</sup> and the PUC issued its final order granting CCN No. 30196 to Lone Star on October 22, 2010. On November 17, 2010, the PUC approved the remaining two segments. No Motions for Rehearing were granted.

Pursuant to the reporting requirements in P.U.C. SUBST. R. 25.216(f)(2) and the Order on Remand in Docket No. 37902 (Ordering paragraphs 16-20), Lone Star is required to update

<sup>1</sup> *Remand of Docket No. 35665 (Commission Staff's Petition for Selection of Entities Responsible for Transmission Improvements Necessary to Deliver Renewable Energy From Competitive Renewable Energy Zones)*, Docket No. 37902, Order on Remand at 57, Ordering ¶¶16-20 (March 30, 2010)(Docket No. 37902).

<sup>2</sup> This updated filing cannot and shall not be construed as a limitation or pre-determination of the Company's right to recover in a Statement of Intent case or other rate affecting proceeding all project expenses, including, but not limited to, investment and expense incurred for CCN acquisition, right-of-way and land acquisition, engineering and design, procurement of materials and equipment, and construction of facilities. Moreover, this updated filing cannot and shall not be construed as a limitation or pre-determination of the Company's financing methods, costs, and implementation schedules.

<sup>3</sup> *Application of Lone Star Transmission, LLC for a Certificate of Convenience and Necessity for the Central A to Central C to Sam Switch/Navarro Proposed CREZ Transmission Line*, Docket No. 38230, Final Order (Nov. 17, 2010)(Docket No. 38230).

<sup>4</sup> *Application of Lone Star Transmission, LLC for a Certificate of Convenience and Necessity for the Sam Switch to Navarro Proposed CREZ Transmission Line (Severed from Docket No. 38230)*, Docket No. 38642, Final Order (Oct. 22, 2010)(Docket No. 38642).

certain cost estimates, scheduling estimates, and financing information with the Commission six months after approval of a CCN for any CREZ project. Currently, Lone Star is continuing to acquire right-of-way and working with landowners regarding final location of the line. Based on the latest available information, Lone Star provides the following updated estimates regarding the Central A-Central C-Sam Switch-Navarro CREZ Project:

**II. CURRENT PROJECT ESTIMATES BASED ON  
LATEST AVAILABLE INFORMATION**

**1. Current Estimated Costs**

	Transmission Facilities (Central A to Central C)	Transmission Facilities (Central C to Sam Switch)	Transmission Facilities (Sam Switch to Navarro)	Substation Facilities <sup>5</sup>	Totals by Cost Category
CCN Acquisition <sup>6</sup>	\$2,100,000	\$4,500,000	\$600,000	\$2,300,000	\$9,500,000
ROW and Land Acquisition	\$23,800,000	\$63,300,000	\$16,900,000	\$2,200,000	\$106,200,000
Engineering and Design	\$5,300,000	\$11,200,000	\$1,600,000	\$5,700,000	\$23,800,000
Procurement of Material and Equipment <sup>7</sup>	\$46,100,000	\$88,000,000	\$11,600,000	\$41,600,000	\$187,300,000
Construction of Facilities <sup>8</sup>	\$104,700,000	\$163,500,000	\$21,400,000	\$79,400,000	\$369,000,000
Other (all costs not included in above categories) <sup>9</sup>	\$21,500,000	\$46,400,000	\$6,600,000	\$23,800,000	\$98,300,000
<b>Estimated Totals by Lines and Substations</b>	<b>\$203,500,000</b>	<b>\$376,900,000</b>	<b>\$58,700,000</b>	<b>\$155,000,000</b>	<b>\$794,100,000</b>

<sup>5</sup> Lone Star's project has a total of five substations. Substation facilities include: Central C (later named West Shackelford) has total estimated costs of \$36,100,000 (including the reactive compensation required by the ERCOT CREZ Reactive Study); Sam Switch has total estimated costs of \$21,600,000; Navarro has total estimated costs of \$34,500,000; Series Capacitors on Central C (West Shackelford) to Navarro and Sam Switch at the Kopperl and Romney stations have total estimated costs of \$62,800,000 (including the reactive compensation required by the ERCOT CREZ Reactive Study). Estimated cost information for these individual components of the project is reported monthly to the CREZ Monitor.

<sup>6</sup> Includes costs for the CCN, including legal, regulatory, landowner notification, and routing consultant costs.

<sup>7</sup> Includes stores.

<sup>8</sup> Because the construction contracts are turn-key, the materials procured by those firms are included in the Construction of Facilities category.

<sup>9</sup> Includes all costs not in the other categories, including an estimate of Allowance for Funds Used During Construction (AFUDC), capitalized property taxes, and certain development costs.



## 2. Implementation Schedule

Estimated Dates of:	Start	Completion
Right-of-way and Land Acquisition	December 2010	June 2012 <sup>10</sup>
Engineering and Design	July 2010	March 2013
Material and Equipment Procurement	October 2010	March 2013
Construction of Facilities	February 2011	March 2013
Estimated In-Service Date	-----	March 2013 <sup>11</sup>

## 3. Updated Financing Information

As explained in Lone Star's original CREZ Transmission Plan and its CCN application in Docket No. 38230, Lone Star intends to utilize corporate funds from NextEra Energy Capital Holdings, Inc. to fund the development and construction phases of the Project. NextEra Energy Capital Holdings, Inc. obtains its funds from internally generated cash flow, corporate debt and, if necessary, equity infusions from its ultimate parent, NextEra Energy, Inc. As an update, Lone Star has also issued a Request For Proposal to qualified institutions, including Texas banks, to determine whether it is possible to assess the capital markets for third-party construction loans at favorable rates and terms. Regardless of the sources utilized for ongoing construction financing, Lone Star still intends to access capital markets to re-finance the completed Project within six months of: (i) the commercial operation date for the full project; or (ii) the implementation of transmission rates that reflect the entire cost of the CREZ facilities awarded to Lone Star, whichever is later.

## III. CONCLUSION

The estimates in this compliance filing are based on the latest available information in accordance with P.U.C. SUBST. R. 25.216(f)(2) and the Order on Remand in Docket No. 37902 (Ordering paragraphs 16-20) and are subject to change as the Project progresses.<sup>12</sup> Lone Star supports the Commission's desire to gather information on the progress and development of the

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<sup>10</sup> The completion date includes condemnations but does not account for any court appeals of those condemnations, which could take in excess of an additional year to process.

<sup>11</sup> Lone Star estimates that construction of the Sam Switch and Navarro Substations will be complete and the Substations available for connection with existing transmission lines owned by Oncor Electric Delivery Company LLC in April 2012. The remaining substations and transmission lines are estimated to be in-service in March 2013.

<sup>12</sup> Lone Star incorporates by reference the disclaimer set forth in footnote 2 of this filing.

CREZ build-out. Should additional information be desired, Lone Star stands ready and willing to provide such information as requested.

Respectfully submitted,

By: 

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