

VERIFIED DIRECT TESTIMONY
OF
JOSEPH D. ESTEVES
On behalf of Republic Transmission, LLC

Q1. Please state your name, business address and title.

A1. My name is Joseph D. Esteves. My business address is 1700 Broadway, 35th Floor, New York, New York 10019. I am Executive Vice President and Chief Financial Officer for LS Power Development, LLC ("LSP Development"), the general partner and manager of LS Power Associates, L.P. ("LS Power"), which is an indirect owner of Republic Transmission, LLC ("Republic Transmission" or "Company").

Q2. On whose behalf are you submitting this direct testimony?

A2. I am testifying on behalf of Republic Transmission.

Q3. Please describe your educational and employment background.

A3. I received a Bachelor of Electrical Engineering degree from the Cooper Union in New York City, and I received an M.B.A. from the Wharton School of the University of Pennsylvania. I have over 25 years of experience in the power industry, primarily focused on raising capital and advisory services. Throughout my career, I have been involved in managing debt and equity financings for power-related transactions which, in aggregate, exceed \$30 billion dollars. Immediately prior to joining the LS Power organization, I served as Executive Vice President of Converge, Inc., a leading power technology firm. Previously, I spent fifteen years with major investment banking firms focused on the energy and power industries, including UBS (Managing Director and Region Head, Project Finance), Goldman Sachs & Co. (Vice President – Structured Finance), and Salomon Brothers Inc. (Vice President – Corporate Finance).

Q4. What are your responsibilities as Executive Vice President and Chief Financial Officer?

A4. Since I joined the LS Power organization in 2004, I have managed all of its financings related to new construction and acquisition activity, raising debt and equity proceeds in excess of \$25 billion dollars. In my current role as Executive Vice President and Chief Financial Officer, I manage the financial aspects of the LS Power businesses, including those of Republic Transmission. My duties include raising capital, financial planning, and equity investments.

Q5. Have you previously testified before this or any other regulatory commission?

A5. Yes. I have testified before the Public Utility Commission of Texas, the Public Utilities Commission of Nevada, and the Federal Energy Regulatory Commission ("FERC").

Q6. Are you sponsoring any attachments to your testimony in this Cause?

A6. Yes. I am sponsoring Attachment 2-A (Confidential), which provides reference letters from two financial institutions.

Q7. What is the purpose of your testimony?

A7. The purpose of my testimony is to demonstrate that Republic Transmission has the financial capability to construct, own, operate, and maintain electric transmission facilities in Indiana. I will also briefly explain and support Republic Transmission's request for the Commission to decline to exercise jurisdiction over Republic Transmission's long-term financings.

Q8. How will Republic Transmission raise capital to fund electric transmission projects in Indiana?

A8. Republic Transmission will leverage the financial capabilities of LS Power to raise capital for new transmission projects in Indiana. LS Power is well-respected in the financial community, having raised over \$30 billion of capital for investment in the electric power industry. Since 2011, LS Power has raised over \$1 billion for competitive high voltage transmission projects. Attachment 2-A (Confidential) provides reference letters from two financial institutions that describe their continued interest in working with LS Power and Republic Transmission.

Republic Transmission will utilize a combination of equity contributions from its owners and third party debt to fund transmission projects in Indiana. To fund initial development of projects, Republic Transmission plans to use paid-in-capital (i.e., equity investments) from its owners. If the project is relatively small, like the Duff-Coleman Extra High Voltage ("EHV") Competitive Transmission Project ("Duff-Coleman Project"), then Republic Transmission may elect to rely on equity investments and existing short-term credit facilities in place from its owners to fund the construction phase of the project. However, if the project is larger like, for example, the One Nevada Transmission Line or the Texas CREZ projects, described in the Lawrence Willick testimony and completed by Republic Transmission affiliates, which are multiple times the size of the Duff-Coleman Project, then Republic Transmission would plan to raise third party debt early in the construction phase. As projects near commercial operation, permanent financing can be utilized; Republic Transmission plans to access long-term debt financing in either the institutional capital markets or via long-term commercial bank financing.

For the Duff-Coleman Project, Republic Transmission estimates project implementation cost to be less than \$50 million over the four-year period from 2017 through 2020. Due to the relatively small amount of capital required, Republic Transmission plans to fund 100% of the Duff-Coleman Project capital requirements through contributions from LS Power and Hoosier Energy Rural Electric Cooperative, Inc. ("Hoosier Energy") proportional to their respective ownership shares. LS Power and Hoosier Energy have available capital in amounts that are multiple times the anticipated cost of the Duff-Coleman Project. For example, LS Power has approximately [REDACTED] that it could utilize to fund project requirements. Once operational, Republic Transmission plans to utilize a long-term, project specific financing. Placement of the financing will be led by LS Power utilizing its experience and access to the debt markets.

Q9. How has Republic Transmission demonstrated creditworthiness thus far and how will Republic Transmission continue to demonstrate creditworthiness as it moves forward with raising capital?

- A9. Republic Transmission and its parent, LS Power, are privately held companies that are not rated by the credit rating agencies. LS Power's financial strength and creditworthiness is best demonstrated by its access to the capital markets, having raised over \$30 billion. Every LS Power-sponsored business that has been taken to the financing community has been successfully financed, even at times of market distress. For instance, the \$1.6 billion financing of a coal-fired power plant in Texas known as the Sandy Creek Energy Station, sponsored by LS Power subsidiary Sandy Creek Energy Associates, closed at the end of August 2007, as the financial crisis was taking shape and other borrowers were shut out of the credit markets. In addition, Attachment 2-A (Confidential) provides a list of projects financed through the private credit market. LS Power has established a strong reputation and long-standing, productive relationships within the financing community, bolstered by the fact that none of its companies have defaulted with its creditors nor filed for bankruptcy.

Republic Transmission is a new entrant in the Midcontinent Independent System Operator, Inc. ("MISO") region and was formed to be a transmission only company to pursue new transmission projects. It does not currently own any projects, and, as such, has no material assets. Republic Transmission will rely on its owners for equity contributions and LS Power's access to capital markets for raising third party debt. As previously noted, to demonstrate Republic Transmission and LS Power's creditworthiness I have provided two bank reference letters as Attachment 2-A (Confidential). Republic Transmission will target a credit profile that supports an investment grade rating so that it can access the capital markets when needed at a reasonable cost. The planned capital structure, depreciation rates, return on equity, and formula rate recovery should produce financial metrics that are within the current guidelines provided by the rating agencies for companies facing similar business risk (i.e., regulated electric-transmission-only entities). Republic Transmission will target a capital structure for the project that is approximately 45% equity and 55% debt, which is in alignment with other transmission entities that have investment grade credit profiles.

To further demonstrate Republic Transmission's current creditworthiness and its ability to meet its commitments under the Selected Developer Agreement it entered into with MISO (Attachment 1-G (Confidential) to Mr. Willick's testimony), Republic Transmission has provided MISO with a \$1.6 million cash deposit, which MISO can draw on in the event of default.

Q10. Did MISO require Republic Transmission to demonstrate that it has the financial capability to develop, construct, and operate competitive electric transmission facilities in or to obtain Qualified Transmission Developer and Pre-Qualification for Designated Entity Status?

A10. Yes. MISO examined Republic Transmission and LS Power's financial information and determined that it was capable of supporting transmission projects through all phases in determining it was a Qualified Transmission Developer. Key elements to LS Power's financial information include existing cash and cash equivalents, credit facilities, which I previously described, as well as the fact that it [REDACTED].

Although Republic Transmission understands the Indiana Utility Regulatory Commission must make its own determination as to Republic Transmission's financial ability to construct, own, operate, and maintain an electric transmission facility, the fact that MISO approved Republic Transmission as a Qualified Transmission Developer is strong independent evidence of Republic Transmission's financial soundness and capability to develop, construct, and operate competitive electric transmission facilities in Indiana. The fact that MISO selected Republic Transmission as the developer for the Duff-Coleman project over several other Qualified Transmission Developers is even stronger evidence that Republic Transmission has the financial ability to construct, own, operate, and maintain an electric transmission facility. In its Selection Report for the Duff-Coleman Project, MISO stated: "Each of these RFP Respondents demonstrated the necessary breadth and scope of capabilities, and the financial wherewithal, to design, finance, construct, operate, and maintain the project." See page 6 of Attachment 1-F to Mr. Willick's testimony. MISO also evaluated and rated each bidder's capital resources and financing plan as part of the proposal evaluation. See page 27 of Attachment 1-F to Mr. Willick's testimony.

Q11. Please describe how Republic Transmission will recover costs associated with competitive transmission projects in the MISO footprint such as the Duff-Coleman Project.

A11. Similar to all MISO transmission owners, Republic Transmission will recover its prudently incurred costs plus a return through its formula rates in accordance with the MISO Open Access Transmission, Energy and Operating Reserves Market Tariff (the "MISO Tariff"). Republic Transmission's formula rate, including applicable incentives,

and implementation protocols will be subject to the jurisdiction of and acceptance by FERC.

Republic Transmission intends to make a filing, prior to March 31, 2017, to FERC for acceptance of its formula rates and incentives, subject to the cost containment commitment for the Duff-Coleman Project described by Mr. Willick and set forth in Appendix A, Section A.3 of the Selected Developer Agreement, which is provided as Attachment 1-G (Confidential) to Mr. Willick's direct testimony. Included in this filing will be the formula rate template designed to calculate, on a project-by-project basis, an annual transmission revenue requirement that will be recoverable by Republic Transmission under the MISO Tariff. The formula rate template is a forward-looking formula under which costs are projected and then trued-up to actual costs once they are known. Republic Transmission will request FERC approval of incentives for: (1) deferred recovery of prudently incurred pre-commercial costs through creation of a regulatory asset; (2) full recovery of prudently-incurred costs if the project is abandoned for reasons beyond Republic Transmission's control; (3) use of a hypothetical capital structure consisting of 55% debt and 45% equity until the project achieves commercial operation; and (4) a 50 basis point adder to Republic's return on equity ("ROE") for participating in a Regional Transmission Organization ("RTO"), subject to Republic Transmission's overall ROE cap commitment for the Duff-Coleman Project of 9.80%. The incentives requested are narrowly tailored to the risks faced in the development and construction of the project and will allow Republic Transmission to attract the capital necessary to move forward with the project in an efficient and cost-effective manner.

Once accepted by FERC, Republic Transmission will have a formula rate template for inclusion in Attachment O and Attachment GG to the MISO Tariff once it is a MISO Transmission Owner. Republic Transmission's formula rate will facilitate recovery of all prudently incurred costs during project implementation and during operations. There are two applicable schedules under the MISO Tariff that Republic Transmission could recover its costs for competitive transmission projects in accordance with its formula rate. First, Schedule 48 is for the recovery of prudently incurred costs prior to Republic Transmission becoming a MISO Transmission Owner, which cannot happen until Republic Transmission places the Duff-Coleman Project in-service. For the Duff-Coleman Project, Republic Transmission does not intend to recover costs pursuant to Schedule 48 because it committed in its proposal that it would not recover construction work in progress ("CWIP") until the project is placed in service (it will accrue an allowance for funds used during construction ("AFUDC")). The other applicable schedule is Schedule 26, and Republic Transmission intends to recover its costs for transmission projects under this schedule pursuant to its approved formula rate (Attachment O and Attachment GG). Recovery under Schedule 26 will begin once the Duff-Coleman Project has been placed in-service and functional control has been turned over to MISO. For future transmission projects beyond the Duff-Coleman Project, Republic Transmission intends to recover its prudently incurred costs pursuant to the MISO Tariff either through Schedule 26 or another similar recovery mechanism.

Q12. Will Republic Transmission have the financial ability to sustain ongoing operations?

A12. Yes. As I described above, regional transmission projects in the MISO market such as the Duff-Coleman Project generate revenues through FERC-approved tariffs to allow the owner to recover both a return on the investment and operating and maintenance costs. In addition, Republic Transmission will have the ability to raise capital consistent with the methods I previously described.

Q13. What mechanisms are in place to ensure that Republic Transmission would have the ability to meet its financial obligations if the project were to be abandoned?

A13. First and most important, both owners, LS Power and Hoosier Energy, have a long history of successfully completing and operating electrical infrastructure projects. Both companies place a very high value on their reputation, so, abandonment of an approved transmission project is unlikely to be the result of a Republic Transmission decision. If MISO were to determine that the Duff-Coleman Project, or another future transmission project, is no longer needed and that the project should be cancelled, then Republic Transmission would be allowed to recover its prudently incurred costs pursuant to a FERC approved incentives tariff discussed above.

Second, as described by Mr. Willick, MISO will monitor Republic Transmission's progress on projects. If MISO determines that Republic Transmission is unable to complete the project, then it could reassign the project to the incumbent transmission owner(s), or cancel the project. The process that MISO utilizes to monitor transmission developers and take action when necessary acts to protect Indiana consumers from project abandonment by a developer.

Q14. Please summarize why Republic Transmission has the financial capability to construct, own, operate, and maintain an electric transmission facility.

A14. Republic Transmission will draw on the financial capabilities and resources of owners LS Power and Hoosier Energy (upon Hoosier Energy becoming an owner) to construct, own, operate and maintain electric transmission facilities in Indiana. LS Power has successfully raised over \$1 billion specifically for new transmission infrastructure in recent years and has raised over \$30 billion for investment in electric power infrastructure. Republic Transmission will be a new utility with FERC approved formula rates that will allow it to recover prudently incurred costs similar to all public utilities in Indiana. With the experience of its parent companies, it has the financial capabilities to develop, finance, construct, own, operate, and maintain transmission infrastructure. Republic Transmission's creditworthiness is further supported by the bank reference letters provided in Attachment 2-A (Confidential).

Q15. Please explain why Republic Transmission is requesting the Commission to decline to exercise jurisdiction over the company's long-term financing.

- A15. Pursuant to Ind. Code § 8-1-2.5-5, Republic Transmission requests that the Commission decline to exercise jurisdiction over the company's long-term financing activities because it would promote efficiency by eliminating the time and cost associated with a regulatory proceeding prior to engaging in long-term financing and allow the company to take advantage of attractive financing opportunities without any delay.

The Commission's interest in utility financings, acquisitions and divestitures traditionally centers on the utility's capital structure and cost of financing, as they can have an impact on retail rates. For example, if a utility takes on too much debt, it can increase the cost of borrowing and, under a cost of service model, increase retail rates. Similarly, if a regulated utility pursues acquisitions it cannot afford, it could reduce capital for making other needed investments. Republic Transmission's rates, and the capital structure upon which they are based, will be approved by FERC. As part of that process, FERC will have the opportunity to review Republic Transmission's capital structure and cost of capital. Republic Transmission submits that seeking state regulatory approval over financing activity would be duplicative and unnecessarily burdensome regulation since Republic Transmission does not have any captive customers that could suffer harm from such a transaction. Because Republic Transmission's rates are regulated by FERC, there is no need for the Commission to exercise jurisdiction to protect retail customers from costs of Republic Transmission's financings and acquisitions or sales. FERC regulation will provide the appropriate check on Republic Transmission in lieu of Commission oversight

Q16. Does this conclude your direct testimony?

- A16. Yes.

Petitioner's Exhibit No. ____ - ____
IURC Cause No. ____
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VERIFICATION

I, Joseph D. Esteves, Executive Vice President and Chief Financial Officer of LS Power Development, LLC, state that I affirm, under the penalties of perjury, that the representations contained in my Verified Direct Testimony and Attachments filed in this Cause are true and correct to the best of my knowledge, information and belief.



Joseph D. Esteves

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Attachment 2-A (Redacted)