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April 30, 2014

By First Class Mail and Email

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Re: Houston Import RPG Project

Dear Sirs and Madam:

On April 8, 2014, Electric Reliability Council of Texas, Inc. (ERCOT) Board of Directors (Board) approved a resolution endorsing “the need for the Houston Import RPG Project to meet the reliability requirements for the ERCOT System which ERCOT staff has

independently reviewed.” As recommended by ERCOT staff and endorsed by the ERCOT Board, the Houston Import RPG Project includes the following Transmission Facilities:

- Construction of a new Limestone – Gibbons Creek – Zenith 345 kV double circuit to achieve 2988 MVA of emergency rating for each circuit;
- Upgrade of the substations at Limestone, Gibbons Creek and Zenith to accommodate the terminations of the new transmission lines; and
- Upgrade of the existing T.H. Wharton – Addicks 345 kV transmission line to achieve 1450 MVA of emergency rating.

The ERCOT Board resolution also deemed “the Limestone-Gibbons Creek-Zenith 345 kV double circuit line critical to the reliability of the ERCOT System pursuant to Public Utility Commission of Texas Substantive Rule 25.101(b)(3)(D).”¹

The recommendation endorsed by the ERCOT Board was developed through the ERCOT Regional Planning Group (RPG) following the submission of project proposals by CenterPoint Energy Houston Electric LLC (CenterPoint Energy), the Cross Texas Transmission LLC/City of Garland dba Garland Power & Light² group (CTT/Garland), and Lone Star Transmission LLC in the summer of 2013. Each of those proposals identified a reliability need on the ERCOT System and included a variety of transmission improvements to meet that need. ERCOT initially screened 21 options and conducted a comprehensive analysis of eight of those options before making its recommendation, which comprises two new 345 kV transmission lines, an upgrade to an existing 345 kV transmission line, and related substation upgrades. The recommendation incorporates aspects of the proposed projects submitted by both CenterPoint Energy and CTT/Garland, and contemplates line construction and substation improvements affecting the Transmission Facilities of more than a single Transmission Service Provider (TSP).

Both CenterPoint Energy and Texas Municipal Power Agency (TMPA) own endpoints of the new 345 kV transmission lines terminating into the Limestone, Gibbons Creek, and Zenith substations. TMPA delegated its responsibility for the new Transmission Facilities to Garland, one of four TMPA member cities, and CTT/Garland partnered to construct the necessary Transmission Facilities. As a result, ERCOT designated CenterPoint Energy and CTT/Garland as co-providers of the recommended new 345 kV transmission lines.

It came to ERCOT’s attention in March 2014 that CenterPoint Energy and CTT/Garland had not reached agreement regarding what portion of the new 345 kV transmission lines terminating into the Limestone, Gibbons Creek, and Zenith substations they would each provide upon endorsement by the ERCOT Board. Protocol Section 3.11.4.8 addresses

¹ The ERCOT Independent Review of Houston Import RPG Project (ERCOT Independent Review) contains additional details about the recommendation and is attached to this letter as Attachment A.

² The City of Garland provides electric service through Garland Power & Light, and ERCOT uses the two names interchangeably in this letter.

designation of the TSP or TSPs responsible for providing new Transmission Facilities. That section states in part:

Upon completion of the RPG Project Review, ERCOT shall determine designated providers for the recommended transmission projects. The default TSPs will be those TSPs that own the end points of the new projects. Those TSPs can agree to provide or delegate the new facilities. If different TSPs own the two ends of the recommended project, ERCOT will designate them as co-providers of the recommended project, and they can decide between themselves what parts of the recommended project they will each provide. If they cannot agree, ERCOT will determine their responsibility following a meeting with the parties.

ERCOT met with representatives of CTT/Garland on March 17, 2014, and met with representatives of CenterPoint Energy on March 20, 2014. After considering the issues raised during those meetings, ERCOT issued a request for information to the parties on April 11, 2014. The parties submitted their responses to ERCOT on April 17, 2014. The parties' responses indicate that they continue to disagree regarding what portion of the new 345 kV transmission lines they will each provide. Consequently, pursuant to Protocol Section 3.11.4.8, ERCOT has determined their responsibility, as set forth below.

CenterPoint Energy, CTT, and Garland are each (1) a transmission service provider as defined by PUC Substantive Rule 25.5(143) and (2) registered with ERCOT as a TSP. In addition, both CenterPoint Energy and CTT have experience constructing 345 kV transmission lines in the ERCOT Region. ERCOT has concluded from these basic facts that CenterPoint Energy and CTT/Garland are each qualified to provide the new 345 kV transmission lines terminating into the Limestone, Gibbons Creek, and Zenith substations. In addition, ERCOT has concluded that none of the information provided by the parties during this process would warrant disqualifying either CenterPoint Energy or CTT/Garland from providing some portion of the transmission lines.

The Gibbons Creek substation, which is owned by TMPA, is a clear point of demarcation. The estimated length of the transmission line terminating into the Limestone and Gibbons Creek substations is roughly the same as the length of the transmission line terminating into the Gibbons Creek and Zenith substations. In addition, the Gibbons Creek substation provides a clear demarcation of responsibility for the construction and operation of these new 345 kV transmission lines. For these reasons, ERCOT has determined that responsibility for the new 345 kV transmission lines should be split at the Gibbons Creek substation.

Specifically, ERCOT has determined that CenterPoint Energy should be responsible for the new 345 kV transmission line terminating into the Gibbons Creek and Zenith substations and that CTT/Garland should be responsible for the new 345 kV transmission line terminating into the Limestone and Gibbons Creek substations. ERCOT notes that this

assignment of responsibility tracks the relative proximity of each transmission line to the distribution service territories of the parties. The new 345 kV transmission line terminating into the Gibbons Creek and Zenith substations is geographically proximate to CenterPoint Energy's distribution service territory. Likewise, the new 345 kV transmission line terminating into the Limestone and Gibbons Creek substations is geographically proximate to the distribution service territories of three of the four TMPA members (Denton Municipal Electric, Garland, and GEUS).³ Relative geographic proximity does not determine the selection of a TSP when ERCOT is required to make the selection pursuant to Protocol Section 3.11.4.8, but on the facts of this situation, it provides a reasonable basis for moving forward.

In addition, as stated in the ERCOT Independent Review, ERCOT has designated CenterPoint Energy as the provider of the T.H. Wharton-Addicks 345 kV transmission line upgrade and the upgrades to the Limestone and Zenith substations. And ERCOT has designated CTT/Garland as the designated providers of the Gibbons Creek substation upgrade.

ERCOT looks forward to the successful completion of the work and is ready to assist you with any planning and operations related activities. Should you have any questions, please contact me at any time.

Sincerely,

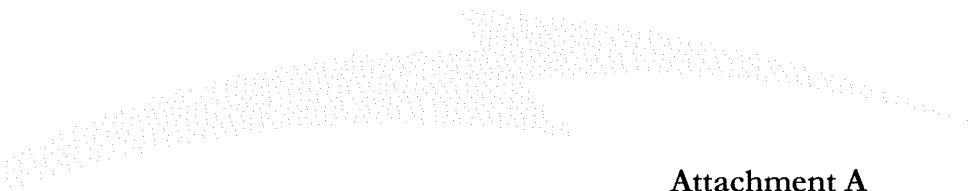


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³ The fourth TMPA member, Bryan Texas Utilities, is geographically proximate to the Gibbons Creek substation.



Attachment A