



Control Number: 32093



Item Number: 278

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**SOAH DOCKET NO. 473-06-2043
PUC DOCKET NO. 32093**

PETITION BY COMMISSION STAFF FOR A REVIEW OF THE RATES OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC PURSUANT TO PURA § 36.151	§ § § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
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May 31, 2006

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Request No: TSA07-01

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 32093
SOAH DOCKET NO. 473-06-2043**

STATE OF TEXAS

QUESTION:

In reference to the Company's response to GCCC's 1st RFI, Question No. 48(c), please identify the provision(s) in PURA that charges the Commission with the responsibility of setting rates in such a manner that regulated utilities can achieve a high earnings-per-share ratio.

ANSWER:

Nothing in CenterPoint TDU's response to GCCC1-48(c) says that the Commission has a responsibility to set rates "in such a manner that regulated utilities can achieve a high earnings-per-share ratio." Rather, the response says that the Commission has a responsibility to ensure that rates are just and reasonable to both customers and utilities. The statutory provision that imposes that obligation is PURA § 11.002(a).

Sponsor: Julie M. Cannell

Responsive Documents:
None

Request No: TSA07-02

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 32093
SOAH DOCKET NO. 473-06-2043**

STATE OF TEXAS

QUESTION:

In reference to the Company's response to GCCC's 1st RFI, Question No. 48(c), please provide a full and complete explanation as to why "a large number of low-priced shares would have a deleterious effect on investors' interest" and why "the Commission should adopt a return on equity that will prevent that result." In your response, please identify specific corporate examples to illustrate where a large number of low-priced shares have had a deleterious effect on investors.

ANSWER:

The question does not accurately represent Ms. Cannell's response to GCCC01-48(c). What Ms. Cannell said was that the dilution of earnings that would likely result from issuing a large number of low-priced shares would have a deleterious effect on investors' interests. Issuing a large number of shares creates dilution of earnings per share because the same earnings are spread over a larger number of shares, which generally leads to a lower return on equity for existing shareholders. The Commission should adopt a return on equity that prevents that result because it is important that a utility be able to attract capital on reasonable terms.

Sponsor: Julie M. Cannell

Responsive Documents:
None

Request No: TSA07-03

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 32093
SOAH DOCKET NO. 473-06-2043**

STATE OF TEXAS

QUESTION:

In reference to the Company's response to GCCC's 1st RFI, Question No. 48(c), and to the statement that: "Customers also benefit from higher stock price to the extent that strong and stable stock price attracts capital." In regards to that statement, please provide a full and complete explanation of exactly how "a strong and stable stock price attracts capital." In your response, please provide specific corporate examples to illustrate instances where a strong and stable stock price has attracted capital.

ANSWER:

A strong and stable stock price attracts capital because rational investors do not want to invest in a company whose financial future appears weak or unstable.

Sponsor: Julie M. Cannell

Responsive Documents:
None

Request No: TSA07-04

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 32093
SOAH DOCKET NO. 473-06-2043**

STATE OF TEXAS

QUESTION:

In reference to the Company's response to GCCC's 1st RFI, Question No. 48(c), and to the statement that: "Customers also benefit from higher stock price to the extent that a strong and stable stock price attracts capital." Please provide a full and complete explanation as to how the number of shares issued by any corporation has ever influenced the stability of a stock price. In your response, please provide specific corporate examples to illustrate instances where stock price stability was influenced by the number of shares outstanding.

ANSWER:

This question does not accurately represent Ms. Cannell's response to GCCC01-48(c). Her discussion about the issuance of new shares referred to the deleterious effect on investors' interests. The statement quoted in the question was part of a different paragraph discussing how attracting capital inures to the benefit of customers by allowing the utility to provide reliable transmission and distribution service over the long-term and to provide new products and services, such as broadband over power lines.

Sponsor: Julie M. Cannell

Responsive Documents:
None

Request No: TSA07-05

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 32093
SOAH DOCKET NO. 473-06-2043**

STATE OF TEXAS

QUESTION:

In reference to the Company's response to GCCC's 1st RFI, Question No. 48(c), please identify the provisions(s) in PURA that charges the Commission with the responsibility of setting rates in a manner that benefits retirement accounts and/or life insurance policies.

ANSWER:

CenterPoint TDU's response to GCCC1-48(c) does not state that the Commission has a responsibility to set rates in a manner that benefits retirement accounts and/or life insurance policies. The answer says that customers may benefit from a strong and stable stock price to the extent their retirement accounts, life insurance policies and other assets are directly or indirectly affected by the price of CenterPoint Energy, Inc. stock.

Sponsor: Julie M. Cannell

Responsive Documents:

None

Request No: TSA07-06

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 32093
SOAH DOCKET NO. 473-06-2043**

STATE OF TEXAS

QUESTION:

Please refer to the Company's response to GCCC's 1st RFI, Question No. 48(d), and to the statement that: "A higher allowed return on equity would promote stability for the utility and its customers." In regards to that statement:

- a. Please define the term "stability," as used therein, and provide a reference for the definition chosen.
- b. Please provide a full and complete explanation of the basis for that statement.
- c. Please provide specific corporate examples to illustrate instances where a higher allowed return on equity has ever promoted stability for any utility.
- d. Please provide specific corporate examples to illustrate instances where a higher allowed return on equity has ever promoted stability for any utility's customers.

ANSWER:

- a. Stability is a noun meaning "resistance to change, especially sudden change or deterioration." The Random House Dictionary of the English Language 1852 (2nd ed., unabridged 1987).
- b. If the return on equity is set at a level below what investors can earn on other investments with similar risks, they will sell the utility's stock or decline to buy it. That can, and likely would, lead to a "sudden change or deterioration" in the utility's stock price. If the stock declined appreciably, it could also lead to other changes, such as new management or even de-listing by the major stock exchanges.

A higher allowed return on equity promotes stability for customers because customers need utilities to provide utility service, and utilities need equity investors. If utilities did not need equity, they presumably would be capitalized entirely with debt. Ms. Cannell is not aware of any regulated utility with a capital structure consisting of 100% debt and no equity, meaning that the financial community and utility regulators see value in having equity investors in utility stocks. To attract equity investors, the utility must offer those investors the opportunity to earn returns commensurate with returns they could earn on investments with similar risks.

- c. The 11.25% return on equity adopted in the UCOS case helped produce stability for CenterPoint Energy Houston Electric, LLC, which continues to provide reliable transmission and distribution service to customers in its service area.
- d. The 11.25% return on equity adopted in the UCOS case helped produce stability for CenterPoint Energy Houston Electric, LLC's customers, who have enjoyed reliable service and reasonable transmission and distribution rates for the past four and half years.

Sponsor: Julie M. Cannell

Responsive Documents:

None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 32093
SOAH DOCKET NO. 473-06-2043**

STATE OF TEXAS

QUESTION:

Please reference the Direct Testimony of Julie M. Cannell, Page 30 of 30, Bates 1120, Line 1 and the statement:

"A higher ROE permits the realization of a stronger earnings stream. In turn, that can improve a company's stock's valuation prospects, which results in a higher stock price. Thus, when a company needs to tap the equity markets for capital needed to meet customer needs, it can get more for its money."

- a. Please provide a full and complete explanation of how a company "can get more for its money" as a result of its stock trading a higher price per share.
- b. Please provide specific corporate examples to illustrate instances where any company ever tapped the equity markets for capital and "got more for its money" depending upon stock price.

ANSWER:

- a. Assume a corporation's shares are trading at \$10 per share. If it issues new shares at that price, it needs to issue 100,000 shares to raise \$1,000,000 in equity capital. If the shares are trading at \$5 per share, the corporation needs to issue 200,000 shares to raise \$1,000,000 in equity capital. Thus, it can raise the same amount of money by issuing fewer shares when its shares are trading at a higher price.
- b. On May 18, 2006, Great Plains Energy announced that it would issue 6.318 million shares of new equity with a price of \$27.50 per share, for a total equity issuance of approximately \$173 million. Had the share price been half as much (\$13.75), Great Plains Energy would have had to issue twice as many shares (12.636 million) to raise the same amount of equity capital.

Sponsor: Julie M. Cannell

Responsive Documents:

None

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was served on all parties of record in this proceeding by hand delivery, overnight delivery, or United States first class mail on this 31st day of May 2006.

Linda H Johnston