



Control Number: 38339



Item Number: 256

Addendum StartPage: 0

SOAH DOCKET NO. 473-10-5001  
PUC DOCKET NO. 38339

APPLICATION OF CENTERPOINT  
ENERGY HOUSTON ELECTRIC, LLC  
FOR AUTHORITY TO CHANGE  
RATES

§ PUBLIC UTILITY COMMISSION  
§ OF TEXAS  
§  
§

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August 24, 2010

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**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-01**

**QUESTION:**

LK6-1 Refer to Schedule II-E-3.9 pages 1 of 2 and the adjustments to remove account 190 ADFIT for OPEB and FAS 158 (lines 6 and 11, respectively).

- a. Please provide the "related balance sheet" (temporary difference) amounts by FERC account/subaccount. Please provide the name and a detailed description of each subaccount, if any.
- b. Please reconcile the "related balance sheet" amounts identified in response to part (a) of this question to the ADFIT amounts.
- c. For each "related balance sheet" amount identified in response to part (a) of this question, please provide a detailed explanation and all support for the Company's position that it should not be included in rate base. If the Company relied on any authorities, such as statutes, PUC Substantive Rules, and/or precedent, please provide specific references to these authorities.

**ANSWER:**

- a. See attachment.
- b. See attachment.
- c. The deferred taxes associated with the related cumulative temporary differences for pension and OPEB have not been included in the total adjusted balance of ADFIT on Schedule II-E-3.9 as the Company believes these deferred taxes should be treated in the same manner as the related balance sheet amount. The Company's ratemaking treatment of pension and OPEB costs is consistent with PURA.

Sponsor: Alan Felsenthal/ Walter Fitzgerald

Responsive Documents:  
GCCC 6-1 6-2 6-4 6-5

PUBLIC UTILITY COMMISSION OF TEXAS  
 CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
 DOLLARS IN THOUSANDS  
 FOR THE TEST YEAR ENDED DECEMBER 31, 2009  
 DOCKET 38339

Response to GCCC 6-1, 6-2, 6-4, and 6-5

FERC Account Number	(a) Cumulative Temporary Difference	(b) Tax Rate	(a) x (b) ADFIT Balances @ 12/31/09	
2283	218,930	0.35	76,625	GCCC 6-1
1823	9,423	0.35	3,298	GCCC 6-1
1823	(103,119)	0.35	(36,092)	GCCC 6-2
1823	8,229	0.35	2,880	GCCC 6-2
2283	7,026	0.35	2,459	GCCC 6-4
2530	4,138	0.35	1,448	GCCC 6-5
1823	478	0.35	167	GCCC 6-5
2420	900	0.35	315	GCCC 6-5
	Total		<u>1,931</u>	GCCC 6-5

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-02**

**QUESTION:**

LK6-2 Refer to Schedule II-E-3.9 pages 1 of 2 and the adjustments to remove account 283 ADFIT for Regulatory Liability - FAS 158 and FAS 158 (lines 48 and 61, respectively).

- a. Please provide the "related balance sheet" (temporary difference) amounts by FERC account/subaccount. Please provide the name and a detailed description of each subaccount, if any.
- b. Please reconcile the "related balance sheet" amounts identified in response to part (a) of this question to the ADFIT amounts.
- c. For each "related balance sheet" amount identified in response to part (a) of this question, please provide a detailed explanation and all support for the Company's position that it should not be included in rate base. If the Company relied on any authorities, such as statutes, PUC Substantive Rules, and/or precedent, please provide specific references to these authorities.
- d. Please provide a detailed explanation of the "related balance sheet" amount for the Regulatory Liability - FAS 158.

**ANSWER:**

- a. See attachment to GCCC 6-1.
- b. See attachment to GCCC 6-1.
- c. See response to GCCC 6-1(c).
- d. The description contained in the sub ledger should read "Regulatory Asset - FAS 158". See response to GCCC 1-05 related to Project No. 37993 which has been attached.

Sponsor: Alan Felsenthal/ Walter Fitzgerald

Responsive Documents:  
GCCC 6-2(d) Reg Asset Pension Description

**CENTERPOINT ENERGY HOUSTON ELECTRIC  
PROJECT NO. 37993  
GULF COAST COALITION OF CITIES  
DATA REQUEST**

**GCCC01-05**

**QUESTION:**

LK1-5 Refer to WP/Schedule IV-1. Please provide a description of the line item entitled "Regulatory Asset - (Pension) and the reason for this temporary difference.

**ANSWER:**

FAS 158 requires the Company to recognize the difference between plan assets at fair value and the benefit obligation as other comprehensive income. However, in accordance with FAS 71, the Company has recorded this amount as a regulatory asset based on the fact that the Company historically and currently recovers postretirement expense in rates. This deferral of postretirement expense as a regulatory asset has no tax basis and results in a temporary difference.

**RESPONSIVE DOCUMENTS:**

None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-03**

**QUESTION:**

LK6-3 Refer to Schedule II-E-3.9 pages 1 of 2 and the adjustment to reduce the amount in account 282 Fin 48 Liability Reclassification (line 20) for 2004 and 2005 audit settlement.

- a. Please describe the status of this audit settlement, including the date at which the settlement was finalized.
- b. Please explain why the effects of this audit settlement were not reflected in the per books ADFIT amount at December 31, 2009.
- c. Please provide the date at which the effects of the audit settlement were reflected on the company's accounting books.

**ANSWER:**

- a. The audit settlement occurred during July 2009.
- b. The effects of the audit settlement were reflected in the aggregate total of ADFIT at December 31, 2009. However, the necessary reclassification between certain line items contained within the sub ledger did not occur.
- c. The audit settlement was reflected in the Company's books during the three month period ended September 31, 2009, with the exception of the reclassification noted in the response to GCCC 6-3(b) above.

Sponsor: Alan Felsenthal/ Walter Fitzgerald

Responsive Documents:  
None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-04**

**QUESTION:**

LK6-4 Refer to Schedule II-E-3.9 pages 1 of 2 and the adjustments to remove account 190 ADFIT for Medicare Prescription Drug Subsidy (line 7).

- a. Please provide the "related balance sheet" (temporary difference) amounts by FERC account/subaccount. Please provide the name and a detailed description of each subaccount, if any.
- b. Please reconcile the "related balance sheet" amounts identified in response to part (a) of this question to the ADFIT amounts.
- c. For each "related balance sheet" amount identified in response to part (a) of this question, please provide a detailed explanation and all support for the Company's position that it should not be included in rate base. If the Company relied on any authorities, such as statutes, PUC Substantive Rules, and/or precedent, please provide specific references to these authorities.
- d. Please provide a detailed explanation of the "related balance sheet" amount for the Medicare Prescription Drug Subsidy.

**ANSWER:**

- a. See attachment to GCCC 6-1.
- b. See attachment to GCCC 6-1.
- c. See response to GCCC 6-1(c).
- d. This amount represents an adjustment to the OPEB cumulative temporary difference amount contained on line 6 of Schedule II-E-3.9 in order to properly reflect the future tax deductible OPEB expense exclusive of the Medicare prescription drug subsidy.

Sponsor: Alan Felsenthal/ Walter Fitzgerald

Responsive Documents:  
None



**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-05**

**QUESTION:**

LK6-5 Refer to Schedule II-E-3.9 pages 1 of 2 and the adjustments to remove account 283 ADFIT for Environmental Liability (line 38).

- a. Please provide the "related balance sheet" (temporary difference) amounts by FERC account/subaccount. Please provide the name and a detailed description of each subaccount, if any.
- b. Please reconcile the "related balance sheet" amounts identified in response to part (a) of this question to the ADFIT amounts.
- c. For each "related balance sheet" amount identified in response to part (a) of this question, please provide a detailed explanation and all support for the company's position that it should not be included in rate base. If the Company relied on any authorities, such as statutes, PUC Substantive Rules, and/or precedent, please provide specific references to these authorities.
- d. Please provide a detailed explanation of the "related balance sheet" amount for the Environmental Liability.

**ANSWER:**

- a. See attachment to GCCC 6-1.
- b. See attachment to GCCC 6-1.
- c. The environmental reserve cumulative temporary difference totaling \$900k as outlined in the attachment to GCCC 6-1 was not included in the rate base because the book reserve amount was zero at December 31, 2009. The Company does not consider the other net environmental-related balance sheet accounts to be an offset to rate base because the related expenses have not been included in the Company's requested revenue requirement in this docket or Docket No. 32093.
- d. This amount represents the net cumulative temporary difference for environmental-related balance sheet accounts (deferred equity interest related to generation-related environmental reserves previously securitized and environmental remediation reserves) for which expense recognition is different between book and tax.

Sponsor: Alan Felsenthal/ Walter Fitzgerald

Responsive Documents:  
None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-06**

**QUESTION:**

LK6-6 Refer to Schedule II-E-3.9 pages 1 of 2 and the adjustments to remove account 283 ADFIT for Regulatory Asset - Retired Meters (line 46).

- a. Please provide the "related balance sheet" (temporary difference) amounts by FERC account/subaccount. Please provide the name and a detailed description of each subaccount, if any.
- b. Please reconcile the "related balance sheet" amounts identified in response to part (a) of this question to the ADFIT amounts.
- c. Please provide the date at which the \$2.867 million adjustment was computed. If the Company used a December 31, 2009 date, then please explain why it did not use a March 31, 2010 date consistent with its computations to roll-in certain AMS costs to base rates.
- d. Please provide the "related balance sheet" amount and ADFIT amount at March 31, 2010.

**ANSWER:**

- a. Please see the attachment to the response to GCCC 4-23 and the net amount of plant in service for asset class 37002.
- b. Please see the attachment to the response to GCCC 4-23. The ADFIT amount in that response is 35% of the net amount of plant in service for asset class 37002.
- c. Please see the attachment to the response to GCCC 4-23. The Company included the December 31, 2009 balance consistent with all other non-AMS assets.
- d. The March 31, 2010 balance of retired meters (asset class 37002) is :

Gross Plant	\$30,355,692
Accumulated Depreciation	\$15,041,459

The related ADFIT amount, calculated as 35% of the net plant balance, is (\$5,359,982).

Sponsor: Alan Felsenthal/ Walter Fitzgerald

Responsive Documents:  
None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-07**

**QUESTION:**

LK6-7 Please confirm that Medicare prescription drug coverage under Part D began on January 1, 2006.

**ANSWER:**

Medicare Part D was enacted in 2003 as part of the 2003 Medicare Prescription Drug, Improvement, and Modernization Act. However, the Medicare Part D Subsidy did not take effect until January 1, 2006. Since 2004, the Company's postretirement benefit expense, as calculated by the actuary, has been reduced for estimated Medicare Part D Subsidy amounts anticipated in 2006 and beyond.

Sponsor: Charles Dean Woods / Walter L. Fitzgerald

Responsive Documents:  
None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-08**

**QUESTION:**

LK6-8 Please identify and quantify all Medicare prescription drug subsidy effects reflected in the Company's OPEB expense, federal income tax expense, ADFIT subtracted from rate base and all other effects, such as regulatory liabilities, that the Company reflected in its cost of service filing in Docket No. 32093, if any.

**ANSWER:**

In Docket No. 32093, OPEB expense was reduced by \$2.7 million, the actuarially determined estimated Medicare prescription drug subsidy amount. Federal income tax expense was reduced by \$0.9 million, 35% of this amount. In 2005 the Medicare prescription drug subsidy was non-taxable and accordingly, there was no ADFIT recorded.

Sponsor: Charles Dean Woods/Alan Felsenthal/Walter L. Fitzgerald

Responsive Documents:  
None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-09**

**QUESTION:**

LK6-9 Refer to page 46 lines 6 through 17 of Mr. Felsenthal's Direct Testimony, which shows a permanent difference of \$2.7 million in 2005 for the Medicare prescription drug subsidy.

- a. Please indicate whether this \$2.7 million subsidy was used by the Company to reduce OPED expense in Docket No. 32093. If so, please provide a reference to the appropriate schedule(s), workpapers and testimony so that this can be verified.
- b. Please indicate if and, if so, where this subsidy was reflected in the Company's computation of federal income tax expense reflected in its cost of service filing in Docket No. 32093.
- c. Please describe how the Company accounted for the Medicare prescription drug subsidy on its books, e.g., was this recorded as a reduction to OPEB expense?

**ANSWER:**

- a. As indicated in the response to GCCC06-08, the Medicare prescription drug subsidy reduced OPEB expense by \$2.7 million in Docket No. 32093. The workpaper from this docket which shows OPEB expense with and without the Medicare prescription drug act subsidy is WP/II-E-3.17/8 which shows OPEB expense without subsidy of \$15,948,000 and OPEB expense with subsidy of \$13,246,000.
- b. The \$2.7 million was reflected as a permanent item, reducing income tax expense, in the computation of federal income tax expense in Docket No. 32093. See Schedule II-E-3, line 5 in Docket No. 32093 showing the Medicare prescription drug subsidy as a reduction to income tax expense.
- c. As indicated in response to GCCC06-08, the Medicare prescription drug subsidy reduced the OPEB expense and, due to the permanent nature of the subsidy at the time, the benefit of the subsidy reduced income tax expense.

Sponsor: Alan Felsenthal/ Walter Fitzgerald

Responsive Documents:  
None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-10**

**QUESTION:**

LK6-10 Refer to page 47 line 12 through page 48 line 1 of Mr. Felsenthal's Direct Testimony.

- a. Please provide a copy of all computations and workpapers used to compute the ADFIT as of December 31, 2009. Provide all assumptions, data, computations and electronic spreadsheets with formulas intact.
- b. Please provide a copy of all computations and workpapers used to compute the adjustment to ADFIT in the first quarter 2010. Provide all assumptions, data, computations and electronic spreadsheets with formulas intact.

**ANSWER:**

- a. Because the Medicare prescription drug subsidy was non-taxable as of December 31, 2009, there were no ADFIT recorded on the subsidy that reduced OPEB expense.
- b. See attached work papers supporting the ADFIT adjustment recorded in the first quarter 2010 to recognize that the Medicare Part D subsidy effectively becomes taxable after 2012.

Electronic files are being provided to the propounding party and are also being made available in the Houston and Austin voluminous rooms. Please contact Linda Johnston in Houston at (713) 207-5218 or Dolores Prince in Austin at (512) 397-3060 to obtain a copy of these electronic files.

Sponsor: Alan Felsenthal

Responsive Documents:  
GCCC 6-10(b) - Def Tax Asset on RDS as of 3-31-2010\_Final

Deferred Tax Asset Effect from RDS  
CenterPoint Energy Inc. & Subsidiaries  
Deferred Tax Asset related to RDS as of 3/31/2010  
C:\TEMP\pcindex\dta.00063807\GCC08-10 (B) - Def Tax Asset on RDS as of 3-31-2010\_Final.xlsx\2)Analysis-Mar 2010

0002-Allec 0002-UnAllec	RDS APRO as of 3/31/2010	Less: RDS to Reg. Asset	Adjusted Diff to AOCC	Adjusted Diff Positve/Lab	Total Adj Differences	Cumulative Temp. Diff.	DSIT Rate	Composite Rate	Cumulative Def. Tax Asset	Income Statement	Regulatory Asset	Tax GrossUp	Total Ref. Asset	P&L		Reg. Asset		Tax Effect on OCI
														DFT Effect	DSIT Effect	DFT Effect	DSIT Effect	
	(56,346)	(37,458)		(20,887)	(20,887)	20,887	0.0000%	35.0000%	7,310	-	7,310	3,836	11,247				11,247	
	(56,346)	(37,458)		(20,887)	(20,887)	20,887			7,310		7,310	3,836	11,247				11,247	

9972 Analysis

Tax	Tax on Tax	GrossUp	Total
(a)	(b)	(c)	(c)-(a)+(b)
DSIT	-	-	-
DFT on DSIT	-	-	-
DFT at 35%	-	-	-
Total DFT	-	-	-
Total Tax	-	-	-

Proposed Journal Entries

Unit	Acct.	Acct.	Acct.	Acct.	Acct.
0002	285030	727510	265060	727520	179105
0003					
0016	(11,246,846)				11,246,846
0024					
0027					
0036					
0062					
0072					
0077					
0082					
Total	(11,246,846)				11,246,846

(d) 62% regulated  
(e) 46% regulated

Funding Status Analysis  
 CenterPoint Energy Inc. & Subsidiaries  
 as of 3/31/2010

C:\TEMP\c:\notes\data\00063807\GCCC06-10 (b) - Def Tax Asset on RDS as of 3-31-2010\_Final.xlsx\Unrecognized GL-Mar 2010

	Unrecognized GL w/o RDS		Unrecognized GL w. RDS		Total	Reg. Asset	Difference OCI	Total	Total RDS Difference	Net /s Effect	Composite Tax Rate	Tax Effect on OCI	Tax Effect on Reg. Asset	Tax Effect on /s
	Reg. Asset	OCI	Reg. Asset	OCI										
0002-Alloc														
0003														
0016	88,215,000	-	48,757,000	-	48,757,000	37,458,000	-	37,458,000	58,346,000	20,887,000	-	-	-	-
0024														
0027														
0036														
0062														
0072														
0077														
0082														
Total	88,215,000	-	48,757,000	-	48,757,000	37,458,000	-	37,458,000	58,346,000	20,887,000	-	-	-	-





CenterPoint Energy, Inc.  
 Postretirement Balances as of 3/31/2010-Book Basis  
 C:\ITEM\pc\notes\data\00063907\GCCC06-10 (b) - Def Tax Asset on RDS as of 3-31-2010\_Final.xlsx\Unrecog GL w RDS-Mar 2010

CEHE	Unrecognized GL Book Basis		X0	Regulatory Asset		OCI Charge and Deferred Taxes	
	Prior Service Cost (4,750)	Net Loss Transition Obligation (26,027)		Unrecog. GL (48,757)	Pre-Purchase Unrecog. Cost Adj. (48,757)	Remaining Unrecog. G/L Cost Adj. (48,757)	Pre-Adjusted Purchase Remaining Unrecog. G/L (4)
			(6)	(3)	(4)		(4)
			(5)	(6a)			
			(2)				
<b>Total</b>	<b>(4,750)</b>	<b>27,480</b>	<b>26,027</b>	<b>48,757</b>	<b>48,757</b>	<b>48,757</b>	<b>4</b>

(6) 3 4



CenterPoint Energy, Inc.

Impact of the "Patient Protection and Affordable Care Act"—Estimated Accounting Charge  
 Estimated One-Time Expense Due to Change in Medicare Part D RDS Taxation, 3/31/2010  
 FAS 106 AOCI as of March 31, 2010 (000s)

Discount Rate: 5.70%

Division	Cost Center	Amounts Recognized in AOCI, 3/31/2010			Total	
		Prior Service Cost	Net Loss (Gain)	Trans. Oblig. (Asset)		
003A	CE Houston Electric	101452	\$ (4,750)	\$ 27,480	\$ 26,027	\$ 48,757
002R	CERC Corporate	104397	\$ 90	\$ 5,135	\$ 0	\$ 5,225
024A	CE MRT	105163	290	3,592	0	3,882
27	CEGT	106755	956	8,291	0	9,247
036A	CEPS	109004	0	698	0	698
062A	CE Arkla	115270	1,785	(3,276)	0	(1,491)
072A	CE Minnesota Gas	124341	3,709	(8,351)	0	(4,642)
077A	CES	125902	0	(92)	0	(92)
082A	CE Enlex	127026	3,059	12,062	0	15,121
	CERC Subtotal		\$ 9,899	\$ 18,059	\$ 0	\$ 27,958
002A	CE Corporate - Allocated	125308	\$ 1,528	\$ 3,308	\$ 4,100	\$ 9,036
002B	CE Corporate - Unallocated	125310	131	(7,866)	0	(7,735)
	Total CenterPoint Energy		\$ 6,908	\$ 40,981	\$ 30,127	\$ 78,016

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CenterPoint Energy, Inc.

Impact of the "Patient Protection and Affordable Care Act"—Estimated Accounting Charge  
 Estimated One-Time Expense Due to Change in Medicare Part D RDS Taxation, 3/31/2010  
 FAS 109 AOCI as of March 31, 2010 (000s)

		Discount Rate: 5.70%			
		Amounts Recognized in AOCI, 3/31/2010			
Division	Cost Center	Prior Services Cost	Net Loss (Gain)	Trans. Oblig. (Asset)	Total
003A	CE Houston Electric 101452	\$ (4,750)	\$ 64,938	\$ 28,027	\$ 88,215
002R	CERC Corporate 104397	\$ 90	\$ 4,979	\$ 0	\$ 5,069
024A	CE MRT 105163	280	3,032	0	3,322
27	CEGT 106755	956	12,126	0	13,082
036A	CEFS 109004	0	1,299	0	1,299
062A	CE Arkla 115270	1,795	7,293	0	9,088
072A	CE Minnesota Gas 124341	3,709	1,820	0	5,529
077A	GES 125902	0	252	0	252
082A	CE Entex 127026	3,059	23,829	0	26,888
	CERC Subtotal	\$ 9,899	\$ 64,630	\$ 0	\$ 64,529
002A	CE Corporate - Allocated 126308	\$ 1,628	\$ 7,993	\$ 4,100	\$ 13,721
002B	CE Corporate - Unallocated 126310	131	(5,675)	0	(5,544)
	Total CenterPoint Energy	\$ 8,908	\$ 121,888	\$ 30,127	\$ 159,921

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**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-11**

**QUESTION:**

LK6-11 Refer to page 48 lines 1-2 of Mr. Felsenthal's Direct Testimony. Please provide all documentation of the Company's analysis in support of its decision to recognize a regulatory asset "because it believes that these amounts are probable of future recovery in rates."

**ANSWER:**

The Company has recorded a regulatory asset for the Medicare Part D subsidy that is no longer tax free. In order to record a regulatory asset under GAAP (Paragraph 9 of SFAS No. 71) it must be "probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes." The rationale for setting up a regulatory asset is that the tax benefit of the Medicare Part D subsidy was included in the rate calculation for the years prior to 2010, reducing income tax expense. As customers benefitted during those prior years from an anticipated income tax treatment that did not occur, future revenue requirements should be increased to recoup this amount. Further, recording a regulatory asset for the Medicare Part D subsidy deferred taxes is consistent with the analysis performed when the Company adopted SFAS 158 for pension and OPEB costs.

Sponsor: Alan Felsenthal

Responsive Documents:  
None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
PUC DOCKET NO. 38339  
SOAH DOCKET NO. 473-10-5001**

**GULF COAST COALITION OF CITIES  
REQUEST NO.: GCCC06-12**

**QUESTION:**

LK6-12 Refer to page 48 lines 16-20 of Mr. Felsenthal's Direct Testimony. Please provide the Medicare Part D subsidy amounts that were used to reduce income tax expense for each "previous year" through 2009. Provide the effects in each year on current income tax expense and deferred income tax expense.

**ANSWER:**

Medicare Part D subsidy amounts reduce the OPEB expense and OPEB liability. However, in the computations through 2009, the subsidy had no income tax impacts and the full amount of the OPEB expense and liability were considered deductible for income tax purposes (which resulted in an ADFIT asset). As payments were made to retirees, the OPEB liability was reduced, a current income tax deduction (and lower current income tax expense) was taken and the previously recorded ADFIT asset was reversed (increasing ADFIT expense).

Said another way, the income tax effects of the net OPEB expense (reduced by the Medicare Part D subsidy) must first be adjusted to remove the Medicare Part D subsidy amount before computing income tax expense. This adjustment is an element in the computation of the effective income tax rate for each year, reducing income tax expense. The amounts (adjustments) to reduce the effective income tax rate for each "previous year" are reflected on page 46 lines 11 through 16 of Mr. Felsenthal's testimony (income tax expense is 35% of such amounts).

Please see WP/II-E-3.2/1 for the Medicare Part D Permanent Item by year and Medicare Part D cash receipts by year.

Sponsor: Alan Felsenthal

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 facsimile, hand delivery, e-mail, or United States first class mail on this 24<sup>th</sup> day of August, 2010.

Linda A Johnston