



Control Number: 38339



Item Number: 733

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** §
§
§
§

**BEFORE THE
STATE OFFICE OF
ADMINISTRATIVE HEARINGS**

**RECEIVED
OCT -7 PM 4:45
PUBLIC UTILITY COMMISSION
FILING CLERK**

**ERRATA
TO
DIRECT TESTIMONY
OF
DANIEL O. HAGEN
ON BEHALF OF
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC**

**COST OF SERVICE RATE ADJUSTMENT FILING
PURSUANT TO PURA SEC. 36.102**

Filed: October 7, 2010

1 services provided to CenterPoint Houston, identify the methods for assigning those
2 costs and the costs drivers for those services, and help ensure that costs provided by
3 ROM to CenterPoint Houston are reasonable, necessary and prudent.

4 **Q. IS A COST ASSIGNMENT METHOD IDENTIFIED FOR EACH**
5 **FUNCTIONAL AREA WITHIN REGULATED OPERATIONS?**

6 A. Yes. Each function is reviewed following guidelines outlined in the Manual to
7 determine the method to be used to assign costs. The Manual describes the major
8 activities of each cost center, the assignment method for each and the rationale for use
9 of the method chosen. The Manual is updated annually to take into account any
10 changes that may have occurred during the year.

11 **Q. HOW WERE THE COST ASSIGNMENT METHODS FOR ROM**
12 **DETERMINED?**

13 A. Regulated Operations was formed in 2006 after the Service Company cost assignment
14 study discussed by Ms. Dominguez was performed. Regulated Operations applied
15 the same basic methodology used by the Service Company to the ROM cost centers.

16 **Q. WHAT WAS THE TOTAL COST BILLED BY ROM TO ITS AFFILIATES**
17 **DURING THE TEST YEAR, AND OF THAT AMOUNT, HOW MUCH WAS**
18 **BILLED TO CENTERPOINT HOUSTON?**

19 A. The total cost billed by ROM to its affiliates during the 2009 test year was \$64.6
20 million of which ~~\$19.3~~ million was billed to CenterPoint Houston as shown in Figure

21 4. *Fig. 6*

Figure 4
Cost Billed by ROM to Affiliates

2009 Test Year		
<u>ROM</u>	Dollars in Millions	
	<u>Total Billed to Affiliates</u>	<u>Billed to CenterPoint Houston</u>
(1) Executive Management	\$1.6	\$0.9
(2) Gas Operations President	\$1.0	\$0.0
(3) Technology Management	\$0.8	\$0.8
(4) Marketing & Sales Management	\$0.9	\$0.5
(5) Finance Management	\$0.8	\$0.5
(6) Support Operations	\$47.4	\$13.0 13.3
(7) Rent/Other	\$12.2	\$3.6
Total	\$64.6	\$19.3 19.6

4
5 **Q. WHAT DO THE RENT AND OTHER CHARGES IN FIGURE 4**
6 **REPRESENT?**

7 **A. These costs include cross billings from other Service Company functional areas:**

- 8 **(1) Business Support Services:** various services such as corporate travel, office
9 supplies, records management, freight, mail services, and convenience copiers;
10 **(2) Properties:** rent for space occupied by ROM; and
11 **(3) Information Technology:** various services such as desktop computing, phones,
12 mainframe usage, and application support.
13

1 Q. WHAT IS THE BREAKDOWN OF COSTS BILLED BY SUPPORT
2 OPERATIONS?

3 A. Of the total cost billed by Support Operations to its affiliates of \$47.4 million, \$13.0
4 million was billed to CenterPoint Houston in 2009 as shown in Figure 5: 13.3

5 **Figure 5**
6 **Support Operations Costs Billed to Affiliates**
7

2009 Test Year		
Support Operations	Dollars in Millions	
	Total Billed to Affiliates	Billed to CenterPoint Houston
(1) Support Ops Mgmt	\$1.4	\$0.8
(2) Fleet & Shop Services	\$1.9	\$1.0
(3) Rates & Regulatory	\$9.2	\$4.4 4.7
(4) Land and Field Services	\$0.3	\$0.1
(5) Customer Service	\$34.6	\$6.7
Total Support Operations	\$47.4	\$13.0 13.3

8
9 Q. HAVE THERE BEEN ANY ORGANIZATION CHANGES TO ROM SINCE
10 DECEMBER 31, 2009?

11 A. Yes. Figure 6 shows the new organization structure implemented April 1, 2010.
12

1 The Service Company structure gives CenterPoint Houston the best of both worlds—
 2 internal specialists who understand and have a vested interest in its success and,
 3 where required, the services of third-party vendors who can provide specialized
 4 services at favorable rates. As a result, the services that Service Company provides to
 5 CenterPoint Houston are reasonable and necessary, especially given the efforts that
 6 Service Company and CenterPoint Houston undertake to control these expenses
 7 through budgeting, good cost assignment methodologies, SLAs, and by providing
 8 those services at cost.

9
 10 **V. NON-CORPORATE AFFILIATE COSTS CHARGED**
 11 **TO CENTERPOINT HOUSTON**

12 **Q: WHAT ARE THE TOTAL AFFILIATE EXPENSES CHARGED TO**
 13 **CENTERPOINT HOUSTON FOR THE 2009 TEST YEAR?**

14 A. For the 2009 test year, the total amount of affiliate costs, as adjusted, was ^{194.7}~~\$193.2~~
 15 million. This information is provided by affiliate and by FERC account in Schedule
 16 V-K-2.

17 **Q. ARE THERE ANY AFFILIATE COSTS, OTHER THAN THOSE FROM**
 18 **SERVICE COMPANY AND PROPERTIES?**

19 A. Yes. I am supporting the costs charged from Gas Operations.

20 **Q. HOW WERE THE GAS OPERATIONS COSTS IDENTIFIED?**

21 A. First, Regulatory Reporting examined and captured all transactions recorded in inter-
 22 company receivable and payable accounts on the general ledger of CenterPoint
 23 Houston for the test year. Regulatory Reporting reconciled the total of these

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 7th day of October, 2010.

Linda A Johnston