

service area. Third, the hurricanes may affect consumption in those years, but they do not affect normal weather temperatures. The Company's model is based on normal weather cooling degree hours; and CEHE witness Mr. Sumners did not allege that the two hurricanes distort the results of the weather model.

Finally, the PFD notes that "... it is not possible to separate the cyclical nature of weather from any short-term trend."¹²⁰ However, Mr. Johnson demonstrated that the most recent 10-years of weather in CEHE's service area has been substantially hotter than the previous 20-years used in CEHE's 30-year normal weather definition. The difference in temperature is statistically significant, meaning that the differing average temperatures in the two periods does not result from random variation. This difference is consistent with a systematic warming trend, which could be explained by global climate change. We have no reason to believe that the Commission was confronted with similar evidence of temperature differentials or trends, in prior CEHE cases. Indeed, Mr. Johnson's analysis is based upon temperature differentials for a period subsequent to any data available in Docket No. 22355, CenterPoint's unbundled cost of service case. If a systematic warming trend exists, weather data derived from a 30-year period may understate temperatures.¹²¹ CEHE acknowledges that climate change may result in increased revenues for the TDU business.¹²² Even if the recent warm weather is due to cyclical trends other than global warming, the use of a shorter weather data period is prudent for weather normalization purposes.

Furthermore, global climate change principles have become more widely adopted by the government and businesses since Docket No. 22355, as evidenced by CenterPoint's statements to

¹²⁰ *Id.*

¹²¹ According to the Intergovernmental Panel on Climate Change "Eleven of the last twelve years (1995-2006) rank among the 12 warmest years in the instrumental record of global surface temperature (since 1850)." IPCC Fourth Assessment Report: Climate Change 2007. <http://www.ipcc.ch/publicationsanddata/ar4/wg1/en/spmssp-directobservations.html#footnote>

¹²² CenterPoint Energy, Inc., 2009 SEC Annual Report Form 10-k at 19 (Feb. 26, 2010).

its investors that climate change may affect its future revenues.¹²³ Based on the evidence in this proceeding, the Commission should adopt Mr. Johnson's modification to CEHE's weather adjustment to reflect a 10-year definition of normal weather.

2. Energy Efficiency Adjustment

Not addressed.

D. Riders [Germane to Preliminary Order Issue No. 28]

1. Storm Hardening Rider [Germane to Preliminary Order Issue No. 29]

Although it is clear from the discussion of this issue, the list of parties opposed to Rider SH contained at page 171 of the PFD incorrectly omits GCCC.

2. Energy Efficiency Cost Recovery Factor ("EECRF") [Germane to Preliminary Order Issue No. 31]

Not addressed.

3. State Colleges and Universities Discount ("SCUD") [Germane to Preliminary Order Issue No. 30]

Not addressed.

4. Deferred Tax Riders

Not addressed.

5. Other Riders

Not addressed.

¹²³ Direct Testimony of Clarence Johnson, GCCC Ex. 2 at 10-11.

X. ADVANCED METERING SYSTEM (“AMS”) [GERMANE TO PRELIMINARY ORDER ISSUE NO. 37]

A. AMS Deployment Plan and Costs [Germane to Preliminary Order Issue Nos. 33 and 36]

1. Status of NOC and Future Capabilities

Not addressed.

2. CenterPoint has Agreed to Amend its AMS Deployment Plan

Not addressed.

3. CenterPoint will Accelerate its AMS Deployment

Not addressed.

B. AMS Reconciliation [Germane to Preliminary Order Issue No. 34]

The PFD errs by permitting CEHE an excessive recovery stemming from its proposed March 31, 2010 date for its requested roll-in of AMS costs into base rates. FoF No. 220.

The PFD adopts CEHE’s proposal to roll its AMS costs (but, importantly not the AMS savings) into its base rates as of March 31, 2010, three months after the test year concluded. The PFD concludes that the Company’s AMS costs incurred during the reconciliation period were recorded in accordance with the relevant authorities¹²⁴ and includes a relevant finding of fact, but never squarely discusses whether March 31, 2010 is the most appropriate date to quantify the AMS surcharge roll-in.

While it is true that the AMS rule requires no particular roll-in date, GCCC witness Lane Kollen testified that the mismatch between the AMS roll-in date and the end of the test year results in an additional \$12.458 million in the Company’s base revenue requirement.¹²⁵ Indeed, in discovery, the Company stated that the effect of its roll-in on base rates assuming a test year

¹²⁴ PFD at 183.

¹²⁵ Direct Testimony of Lane Kollen, GCCC Ex. 1 at 25.

end date was \$26.009 million increase.¹²⁶ Using a March 31, 2010 date instead produces a \$38.467 million increase. This is a needless, unjustified increase to the Company's request, and neither the Company nor the PFD offer any justification as to why this increase is appropriate.

The Company itself, in discovery, agreed that the Commission may use a December 31, 2009 date to quantify the rate base and expense effects of the AMS roll-in into base rates.¹²⁷ Both the PFD and CEHE's witnesses point to language in the rule addressing "installed" AMS equipment at the time of the base rate proceeding, suggesting that a date other than the test year date is permissible. At best, however, the arguments of CEHE and the conclusion of the PFD is only that a March 31, 2010 roll-in date is legally permissible. As CEHE acknowledged, however, so too would be a roll-in date that coincided with the test year end date. The PFD fails to justify the additional \$12.458 million in base revenue requirement that the Company's chosen roll-in date would produce, and so the Commission should reject this date in favor of the test year end date of December 31, 2009.

C. AMS Surcharge [Germane to Preliminary Order Issue Nos. 34 and 35]

1. Duration of the Surcharge

The PFD errs by recommending that CEHE be permitted to shorten its AMS surcharge to reflect the base-rate roll-in and a \$150 million grant from the Department of Energy, rather than reduce the AMS surcharge rate to account for these events. FoF Nos. 232 -234.

The PFD makes two errors with respect to the duration of the AMS surcharge. First, it recommends approval of the Company's proposed treatment of the surcharge after its proposed roll-in of AMS costs into base rates: rather than require CEHE to reduce the level of the surcharge accordingly, the PFD would permit CEHE to continue to collect it as though the roll-in never occurred, albeit for a shorter time.

¹²⁶ *Id.* at 26; CEHE's Response to GCCC 04-05 is included as Attachment D to Mr. Kollen's testimony.

¹²⁷ Direct Testimony of Lane Kollen, GCCC Ex. 1 at 25.

As GCCC witness Kollen testified, CEHE's proposal to place its AMS costs in rates but not reduce the AMS surcharge would not result in revenue neutrality.¹²⁸ In fact, during the remaining period of the AMS surcharge, the monthly burden upon CEHE's customers to fund the continuing rollout if its advanced meter rollout would increase substantially under CEHE's proposal. Both the Company and the PFD cites authorities – including the CEHE's AMS proceeding, Docket No. 35639 and the advanced metering rule – to argue that CEHE's approach is permissible.¹²⁹ It is true that neither the Commission's substantive rules nor the settlement in Docket No. 35639 specifies the manner in which the Company may incorporate amounts from the AMS revenue requirement into base rates.¹³⁰ The PFD's discussion, however, is silent on why CEHE should roll its AMS costs into base rates in a way that increases the burden upon ratepayers for the remainder of the AMS surcharge term. For these reasons, the PFD should be rejected on this point, and CEHE should be directed to reduce the AMS surcharge rate by the same amount that is placed into the Company's base revenue requirement. Doing so will ensure that the AMS roll-in is revenue neutral to ratepayers. This approach will harm neither ratepayers nor the Company – CEHE would continue to collect its approved AMS revenue requirement through a combination of the AMS surcharge and base rates.

The PFD's second error in this area is its failure to discuss at all how the Company's \$150 million in Department of Energy ("DOE") grants should be reflected in its rates. CEHE received a \$150 million stimulus grant from the DOE for the accelerated deployment of its AMS meters, as discussed in the PFD.¹³¹ The Company proposed to use these funds to shorten the

¹²⁸ *Id.* at 22.

¹²⁹ PFD at 184.

¹³⁰ *Id.*

¹³¹ Direct Testimony of Cherish Loog, CEHE Ex. 38 at 18-19; Direct Testimony of Lane Kollen, GCCC Ex. 1 at 26-27; PFD at 179.

AMS surcharge period rather than reduce the monthly AMS rate. CEHE should be directed to use the grant funds to reduce the surcharge rate charged to its ratepayers.

As Cities' witness Kollen testified, the original surcharge was based on annual levelized recovery of the AMS costs and operating expenses over 11 years, an already-accelerated recovery period relative to the much longer useful life of the meters.¹³² The Company's proposed treatment of the DOE grant only serves to accelerate that recovery period further, and would do so by six years for the residential class and 3.5 years for the secondary and primary classes.¹³³

CEHE would not be harmed by GCCC's proposal. As Mr. Kollen noted, the AMS surcharge is fully compensatory to the Company regardless of whether it collects the surcharge over the original term, or some other term. Even if the surcharge rate is reduced to reflect the DOE grant, CEHE still benefits from the grant: the funds mean that the Company will not have to incur the full cost of the deployment.¹³⁴ Alternatively, the grant benefits the company by offsetting the need to finance the AMS implementation project, improving CEHE's cash flow and potentially improving its cost of capital.¹³⁵ Furthermore, at the hearing, Mr. Gastineau confirmed that there are no restrictions or conditions on the DOE grant that would limit how the \$150 million can be refunded to ratepayers.¹³⁶ Given these facts, the better approach to reflecting the DOE grants in the AMS surcharge amount is to reduce the AMS surcharge rate and thereby reduce the burden upon CEHE ratepayers. The PFD did not address this issue. GCCC

¹³² Direct Testimony of Lane Kollen, GCCC Ex. 1 at 27.

¹³³ *Id.*

¹³⁴ *Id.* at 28.

¹³⁵ *Id.*

¹³⁶ Tr. at 787, lines 2-10 (Oct. 12, 2010).

urges that the Commission remedy this error and order CEHE to modify the AMS surcharge as described above.

2. Cost of Removing the Electro-Mechanical Meters

The PFD incorrectly recommends that CEHE be permitted to recover the cost of removing its old meters as part of the AMS surcharge in violation of the Commission's order in Docket No. 35639. FoF Nos. 238-240; CoL No. 42.

The PFD erroneously permits CEHE to recover the costs of removal as part of the cost installation of its new advanced meters, as part of its AMS surcharge. CEHE disclaimed any ability to determine what portion of its AMS vendor's AMS costs consisted of removal costs, so the effect of this error on rates cannot be quantified.¹³⁷

CEHE's proposed accounting treatment for these costs is inconsistent with the FERC uniform system of accounts as well as the settlement and order in Docket No. 35639, CEHE's AMS surcharge proceeding. The PFD observes that a note to the relevant FERC account appears to permit inclusion of removal costs as an expense, a statement which the ALJs conclude accords with how CEHE proposes to treat those costs.¹³⁸ On this basis alone, the PFD recommends that CEHE's proposal be adopted.

What the PFD fails to consider, however, is the discussion of this issue given in the Commission's order in Docket No. 35639. Finding of Fact No. 91 of the Commission's order in that proceeding states:

The plant balance and accumulated depreciation will not be reduced as the old meters are retired. However, any net salvage value will be charged to/credited to accumulated depreciation.¹³⁹

¹³⁷ Direct Testimony of Lane Kollen, GCCC Ex. 1 at Attachment F, CEHE's Response to GCCC 04-11.

¹³⁸ PFD at 185.

¹³⁹ *Application of CenterPoint Energy Houston Electric, LLC, for Approval of Deployment Plan and Request for Surcharge for an Advanced Metering System*, Docket No. 35639, Order at 15, FoF 91 (Dec. 22, 2008).

The cost of removal of the old meters is included in the term “net salvage value”, which means the cost of removal in excess of the salvage value.¹⁴⁰ As a result, the only accounting treatment consistent with the Commission’s order in Docket No.35639 is to charge the cost of removal of the old meters to accumulated depreciation. By including the cost of removal in the installation cost of the new meters, CEHE – and now the PFD – would violate this term of the Commission’s order. By including inappropriate amounts in the Company’s AMS balance, the PFD would inflate the amount recovered through the AMS surcharge.

The PFD also fails to discuss an additional reason why the cost of removal of the old meters must not be included in the installation cost for the new meters: doing so results in a double-recovery of the removal cost. The double recovery would occur because the cost of removal of the old meters is currently recovered through the depreciation expense built into CEHE’s rates.¹⁴¹ The approach sanctioned by the PFD would permit those costs to be recovered once again through the AMS surcharge.¹⁴² In the PFD’s Conclusion of Law No. 42, the ALJs conclude that their recommended approach is consistent with the Commission’s order in Docket No. 35639, but because there is no discussion of that conclusion in the PFD, it not clear how that result can be reached. Indeed, given the plain language of Finding of Fact No. 91 in Docket No. 35639, GCCC respectfully urges that this conclusion cannot be reached, and is in error.

The PFD errs by not considering these additional concerns, and then accordingly errs by adopting CEHE’s proposed treatment of the cost of removing its old meters. The Commission should reject the PFD’s recommendation, and should require CEHE to remove the cost of removal of its old meters from the AMS surcharge.

¹⁴⁰ Direct Testimony of Lane Kollen, GCCC Ex. 1 at 30.

¹⁴¹ *Id.* at 29-30.

¹⁴² *Id.*

3. CenterPoint's Estimates of Future Savings and Benefits Attributable to AMS

Not addressed.

D. AMS Legal Expenses

Not addressed.

**XI. RATE CASE EXPENSES [GERMANE TO PRELIMINARY ORDER
ISSUE NO. 27]**

Not addressed.

XII. AUSTERITY ADJUSTMENT

Not addressed.

XIII. MISCELLANEOUS

A. Docket No. 32093 Low-Income Program Funds

Not addressed.

B. Charitable Contributions

Not addressed.

C. Disconnect/Reconnect for Pre-Pay Customers

The PFD errs by not requiring CEHE to include a pro forma reduction in expenses to match the “zeroing out” of discretionary service charges, thereby creating an incremental revenue requirement that must be recovered through other means.

The PFD recommends a substantial modification to CEHE's Discretionary Service Charges (“DSCs”) to reflect the implementation of the Company's AMS. Indeed, the PFD concludes that “the time is right to zero-out the [discretionary service charges] for disconnection and reconnection for *all* customers.”¹⁴³ Although this proposal has evolved over the course of this proceeding, its genesis was in arguments made by TXU Energy and Direct Energy, LP that

¹⁴³ PFD at 197.

the Company's DSCs for disconnection and reconnection were barriers to providing prepaid electric service in CEHE's footprint.¹⁴⁴

GCCC observed, however, that any reduction to CEHE's DSCs is a reduction in *revenue*, not expenses. The miscellaneous revenue generated by the DSCs is used to offset CEHE's cost of service.¹⁴⁵ This means that any reduction to the DSCs for disconnection and reconnection produces an incremental revenue requirement that must be recovered through some other charge that is unrelated to disconnection or reconnection of service.¹⁴⁶ The only way that this distortion does not occur is if expenses related to disconnection or reconnection are also reduced, but the PFD appears to state that there should be no corresponding reduction to test-year expense.¹⁴⁷

In view of the PFD's adoption of a zeroing-out of DSCs for disconnection and reconnection, GCCC continues to recommend that the Commission require CEHE include a pro-forma reduction in its related expenses in this proceeding. The process recommended by GCCC would recognize this expense reduction at no harm to CEHE; if the Company continues to incur some disconnection and reconnection costs for those customers who do not yet have an advanced meter, the Commission could authorize the deferral and recovery of those costs. As Mr. Kollen detailed in his testimony, the deferral each month would be equal to the reduction in revenues that month using the methodology for reducing DSCs set forth by the Commission in Docket No. 35639, but applied on a monthly, rather than annual basis.¹⁴⁸ Under this approach, the expenses would decline each month and be eliminated once CEHE's AMS deployment is complete.¹⁴⁹ This proposal is in the spirit of the Commission's direction in Docket No. 35639, in

¹⁴⁴ Direct Testimony of Christine L. Wright, PUC Staff Ex. 3 at 9.

¹⁴⁵ Cross Rebuttal of Lane Kollen, GCCC Ex. 3 at 13.

¹⁴⁶ *Id.*

¹⁴⁷ PFD at 197.

¹⁴⁸ Cross Rebuttal of Lane Kollen, GCCC Ex. 3.

¹⁴⁹ *Id.*

which the order outlined a gradual, annual reduction in CEHE's DSCs to reflect "the progressive reduction in costs resulting from AMS deployment."¹⁵⁰ The PFD's recommendation does away with this framework entirely, and as noted above, creates a revenue gap that must be recovered through some other charge. GCCC recommends that either the DSC reduction regime set forth in Docket No. 35639 be retained, or that GCCC's alternate recommendation, outlined above, be adopted.

D. Post-Test Year Adjustment to Discretionary Services Revenue

The PFD errs in permitting CEHE a post-test year reduction in DSC revenue without a corresponding post-test year reduction in discretionary service expenses.

The PFD does not include any discussion or findings regarding GCCC's recommended disallowance of \$14.550 million to distribution operations and maintenance ("O&M") to match the Company's post-test year reduction to discretionary service revenue due to the Company's AMS deployment.

The Company's rate filing package includes a proposed post-test year adjustment to reduce DSC revenues by \$16.515 million. Of this total, approximately \$14.550 million is purportedly due to expense savings from CEHE's AMS deployment.¹⁵¹ The Company's proposal failed to include any offsetting post-test year expense savings in its base rates, or in its AMS surcharge.¹⁵² CEHE's response to this observation was to assert that savings were included in the AMS surcharge, and Company witness Fitzgerald stated that the direct testimony of Deryl Tumlinson was support for this claim.¹⁵³ However, as Mr. Kollen testified, Mr. Tumlinson's testimony and schedules contain no savings of expenses related to discretionary

¹⁵⁰ Docket No. 35639, Final Order at 16-17 (Dec. 22, 2008).

¹⁵¹ Direct Testimony of Lane Kollen, GCCC Ex. 1 at 62.

¹⁵² *Id.* at 63.

¹⁵³ Rebuttal Testimony of Walter L. Fitzgerald, CEHE Ex. 66 at 29-30.

services.¹⁵⁴ In fact, the relevant exhibit to this testimony contained no savings for the kind of activity related to discretionary services, such as the need to mobilize CEHE employees and vehicles to perform disconnects and reconnects.¹⁵⁵

The PFD includes a Finding of Fact that appears to bear on this issue, but it is not clear how that finding is related to the evidence in this case. Finding of Fact No. 243 states that CEHE does not realize savings from any reduction in field service personnel because the cost of the services performed by those personnel is recovered through a DSC. But this finding appears to contradict the testimony of the Company's own witnesses as described above, who in response to the testimony of Mr. Kollen, asserted that indeed there were such savings, and that they were included in the AMS surcharge.

Without a post-test year adjustment of \$14.550 million for expense savings related to the AMS rollout, CEHE's post-test year decrease to DSC revenue of \$14.550 million produces distorted and excessive rates. GCCC recommends the Commission decline to adopt the recommendation of the PFD on this point.

XIV. CONCLUSION

GCCC respectfully requests that the Commission adopt the PFD in this proceeding only as consistent with the foregoing Exceptions, and reject the PFD's recommendations as indicated above. GCCC further requests any and all relief to which it may be entitled.

XV. PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDERING PARAGRAPHS

A. Findings of Fact

Not addressed.

¹⁵⁴ Direct Testimony of Lane Kollen, GCCC Ex. 1 at 63.

¹⁵⁵ See Direct Testimony of Deryl Tumlinson, CEHE Ex. 50 at Schedule DT-1.

B. Conclusions of Law

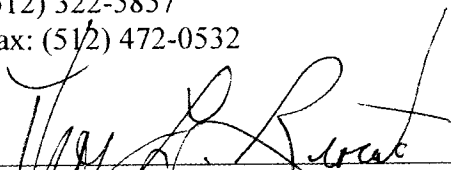
Not addressed.

C. Proposed Ordering Paragraphs

Not addressed.

Respectfully submitted,

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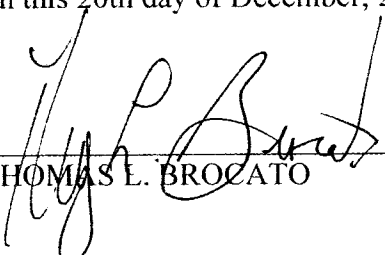
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ATTORNEYS FOR THE GULF COAST
COALITION OF CITIES

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was transmitted by e-mail, fax and/or regular, first class mail on this 20th day of December, 2010 to the parties of record.



THOMAS L. BROCATO