

Control Number: 38339



Item Number: 897

Addendum StartPage: 0

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

PUBLIC UTILITY COMMISSION
OF TEXAS

COMMISSION STAFF’S REPLY TO MOTIONS FOR REHEARING

COMES NOW Staff of the Public Utility Commission of Texas (Commission Staff or Staff), representing the public interest and submits this Reply to Motions for Rehearing.

I. Introduction

On May 12, 2011, the Commission filed its Order addressing CenterPoint Energy Houston Electric, LLC’s (CenterPoint) application for authority to change rates.¹ Several parties filed motions for rehearing that largely reiterate positions previously taken in this proceeding. Staff reasserts the arguments that it made in its exceptions and replies regarding these positions. In the following sections, Staff responds to specific arguments regarding the requested \$7.15 million in storm hardening expenses and Rider Deferred Tax Tracker (Rider DT).

II. Storm Hardening Expenses

Staff supports Gulf Coast Coalition of Cities’ (GCCC) position that Finding of Fact No. 78, which finds \$7,150,000 of storm hardening costs to be a reasonable and necessary operations and maintenance (O&M) expense,² is not discussed or analyzed in the PFD and should be rejected.³ The only discussion of storm hardening costs in the PFD is found in the section on riders, specifically Section IX (Cost Allocation and Rate Design, D. Riders, 1. Storm Hardening Rider). There is no discussion in the PFD of storm hardening costs as an O&M expense.

The administrative law judges (ALJs) denied Rider SH stating that it is premature because P.U.C. SUBST. R. 25.95 does not require CenterPoint to undertake any storm hardening initiatives or incur any storm hardening costs; nor does it establish any storm hardening cost

¹ Order (May 12, 2011).

² Proposal for Decision at 205, Finding of Fact No. 78 (December 3, 2010) (PFD).

³ GCCC Motion for Rehearing at 13.

897

recovery mechanism.⁴ The ALJs expressed concern regarding the (1) potential for double recovery of costs; (2) failure to account for offsetting revenues; and (3) improper cost allocation.⁵

There is no discussion or analysis in the PFD that supports Finding of Fact No. 78 which deems \$7.15 million in storm hardening O&M expenditures as reasonable and necessary. Staff agrees with GCCC that the Commission should grant GCCC's motion for rehearing on Point of Error No. 5. Failure to do so will allow CenterPoint to annually collect \$7,150,000 of storm hardening costs that have not been incurred, are not authorized to be recovered by the Commission's storm hardening rule P.U.C. SUBST. R. 25.95⁶, and are not known and measurable changes to test-year expenses.

III. Riders DT and DTA

In the State Agencies' Motion for Rehearing, it stated that "[t]he Final Order does not adopt Rider DT, the second rider for transmission-related UTPs that was attached to [CenterPoint witness] Mr. Troxle's rebuttal testimony."⁷ Staff does not address the substantive merits of Rider Deferred Tax Tracker (Rider DT) and Rider Deferred Tax Accounting Tracker (Rider DTA); but, respectfully requests that the Commission clarify whether it intended to approve solely Rider DTA to be applied only to retail customers, or approve Rider DT and Rider DTA to be applied to both retail and wholesale customers.

CenterPoint proposed Rider DT (which applies to wholesale customers) and Rider DTA (which applies to retail customers) in rebuttal testimony in this proceeding.⁸ It is Staff's position that Riders DT and DTA were separately proposed by CenterPoint due to the requirement in PURA §35.004(d) that wholesale transmission services be priced based on the "postage stamp" method. That is, transmission function costs are collected through the ERCOT wholesale transmission rate, while distribution, metering, and customer service function costs are recovered through retail rates. Therefore, Rider DTA applies to retail customers and Rider DT applies to wholesale customers.

⁴ PFD at 175.

⁵ *Id.*

⁶ Direct Testimony Richard Lain, PUC Staff Ex. 6 at 41:1-3.

⁷ State Agencies' Motion for Rehearing at 4, FN 1.

⁸ Rebuttal Testimony of Matthew A. Troxle, CenterPoint Ex. 61 at 57:13-17.

In Section II A. of the Order (Uncertain Tax Positions) the Commission authorized CenterPoint to establish Rider DTA which allows CenterPoint to recover from its retail customers amounts from Uncertain Tax Positions (UTPs) related to its distribution, metering, and customer service functions and investments. However, there was no discussion of Rider DT (to be applied to wholesale customers) in Section II A. Additionally, Finding of Fact 203 stated that Riders DTA and DT should not be approved.

Based upon the discussion of the rider mechanism at the February 10 and April 29, 2011 Open Meetings, Staff believes that the Commission's intent was to approve a rider mechanism that applies to both retail and wholesale customers. If CenterPoint is allowed to recover from its retail customers amounts from UTPs related to its distribution, metering and customer service function investments through Rider DTA, it follows that Rider DT should also be approved to be applied to its wholesale customers.

IV. Conclusion

For these reasons, Staff respectfully requests that the Commission reject the \$7.15 million in post-test year storm hardening expenses, and clarify whether it intended to approve solely Rider DTA to be applied only to retail customers, or approve Riders DT and Rider DTA to be applied to both retail and wholesale customers.

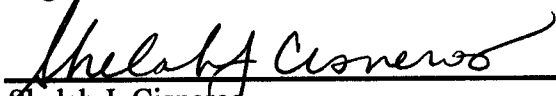
DATE: June 13, 2011

Respectfully submitted,

Margaret Uhlig Pemberton
Division Director
Legal Division

Keith Rogas
Deputy Division Director
Legal Division

Karen S. Hubbard
Managing Attorney
Legal Division



Shelah J. Cisneros
Attorney, Legal Division
State Bar No. 24045661
(512) 936-7265
(512) 936 7268 (facsimile)

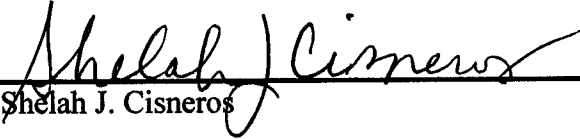
Susan E. Goodson
State Bar No. 24045960

Susan M. Stith
State Bar No. 24014269

Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas, 78711-3326

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record by first class U.S. mail, postage pre-paid on this date, June 13, 2011, in accordance with P.U.C. Procedural Rule 22.74.



Shelah J. Cisneros