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Addendum StartPage: 0

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APPLICATION OF CENTERPOINT § PUBLIC UTILITY COMMISSION
ENERGY HOUSTON ELECTRIC, LLC §
FOR AUTHORITY TO CHANGE § OF TEXAS
RATES

PRELIMINARY ORDER

On April 5, 2019, CenterPoint Energy Houston Electric, LLC filed an application for authority to change its rates. This preliminary order identifies the issues that must be addressed in this proceeding.

CenterPoint is seeking to increase its annual transmission and distribution revenues by approximately \$161 million, from approximately \$2.1 billion to approximately \$2.3 billion. That amount includes a net annual increase in retail transmission and distribution rates of approximately \$154 million over adjusted test-year revenues, which is an increase of approximately 7.4%. It also includes an annual increase of approximately \$6.8 million for wholesale transmission service, which is an increase of approximately 1.8%. CenterPoint's application reflects an increase in total rate base from approximately \$3.47 billion in its last base-rate case in Docket No. 38339¹ to approximately \$6.48 billion. The test year for CenterPoint's application is the 2018 calendar year. CenterPoint's requested return on equity is 10.4%, and its requested weighted average cost of capital is 7.39%. CenterPoint proposes to revise its debt-to-equity ratio from 55% debt and 45% equity to 50% debt and 50% equity.

In addition to the rate increase, CenterPoint requests: (1) a prudency determination for all capital investments made since January 1, 2010; (2) authority to install voltage-smoothing battery systems and to include the cost of those systems in rate base; (3) to amend its facilities extension policy for electric vehicle public charging stations; (4) to update and clarify language throughout its tariffs for retail delivery service and service rules and regulations; (5) to update its depreciation rates; (6) to update its property insurance reserve; (7) to establish a rider to refund to customers

¹ *Application of CenterPoint Electric Delivery Company, LLC for Authority to Change Rates*, Docket No. 38339, Order on Rehearing (Jun. 23, 2011).

142

approximately \$97 million for the unprotected excess deferred federal income tax balance that resulted from the Tax Cuts and Jobs Act of 2017; and (8) to recover rate-case expenses incurred in this proceeding and deferred costs from prior proceedings.

The Commission referred this case to the State Office of Administrative Hearings (SOAH) on April 8, 2019. CenterPoint was directed, and Commission Staff and other interested persons were allowed, to file a list of issues to be addressed in the docket by April 24, 2019. CenterPoint, Commission Staff, the Texas Coast Utilities Coalition, the Gulf Coast Coalition of Cities, the Alliance for Retail Markets, and the City of Houston each timely filed a proposed list of issues.

I. Issues to be Addressed

The Commission must provide to the administrative law judge (ALJ) a list of issues or areas to be addressed in any proceeding referred to SOAH.² After reviewing the pleadings submitted by the parties, the Commission identifies the following issues that must be addressed in this docket:

1. Did CenterPoint comply with the form and instructions for the Commission's rate-filing package?
2. Is CenterPoint's application administratively complete?
3. Did CenterPoint provide notice that was adequate and that complied with the requirements of PURA³ §§ 36.102 and 36.103?
4. What revenue requirement will give CenterPoint a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses?
5. What is CenterPoint's reasonable and necessary cost of providing service calculated in accordance with PURA and Commission rules?
6. What is CenterPoint's transmission cost of service determined in accordance with PURA and Commission rules?

² Tex. Gov't Code Ann. § 2003.049(e).

³ Public Utility Regulatory Act, Tex. Util. Code §§ 11.001–66.016 (PURA).

Invested Capital – Rate Base and Return

7. What is the appropriate debt-to-equity capital structure for CenterPoint?
8. What is the appropriate overall rate of return, return on equity, and cost of debt for CenterPoint?
When answering this issue, please address how the factors specified in PURA § 36.052 and 16 TAC § 25.231(c)(1) should affect CenterPoint's rate of return.
9. Are any protections, such as financial protections, appropriate to protect CenterPoint's financial integrity and ability to provide reliable service at just and reasonable rates?
10. What are the reasonable and necessary components of CenterPoint's rate base?
11. What is the original cost of CenterPoint's property used and useful in providing service to the public at the time the property was dedicated to public use? What is the amount, if any, of accumulated depreciation on that property?
12. What amount of CenterPoint's invested capital has not previously been subject to a prudence review by the Commission? If there are any such amounts, what are the amounts, for what facilities, property, or equipment was the investment made, and were the amounts prudently incurred? What amount, if any, of allowance for funds used during construction (AFUDC) is being transferred to invested capital in this proceeding? If AFUDC is being transferred, for what facilities and at what rate was the AFUDC accrued?
13. Did any of CenterPoint's invested capital arise from payments made to an affiliate? If so, for each item or class of items, does the payment conform to the requirements in PURA § 36.058?
14. Is CenterPoint seeking the inclusion of construction work in progress? If so,
 - a. what is the amount sought and for what facilities; and
 - b. has CenterPoint proven that the inclusion is necessary to the financial integrity of the electric utility and that major projects under construction have been efficiently and prudently planned and managed; or
 - c. for transmission investment required by the Commission under PURA § 39.203(e), do conditions warrant the inclusion of construction work in progress for such transmission investment?

15. What is the reasonable and necessary cash working capital allowance for CenterPoint, calculated in accordance with Commission rules?
 - a. Does CenterPoint's lead-lag study for its proposed allowance for cash working capital comply with Commission rules?
 - b. If not, should cash working capital be set at a negative one-eighth of operations and maintenance expenses?
16. Does CenterPoint have a self-insurance plan approved by the Commission? If so, what is the approved target amount for the reserve account, and is it appropriate to change that amount? In addition, what is the amount, if any, of any shortage or surplus for the reserve account for the approved plan, and what actions, if any, should be taken to return the reserve account to the approved target amount?
17. What is the reasonable and necessary amount of CenterPoint's accumulated reserve for deferred federal income taxes, excess deferred federal income taxes, unamortized investment tax credits, contingency reserves, property insurance reserves, contributions in aid of construction, customer deposits, and other sources of cost-free capital? What other items, if any, should be deducted from CenterPoint's rate base?
18. What regulatory assets are appropriately included in CenterPoint's rate base? If included, what is the appropriate treatment of such regulatory assets?
19. What regulatory liabilities are appropriately included in CenterPoint's rate base? If included, what is the appropriate treatment of such regulatory liabilities?
20. What post-test-year adjustments for known and measurable rate-base changes to historical test-year data, if any, should be made? Do any such adjustments comply with the requirements of 16 TAC § 25.231(c)(2)(F)?
 - a. Does each addition equal at least 10% of CenterPoint's requested rate base, exclusive of post-test-year adjustments and construction work in progress?
 - b. Will each plant addition be in service before the rate year begins?

- c. Have the attendant impacts on all aspects of CenterPoint's operations (including, but not limited to, revenue, expenses, and invested capital) been identified, quantified, and matched?
- d. For any post-test-year adjustments, what future filings, if any, should CenterPoint be required to make to verify that the plant was placed in service before the rate year begins?

Expenses

- 21. What are CenterPoint's reasonable and necessary operations and maintenance expenses?
- 22. What are CenterPoint's reasonable and necessary administrative and general expenses?
- 23. What are CenterPoint's reasonable and necessary rate-case expenses in accordance with PURA § 36.061(b)(2) and 16 TAC § 25.245? Does this amount include any anticipated expenses to appeal this proceeding or a prior rate-case proceeding?
- 24. What are the intervening cities' reasonable rate-case expenses, in accordance with PURA § 33.023(b) and 16 TAC § 25.245? Does this amount include any anticipated expenses to appeal this proceeding or a prior rate-case proceeding?
- 25. What is CenterPoint's reasonable and necessary depreciation expense? For each class of property, what are the proper and adequate rates and methods for depreciation, including service lives and salvage value?
- 26. What is the reasonable and necessary amount for assessments and taxes, other than federal income taxes, for CenterPoint?
- 27. What is the reasonable and necessary amount for municipal franchise fees? What is the appropriate amount to be included in base rates?
- 28. What is the reasonable and necessary amount of CenterPoint's federal income tax expense?
- 29. Is CenterPoint's proposed treatment of federal income taxes consistent with PURA, the Commission's substantive rules, and the Commission's amended order in Docket No. 47945?⁴

⁴ *Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*, Project No. 47945, Amended Order Related to Changes in Federal Income Tax Rates (Feb. 15, 2018).

- a. Has CenterPoint appropriately addressed the impact of the Tax Cuts and Jobs Act of 2017 on its rates?
 - b. Has CenterPoint returned to customers any excess revenue collected due to the reduction in the corporate federal income tax rate from 35% to 21% from January 25, 2018 through the date final rates are set in this proceeding? If not, should CenterPoint return the excess revenue to customers and what interest rate should apply to the over-collected amount?
30. Will CenterPoint realize any tax savings derived from liberalized depreciation and amortization, investment tax credits, or similar methods? If so, are they apportioned equitably between consumers and the utility, and are the interests of present and future customers equitably balanced as required by PURA § 36.059?
31. What is the reasonable and necessary amount for CenterPoint's advertising expense, contributions, and donations?
32. What is CenterPoint's reasonable and necessary amount for nuclear decommissioning expenses, if any, calculated in accordance with Commission rules?
33. Is CenterPoint seeking approval of a self-insurance plan or changes to an existing plan? If so,
- a. Is the coverage provided by the plan in the public interest?
 - b. Does the plan provide a lower-cost alternative to purchasing commercial insurance? Will ratepayers receive the benefits of the savings?
 - c. What is the reasonable and necessary target amount for CenterPoint's self-insurance reserve account?
 - d. What is the reasonable and necessary amount of annual accruals to properly fund the self-insurance reserve account?
34. What are CenterPoint's reasonable and necessary expenses for pension and other post-retirement benefits, if any, calculated in accordance with PURA § 36.065 and 16 TAC § 25.231(b)(1)(H)? What is the reasonable baseline level of pension and other post-employment benefits for purposes of the expense tracker under PURA § 36.065?
- a. Has CenterPoint established under PURA § 36.065(b) any reserve accounts for pension and other post-employment benefits?

- b. If so, has CenterPoint recorded the proper amounts in the reserve account?
 - c. Are the amounts recorded in the reserve account reasonable expenses under PURA § 36.065(d)(1)?
 - d. Does the reserve account have a surplus or shortage? PURA §§ 36.065(c) and (d)(2).
 - e. If so, how should CenterPoint's rate base be modified to amortize, over a reasonable time, any surplus or shortage in the reserve account? PURA § 36.065(d)(3).
35. Has CenterPoint made any payments for expenses to affiliates? If so, for each item or class of items,
- a. Are costs appropriately assigned to CenterPoint and its affiliates?
 - b. Has CenterPoint met the standard of recovery of affiliate costs under PURA § 36.058 and Commission rules?
36. Does CenterPoint have any competitive affiliates, as defined by 16 TAC § 25.272(c)(2)? If so, has CenterPoint conducted any transactions with its competitive affiliates? If so, what are these transactions and have all transactions with any competitive affiliates been conducted at arm's length and has CenterPoint met all the requirements of 16 TAC § 25.272 regarding such transactions? If not, what amount of expenses should be disallowed?
37. Have any revenues received for expenses attributable to transmission service to export power from or import power to ERCOT been properly reflected in CenterPoint's requested rates?
38. Are any of CenterPoint's expenditures unreasonable, unnecessary, or not in the public interest, including but not limited to executive salaries, advertising expenses, legal expenses, penalties and interest on overdue taxes, criminal penalties or fines, and civil penalties or fines?
39. What post-test-year adjustments for known and measurable changes to historical test-year data for expenses, if any, should be made? For any such adjustments, have all the attendant impacts on all aspects of CenterPoint's operations (including, but not limited to, revenue, expenses, and invested capital) been identified with reasonable certainty, quantified and matched?
40. What are the appropriate amounts, if any, for transmission expenses and revenues under Federal Energy Regulatory Commission (FERC)-approved tariffs to be recovered?

Deferred Costs

41. Is CenterPoint seeking to include in rates any costs previously deferred by an order of the Commission? If so, in what docket did the Commission approve deferral of the costs? Is inclusion of such deferred costs in rates necessary to carry out a provision of PURA? What is the appropriate standard by which to make this determination and is the proposed assignment and allocation of that recovery appropriate?
42. Is CenterPoint seeking to defer any costs, including any rate-case expenses, in this proceeding for recovery in a future proceeding? If so, what is the amount of such costs, and why were those costs incurred (or why will they be incurred)? Is deferral of those costs necessary to carry out a provision of PURA? If not, why is it necessary to defer these costs? What are the appropriate standards by which to make these determinations?

Rate Design and Tariffs

43. What are CenterPoint's just and reasonable rates, calculated in accordance with PURA and Commission rules? Do the rates comply with the requirements of PURA § 36.003?
44. What are the appropriate rate classes for which rates should be determined? Is CenterPoint proposing any new rate classes? If so, why are these new rate classes needed?
45. What are the appropriate billing and usage data for CenterPoint's test year? What known and measurable changes, if any, should be used to adjust the test-year data? What changes, if any, are necessary to reflect abnormal weather conditions or other aberrant conditions?
46. What are the appropriate allocations of CenterPoint's revenue requirement to functions and rate classes?
- a. Does CenterPoint have any customer-specific contracts for the provision of transmission or distribution service? If so, identify each customer and state whether the contract has been presented to the Commission for approval, and if so, in what docket. In addition, has CenterPoint appropriately allocated revenues and related costs associated with such contracts? Do all allocation factors properly reflect the types of costs allocated?
 - b. What are the appropriate allocations of CenterPoint's transmission investment, expenses, and revenues, including transmission expenses and revenues under FERC-approved tariffs, among jurisdictions?

- c. Does CenterPoint have any FERC-approved tariffs? If so, identify each tariff and the FERC docket in which the tariff was approved. What are the appropriate allocations of CenterPoint's transmission investment, expenses, and revenues, including transmission expenses and revenues under those tariffs? Has CenterPoint made appropriate allocations for imports to and exports from ERCOT?
47. What are the appropriate rates for exports of power from ERCOT, calculated in accordance with 16 TAC § 25.192(e) and ERCOT protocols?
48. Does CenterPoint provide wholesale transmission service at distribution voltage to any customers? If so, has CenterPoint properly allocated costs to, and designed rates for, those customers as required under PURA § 35.004(c)?
49. Are all rate classes at unity? If not, what is the magnitude of the deviations, and what, if anything, should be done to address the lack of unity?
50. What tariff revisions, if any, are appropriate as a result of this proceeding?
51. Has CenterPoint proposed any rate riders? If so, should any of the proposed riders be adopted? If so, what are the appropriate costs to be recovered through the riders, and what are the appropriate terms and conditions of the riders?
- a. Should the Commission approve CenterPoint's proposed rider to refund certain unprotected excess-deferred income tax (UEDIT) amounts, Rider UEDIT?
52. Does CenterPoint have any existing rate riders that should be modified or terminated? What regulatory assets or other items are currently being recovered through rate riders?

Baselines for Cost-Recovery Factors

53. Should baseline amounts be determined in this proceeding for future CenterPoint interim transmission cost of service, transmission-cost-recovery-factor, or distribution-cost-recovery-factor filings? If so, what are the investment and expense components and amounts?

Hurricane Harvey Restoration Costs

54. What amount of CenterPoint's restoration costs for Hurricane Harvey are recoverable?
- a. What portion of CenterPoint's hurricane restoration costs meet the definition of "system restoration costs" set forth in PURA § 36.402?

- b. Should any of CenterPoint's hurricane restoration costs be offset by payment to CenterPoint of insurance proceeds, government grants, or any other source of funding that compensates it for hurricane restoration costs?
 - i. What insurance proceeds, governmental grants, or any other source of funding that compensates CenterPoint for its hurricane restoration costs has CenterPoint applied for, received, or anticipated receiving?
 - ii. Have all applicable insurance proceeds, governmental grants, or any other source of funding that compensates CenterPoint for its hurricane restoration costs been applied fairly?
 - iii. Have all applicable insurance proceeds, governmental grants, or any other source of funding that compensates CenterPoint for its hurricane restoration costs been applied so as not to inappropriately burden Texas ratepayers with any hurricane restoration costs?
- 55. What is the appropriate rate of interest and calculation period for any carrying costs on CenterPoint's claimed hurricane restoration costs?
- 56. Are the hurricane restoration costs functionalized and allocated to customers in the same manner as the corresponding facilities and related expenses are functionalized and allocated in CenterPoint's current base rates under PURA § 36.403(g)?

Additional Issues

- 57. Has CenterPoint requested any exceptions to any requirements in any Commission rules? If so, what are those rule requirements, and has CenterPoint demonstrated good cause for the exception? Should the Commission grant the exception?
- 58. Should the Commission approve CenterPoint's requests for waivers of requirements, if any, in the Commission's rate-filing package?
- 59. Has CenterPoint complied with the Commission's final order in Docket No. 38339?

This list of issues is not intended to be exhaustive. The parties and the ALJ are free to raise and address any issues relevant in this docket that they deem necessary, subject to any limitations imposed by Section II of this Order, by the ALJ, or by the Commission in future orders issued in

this docket. The Commission may identify and provide to the ALJ in the future any additional issues or areas that must be addressed, as permitted under Tex. Gov't Code Ann. § 2003.049(e).

II. Issues Not to be Addressed

The Commission identifies the following issues that need not be addressed in this proceeding for the reasons stated.

1. Whether CenterPoint should be permitted to install voltage-regulation battery assets.

The Texas Legislature is currently discussing the issue of battery storage. Given the pending litigation and the far-reaching policy implications of CenterPoint's proposal, the Commission finds that this case is not the appropriate forum to decide the issues raised by CenterPoint's request to install voltage-regulation battery assets.

2. Whether CenterPoint should be permitted to modify its tariff to add an additional allowance for facility extensions to electric vehicle charging stations.

The Commission currently has a project open to address issues related to electric vehicle charging stations.⁵ Because the issues raised by CenterPoint's request are better addressed in the project than in this litigated case, and because inclusion of the issue within this case could limit the Commission's or CenterPoint's ability to participate in the project, the Commission directs the parties not to address CenterPoint's request for the additional allowance.

III. Effect of Preliminary Order

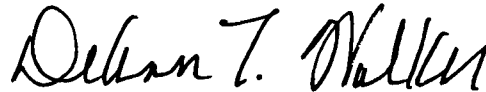
The Commission's discussion and conclusions in this order regarding issues that are not to be addressed should be considered dispositive of those matters. Questions, if any, regarding issues that are not to be addressed may be certified to the Commission for clarification if the SOAH ALJ determines that such clarification is necessary. As to all other issues, this order is preliminary in nature and is entered without prejudice to any party expressing views contrary to this order before the SOAH ALJ at hearing. The SOAH ALJ, upon his or her own motion or upon the motion of any party, may deviate from the non-dispositive rulings of this order when circumstances dictate

⁵ *Review of Issues Relating to Electric Vehicles*, Project No. 49125 (pending).

that it is reasonable to do so. Any ruling by the SOAH ALJ that deviates from this order may be appealed to the Commission. The Commission will not address whether this order should be modified except upon its own motion or the appeal of a SOAH ALJ's order. Furthermore, this Order is not subject to motions for rehearing or reconsideration.

Signed at Austin, Texas the 9th day of May 2019.

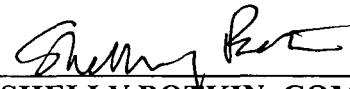
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