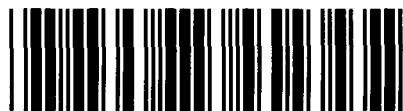




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FOR AUTHORITY TO CHANGE RATES
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DOCKET NO. _____

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

**STATEMENT OF INTENT AND APPLICATION OF CENTERPOINT ENERGY
HOUSTON ELECTRIC, LLC FOR AUTHORITY TO CHANGE RATES**

CenterPoint Energy Houston Electric, LLC (“CenterPoint Houston” or the “Company”) files this Statement of Intent and Application for Authority to Change Rates (“Application”) pursuant to Subchapter C of Chapter 36 of the Public Utility Regulatory Act (“PURA”).¹

I. INTRODUCTION

In compliance with the rate scheduling requirements of 16 Texas Administrative Code § 25.247(c)(2)(B) (“TAC”) and the Company’s commitment to the timing of a rate filing in Project No. 47945, *Proceeding to Investigate and Address the Effects of the Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*, CenterPoint Houston presents this Application for a comprehensive rate review.

Since the Company’s last base rate case, Docket No. 38339, *Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates*, the Company has continued its long history of providing safe, reliable, value-added service to its customers. As a result, CenterPoint Houston now maintains and operates a transmission and distribution system for the benefit of over 2.5 million metered customers—nearly 400,000 more customers than it served when it filed its last rate case in Docket No. 38339.

In response to this approximately 20% increase in the number of customers it serves, CenterPoint Houston has, since January 1, 2010, invested over \$6 billion in transmission and

¹ Public Utility Regulatory Act, Tex. Util. Code Ann. §§ 11.001-66.017 (Supp.) (“PURA”).

distribution infrastructure to safely and reliably support economic and population growth in Houston and its surrounding cities and weathered the impact of a generational storm event in 2017—Hurricane Harvey. Over the course of the same period, CenterPoint Houston installed approximately 2.5 million Advanced Metering System (“AMS”) meters, improved the intelligence and resiliency of its transmission and distribution system, and prudently managed its cash flow so that the Company could take advantage of capital market conditions to lower the Company’s overall cost of debt.

This filing presents the opportunity to review the investment and expenses that CenterPoint Houston has incurred since the Company’s last base rate case and to establish a solid foundation that will enable CenterPoint Houston to continue to meet the expectations of its customers, respond to growth and support economic development within the State of Texas. This is vitally important because residential customer growth in the Company’s service territory is expected to continue at a rate of approximately two percent per year for the next 20 years and CenterPoint Houston must be solidly positioned to respond to this demand.

Essential to establishing this solid foundation is the Commission’s approval of a higher equity ratio and higher cost of equity for CenterPoint Houston. These adjustments are necessary in order to ease the financial pressure created by two factors outside of the Company’s control—growth in the Company’s service territory, which has materially increased the level of capital investment required on an annual basis, and the Tax Cuts and Jobs Act of 2017 (“TCJA”), which has significantly reduced the Company’s cash flow. Put simply, two very good things for customers (strong economic growth in the Houston area and tax relief) will negatively impact the Company’s financial condition if its capital structure and return on equity are not adjusted to reflect a 50% equity/50% long-term debt capital structure and a 10.4% cost of equity.

These factors, coupled with capital investment that has not yet been incorporated into the Company's existing rates; the recovery of regulatory assets, such as the Company's Hurricane Harvey regulatory asset of approximately \$64 million, that have not yet been reflected in the Company's current rates; and ongoing Operations and Maintenance ("O&M") expenses necessary to support continued growth in CenterPoint Houston's transmission and distribution system, demonstrate the need for an increase in annual revenues of approximately \$161 million. As detailed in the attached testimony and schedules, incorporated herein by reference, the requested increase will provide an overall rate of return that will continue to afford the Company the opportunity to attract necessary capital for system investment and allow the recovery of reasonable and necessary operating expenses that are reflective of the Company's current cost of service and operations.

In addition to new rates, CenterPoint Houston requests a prudence determination on all capital investment made in the system since January 1, 2010, and the establishment of a rider to return to customers approximately \$97 million for the excess deferred federal income tax unprotected balance that resulted from the TCJA. CenterPoint Houston also seeks updated depreciation rates, approval to clarify and update various non-rate provisions in Chapters 2 and 6 of its Tariff for Retail Delivery Service including its proposed new facility extension policies for electric vehicle public charging stations and for premium service requests, and permission to install voltage regulation battery assets when necessary and cost-effective situations permit. CenterPoint Houston also requests recovery of all reasonable and necessary rate case expenses.

II. AUTHORIZED REPRESENTATIVES

The telephone number and address of CenterPoint Houston's authorized business representative are as follows:

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Director, Regulatory Portfolio Management Organization
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CenterPoint Houston requests that all information and documents in this filing be served on each of the persons above at their respective physical or email addresses or fax numbers.

III. JURISDICTION

The Commission has exclusive original jurisdiction over this proceeding for areas outside municipalities pursuant to PURA § 32.001 and for those municipalities shown on Exhibit A that have ceded their original jurisdiction to the Commission pursuant to PURA § 33.002(b). The Commission also has exclusive original jurisdiction over CenterPoint Houston's wholesale transmission rates pursuant to PURA § 35.004(d). CenterPoint Houston anticipates it will appeal the actions of its original jurisdiction cities to the Commission and that it will seek consolidation of those appeals with this docket. It is CenterPoint Houston's intent to establish system-wide rates for all customer classes served by the Company.

IV. AFFECTED PERSONS AND TERRITORIES

The Application affects all retail electric providers ("REPs") serving end-use retail electric customers in CenterPoint Houston's certificated service territory and will affect the retail electric customers of those REPs to the extent that the REPs pass along to their customers the charges under the Company's Tariff for Retail Delivery Service. The Application also affects all customers taking service under the Company's Tariff for Wholesale Transmission Service.

V. OVERVIEW OF THE APPLICATION

This Application contains the testimony of 26 witnesses. The direct testimony of Kenny M. Mercado presents an overview of the Company's filing and its request for a base rate increase of approximately \$154 million for service to retail customers and an increase of approximately \$6.8 million for wholesale transmission service. If approved and implemented through the Company's rates for Retail Delivery Service, the impact on a residential customer using 1,000 kilowatt-hours ("kWh") per month would be an increase of approximately \$2.38 or 5.19% per month. A customer with a retail plan that charges 12.5 cents per kWh would see their rate go to 12.75 cents per kWh, or a 1.91% increase in their total bill. The extent to which these

additional charges would be passed on by REPs is a function of the competitive market. A summary of each witness's testimony is provided below:

Witness	Subjects Addressed	Volume/Pages
Kenny M. Mercado	Mr. Mercado provides an overview of the Company's filing, introduces witnesses that support CenterPoint Houston's request, discusses Company values that drive prudent decision making on a daily basis, and describes changes that have occurred in major operating expense categories since the Company's last base rate proceeding.	Volume I/Pages 36-165
Randal M. Pryor	Mr. Pryor describes the Company's Distribution Operations Division, supports the reasonableness of the Company's distribution-related capital costs, and demonstrates the reasonableness of CenterPoint Houston's test-year O&M expenses incurred by the Distribution Operations Division.	Volume I/Pages 166-325
Martin W. Narendorf Jr.	Mr. Narendorf explains the structure and functions of CenterPoint Houston's High Voltage Operations Division, supports the reasonableness of the Company's transmission, substation and Major Underground investment, demonstrates the reasonableness of CenterPoint Houston's test-year O&M expenses incurred by the High Voltage Operations Division, and discusses certain Hurricane Harvey restoration-related efforts.	Volume I/Pages 326-573
Dale Bodden	Ms. Bodden describes the Company's Engineering & Asset Optimization Division, supports the reasonableness and necessity of test-year O&M costs incurred by the Engineering & Asset Optimization Division in support of the transmission and distribution functions, and details the processes used to plan, monitor, and control investments and expenditures.	Volume I/Pages 574-657

Julienne P. Sugarek	Ms. Sugarek details the structure and functions of the Company's Power Delivery Solutions Division, supports the reasonableness and necessity of test-year O&M expenses incurred by Power Delivery Solutions in support of the transmission and distribution functions, supports the Company's requests related to proposed battery assets, and presents the Company's proposals to modify CenterPoint Houston's tariffs to facilitate the development of electric vehicle charging stations and update to the Company's Lighting Services Policy.	Volume I/Pages 658-762
John R. Hudson	Mr. Hudson describes CenterPoint Houston's Market Operations group and supports the reasonableness and necessity of test-year O&M expenses incurred by Market Operations.	Volume I/Pages 763-828
Kristie L. Colvin	Ms. Colvin sponsors the books and records of CenterPoint Houston, presents the Company's accounting schedules, itemizes and explains all test-year adjustments, supports the Company's overall cost of service and requested revenue requirement, including the revenue requirement for Rider UEDIT, and demonstrates the reasonableness and necessity of certain CenterPoint Energy Service Company, LLC ("Service Company") Executive Management and Chief Accounting Organization services to CenterPoint Houston.	Volume I/Pages 829-986
Charles W. Pringle	Mr. Pringle presents CenterPoint Houston's testimony related to federal income taxes, supports the Company's EDIT Regulatory Liability, addresses issues related to the appropriate treatment of income taxes, and demonstrates that federal income tax and Texas margin tax amounts included in the Company's cost of service are reasonable and necessary.	Volume II/Pages 987-1047
Justin J. Hyland	Mr. Hyland supports the Company's property tax-related expense, describes how Service Company ensures that CenterPoint Houston and its customers pay no more than their fair share of property tax burden, and confirms that the process used to functionalize property tax expense is the same as approved by the Commission in its previous three base rate reviews.	Volume II/Pages 1048-1063

Michelle M. Townsend	Ms. Townsend describes Service Company, explains how Service Company and CenterPoint Energy Resources Corp. ("CERC") control costs, details the Service Company and CERC methodologies for assigning affiliate costs to CenterPoint Houston, and confirms that Service Company and CERC corporate support service affiliate costs are reasonable and necessary and that CenterPoint Houston is not charged a higher price than those charged to other affiliates.	Volume II/Pages 1064-1552
John E. Slanina	Mr. Slanina explains the structure and role of Business and Operations Support functions provided by Service Company and demonstrates the reasonableness and necessity of test-year Business and Operations Support costs assigned to CenterPoint Houston.	Volume II/Pages 1553-1573
Shachella D. James	Ms. James explains the structure and services provided by Service Company's Technology Operations group and demonstrates the reasonableness and necessity of test-year Technology Operations costs assigned to CenterPoint Houston.	Volume II/Pages 1574-1636
Rebecca Demarr	Ms. Demarr explains the structure and services provided by Service Company's Customer Operations organization and demonstrates the reasonableness and necessity of test-year Customer Operations costs assigned to CenterPoint Houston.	Volume II/Pages 1637-1661
M. Shane Kimzey	Mr. Kimzey details the services provided by Service Company's Legal, Claims, Corporate Records and Information, and Corporate Ethics and Compliance Departments and demonstrates the reasonableness and necessity of test-year affiliate costs assigned from those departments to CenterPoint Houston.	Volume II/Pages 1662-1689
Kelly C. Gauger	Ms. Gauger explains the services provided by Service Company's Audit Services organization and demonstrates the reasonableness and necessity of test-year Audit Services costs assigned to CenterPoint Houston.	Volume II/Pages 1690-1705

Diane M. Englet	Ms. Englet discusses the services provided by Service Company's Communications and Community Relations department and demonstrates the reasonableness and necessity of test-year Communication and Community Relations costs assigned to CenterPoint Houston.	Volume II/Pages 1706-1826
Lynne Harkel-Rumford	Ms. Harkel-Rumford discusses the services provided by Service Company's Human Resources Organization, demonstrates the reasonableness and necessity of test-year Human Resources Organization costs assigned to CenterPoint Houston, sets forth the Company's compensation philosophy, describes the types of health and welfare benefits provided to CenterPoint Houston employees, explains the Company's retirement-related plans, and supports the Company's expense requests related to postretirement and postemployment benefits.	Volume II/Pages 1827-1894
John J. Reed	Mr. Reed supports the Company's overall compensation practices and request for the recovery of incentive compensation expense.	Volume III/Pages 1895-1991
Timothy S. Lyons	Mr. Lyons sponsors CenterPoint Houston's lead-lag study used to determine the Company's cash working capital requirement.	Volume III/Pages 1992-2436
Dane A. Watson	Mr. Watson supports the reasonableness of depreciation rates proposed by the Company and presents his depreciation study in support of the requested rates.	Volume III/Pages 2437-2659
Robert B. Hevert	Mr. Hevert supports the Company's requests related to return on equity and capital structure.	Volume III/Pages 2660-2817
Robert B. McRae	Mr. McRae supports the reasonableness and need for CenterPoint Houston's requested capital structure and return on equity, presents the Company's cost of debt, and demonstrates the reasonableness and necessity of test-year Service Company Treasury Department Organization costs assigned to CenterPoint Houston.	Volume IV/Pages 2818-2887
Gregory S. Wilson	Mr. Wilson supports the need for the Company's self-insurance reserve and the appropriate level of expense to be included in the Company's cost of service.	Volume IV/Pages 2888-2922

J. Stuart McMenamin	Mr. McMenamin presents methods and data used to develop weather-related adjustments included in the Company's filing.	Volume IV/Pages 2923-2988
Matthew A. Troxle	Mr. Troxle presents the Company's proposed allocation of costs to rate classes, rate design, and tariffs, including Riders RCE and UEDIT.	Volume IV/Pages 2989-3743
Myles F. Reynolds	Mr. Reynolds supports the Company's request for reimbursement of rate case expenses.	Volume V/Pages 3744-3815

A. Effective Date

The Company's proposed effective date of the requested rate change is May 10, 2019, which is at least 35 days after the filing of this Application pursuant to PURA § 36.102.

B. Test Year

The Application is based on a test year consisting of the 12-month period ending December 31, 2018.

C. Proposed Tariffs and Schedules

The Application contains the changes described below to the Tariff for Retail Delivery Service and the Tariff for Wholesale Transmission Service.

1. Tariff for Retail Delivery Service

The Company's proposed Tariff for Retail Delivery Service sets forth the Company's updated rates, terms and conditions for the provision of Delivery System Services and Discretionary Services, as those terms are defined in the tariff. The Delivery System Services are composed of six different retail rate classes or base rate schedules and the riders that are associated with each. The rates, terms and conditions for each base rate schedule and associated rider are contained in Chapter 6.1.1 of the Company's proposed retail tariff. The Discretionary Services, including their descriptions and charges, are contained in Chapter 6.1.2 of the Company's proposed retail tariff.

a. Retail Base Rate Schedules

CenterPoint Houston proposes to update the Delivery System Charges for each retail rate class to reflect the revenue requirement by function as described in its proposed allocation study. The rate changes for each rate class except the Lighting Services rate class are reflected below.

CURRENT AND PROPOSED CHARGES (General Rate Schedules)					
CLASS	Type of Charge	Current Charge	Proposed Charge	Inc. or Dec.	Billing Unit
RESIDENTIAL	Customer	\$1.62	\$2.48	\$0.86	per meter
	Metering	\$3.85	\$1.95	(\$1.90)	per meter
	Transmission	\$0.008439	\$0.015080	\$0.006641	per kWh
	Distribution	\$0.016489	\$0.022680	\$0.006191	per kWh
SECONDARY =<10 Kva (Small)	Customer	\$1.61	\$2.44	\$0.83	per meter
	Metering	\$4.41	\$2.11	(\$2.30)	per meter
	Transmission	\$0.004437	\$0.009020	\$0.004583	per kWh
	Distribution	\$0.012218	\$0.015510	\$0.003292	per kWh
SECONDARY >10 Kva (Large)	Customer				
	NON-IDR	\$2.26	\$3.22	\$0.96	per meter
	IDR	\$65.83	\$48.28	(\$17.55)	per meter
	Metering				
	NON-IDR	\$18.82	\$6.90	(\$11.92)	per meter
	IDR	\$63.07	\$79.91	\$16.84	per meter
	Transmission				
	NON-IDR	\$1.4318	\$2.7140	\$1.28	per NCP Kva
PRIMARY	IDR	\$2.2387	\$4.0531	\$1.81	per 4 CP Kva
	Distribution	\$3.059429	\$4.835920	\$1.77649	per Billing Kva
	Customer				
	NON-IDR	\$3.58	\$4.83	\$1.25	per meter
TRANSMISSION	IDR	\$76.73	\$61.26	(\$15.47)	per meter
	Metering				
	NON-IDR	\$181.35	\$285.55	\$104.20	per meter
	IDR	\$138.40	\$198.72	\$60.32	per meter
	Transmission				
	NON-IDR	\$1.7033	\$2.7359	\$1.03	per NCP Kva
	IDR	\$2.1546	\$3.9405	\$1.79	per 4 CP Kva
	Distribution	\$2.002820	\$2.524110	\$0.52	per Billing Kva
	Customer	\$154.44	\$222.94	\$68.50	per meter
	Metering	\$1,449.82	\$1,456.82	\$7.00	per meter
	Transmission	\$2.1188	\$4.7203	\$2.60	per 4 CP Kva
	Distribution	\$0.463296	\$0.593150	\$0.13	per 4 CP Kva

The rate changes for the Lighting Services rate class are reflected in Exhibit MAT-5 to the direct testimony of Company witness Matthew A. Troxle, which is incorporated herein by reference.

Revenues by rate class and number of customers are provided below.

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SUMMARY OF REVENUES BY RATE CLASS**

<u>Rate Class Description</u>	<u>Number of Customers</u>	<u>Present Revenues¹</u> (a)	<u>Proposed Revenues</u> (b)	<u>Rider UEDIT</u> (c)	<u>Change</u> (d) = (b)+(c)-(a)	<u>Change Pct</u> (d)/(a)
Residential	2,198,225	\$ 1,130,553,347	\$ 1,217,814,820	\$ (17,253,347)	\$ 70,008,125	6.2%
Secondary <= 10kva	148,123	\$ 32,594,719	\$ 30,607,020	\$ (431,501)	\$ (2,419,200)	-7.4%
Secondary > 10Kva	137,862	\$ 654,965,407	\$ 739,867,066	\$ (10,489,328)	\$ 74,412,331	11.4%
Primary	999	\$ 66,701,177	\$ 70,089,549	\$ (992,514)	\$ 2,395,858	3.6%
Transmission	204	\$ 143,211,958	\$ 162,433,957	\$ (2,313,022)	\$ 16,908,977	11.8%
Miscellaneous Lighting	12,698	\$ 3,843,864	\$ 3,126,732	\$ (44,200)	\$ (761,332)	-19.8%
Lighting	5,100	\$ 63,729,997	\$ 58,264,534	\$ (834,750)	\$ (6,300,214)	-9.9%
Retail Electric Delivery Revenue	2,503,211	\$ 2,095,600,469	\$ 2,282,203,678	\$ (32,358,663)	\$ 154,244,545	7.4%
Wholesale Transmission Revenue		\$ 388,968,021	\$ 395,796,573		\$ 6,828,552	1.8%
Total Cost of Service		\$ 2,484,568,490	\$ 2,678,000,251	\$ (32,358,663)	\$ 161,073,097	6.5%

¹ Test Year revenues have been adjusted to normalize billing units and adjust for DCRF and TCRF

Additional non-rate changes to these rate class schedules are generally described in the direct testimony of Mr. Troxle.

b. Associated Retail Delivery Service Riders

The Company proposes updates, deletions and additions to several of the riders currently associated with the base rate schedules. It proposes to update Rider RCE – Rate Case Expenses Surcharge to recover the rate case expenses determined to be reasonable by the Commission in this case, Rider TCRF – Transmission Cost Recovery Factor to reflect the Company’s updated 4CP class allocation factors and changes in wholesale transmission rates, and Rider DCRF – Distribution Cost Recovery Factor to reflect the results of this case. It proposes to delete Schedule TC – Transition Charges, Rider CTC – Competition Transition Charges, Rider SBF – System Benefit Fund, and Rider AMS – Advanced Metering System Surcharge.

These rate schedules and riders have expired or are no longer applicable. Finally, the Company proposes to add a new Rider UEDIT – Unprotected Excess Deferred Income Tax to refund to customers the balance of unprotected excess deferred income taxes resulting from the TCJA.

c. Discretionary Services Charges

CenterPoint Houston proposes to update the charges for the Discretionary Services to reflect CenterPoint Houston's current cost of providing such services. A summary of all Discretionary Service charge changes is attached as Exhibit MAT-6 to the direct testimony of Mr. Troxle, which is incorporated herein by reference. The Company is also proposing a new Discretionary Charge for customer-requested service calls related to Unmetered Service Attachments. The new charge is described in the direct testimony of Mr. Troxle and included in his Exhibit MAT-6.

d. Other Retail Tariff Changes

The Application also presents the Commission with the opportunity to improve the readability and clarity of language in the Company's tariffs. Accordingly, the Company proposes several Company-specific changes to various non-rate provisions in Chapters 2 and 6 of its Tariff for Retail Delivery Service, as shown in the redlined markup of the tariff attached as Exhibit MAT-8 to the direct testimony of Mr. Troxle. These changes primarily update the Company's tariffs to reflect the deletion of expired and redundant tariffs sheets and provisions, the reordering and renumbering of certain Chapter 6 sections, clarifications of language, clarifications regarding references to other tariff sections, the addition of new form agreements, and general improvements to readability and consistency across the entire tariff. These changes also include a proposed "EV Construction Allowance" that would provide an additional allowance on top of the standard allowance in the Company's Construction Services Policy to help offset the amount of a customer's capital contribution for a customer-requested facility extension to an electric vehicle

charging station on the customer's premises only if the charging station would be open to the public. To consolidate all terms and conditions in one location, the Company's Construction Services Policy also contains the facility extension terms and conditions that are currently set out in the premium service discretionary rate schedule. A summary of these non-rate retail tariff changes is attached as Exhibit MAT-7 to the direct testimony of Mr. Troxle, which is incorporated herein by reference.

2. Tariff for Wholesale Transmission Service

The Tariff for Wholesale Transmission Service includes CenterPoint Houston's proposed wholesale transmission rate and the terms under which wholesale transmission service will be provided. The Company proposes changes to this tariff to reflect CenterPoint Houston's current cost of providing this service. The result of the change will update the Company's wholesale transmission service rate from \$5.781925 per kW to \$5.705672 per kW.

D. Effect of Proposed Change on Company's Revenues

The Application supports a net 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 supports an approximately \$6.8 million increase for wholesale transmission service, which is an increase of approximately 1.8%. The proposed increase constitutes a "major change" as that term is defined in PURA § 36.101.

E. Rate Case Expenses

CenterPoint Houston seeks recovery through Rider RCE of all reasonable rate case expenses incurred by the Company or by any intervening city awarded such recovery in this case and deferred costs from prior rate proceedings.

VI. REQUEST TO INSTALL VOLTAGE REGULATION BATTERY ASSETS

CenterPoint Houston is requesting authority to install voltage regulation battery technology, when necessary and cost-effective, to provide voltage regulation associated with solar farms, wind generation, and other forms of distributed generation that are expected to be connected to the Company's facilities in the coming months and years. The request is a result of the Company's recent experience with the energization of a 5 megawatt ("MW") solar farm. Following the energization of the facility in early 2019, 4 MW of pump load was regularly being affected by voltage issues stemming from the solar farm's intermittency caused by cloud coverage.

CenterPoint Houston studied various potential solutions to the intermittency issues. Traditional utility fixes that were explored included the building of a new distribution line solely for the solar farm, the installation of a new substation for the solar farm, and making modifications to an existing substation to create an express distribution circuit to the solar installation. The Company also studied battery storage systems. Ultimately, the most cost-effective solution for the issues caused by the facility was the creation of an express distribution circuit for the facility. However, the Company is confident that each solar farm, wind asset, and distributed generation facility will present its own interconnection and voltage regulation issues. As addressed in Company witness Julianne P. Sugarek's testimony, depending on a solar or wind farm's location, distance from Company facilities, and any constraints on existing facilities, the installation of a battery for voltage regulation purposes may be the most cost-effective solution.

Accordingly, the Company requests (1) the authority to install voltage smoothing battery systems, when necessary and cost-effective, for voltage regulation purposes and (2) to include the cost of the systems in rate base as depreciated consistent with the new rate noted in Company witness Dane A. Watson's direct testimony.

VII. PROTECTIVE ORDER

CenterPoint Houston has designated certain documents included in this Application as either Protected Material or Highly Sensitive Protected Material under the terms of the proposed protective order and anticipates it being necessary for the Company or other parties to submit additional documents containing confidential material during discovery in this case. The Company therefore requests approval of the proposed protective order included in Section VII of the rate filing package. The proposed protective order is the Commission protective order and has been approved in each of the Company's prior Distribution Cost Recovery Factor ("DCRF") proceedings. Until a protective order is issued in this proceeding, the Company will provide access to the confidential information submitted with this Application to parties that agree in writing to be bound by the proposed protective order as if it had been issued by the Commission.

VIII. NOTICE

On March 1, 2019, pursuant to PURA § 33.024, CenterPoint Houston provided notice of its intent to file a Statement of Intent to all municipalities with original jurisdiction over the Company's rates and services. Additionally, the Company intends to provide the following notice of this proceeding as required by 16 TAC § 22.51(a):

- pursuant to 16 TAC § 22.51(a)(1), CenterPoint Houston intends to publish the form of notice attached as Exhibit B in the *Houston Chronicle*, a newspaper having general circulation in each county containing territory affected by the proceeding, once each week for four successive weeks;
- pursuant to 16 TAC § 22.51(a)(2), CenterPoint Houston intends to mail the form of notice attached as Exhibit B to (a) each of the ERCOT wholesale transmission customers on the service list in Docket No. 48928, *Commission Staff's Application to Set 2019 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas* and (b) each REP listed on the Commission's website as of the date on which notice is sent;
- CenterPoint Houston will provide a copy of its statement of intent to the appropriate officer of each municipality in the Company's service area and will also provide each

municipality with a summary package of information, which will include a Summary of Proposed Rates by Customers and Rate Class, the Company's proposed electric tariffs, and testimony summaries; and

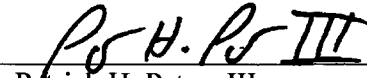
- Consistent with General Instruction No. 13 in the Commission's IOU-T&DCOS-RFP instructions, CenterPoint Houston will provide all documents created in native electronic format (e.g., Microsoft Word, Microsoft Excel, or similar compatible formats) in the RFP, including testimony and schedules, to each party that participated in Docket No. 38339, the Company's last general rate case.

CenterPoint Houston requests approval of its proposed form of notice prior to publishing and distributing that notice as indicated above.

IX. REQUEST FOR RELIEF

CenterPoint Houston requests that the Commission approve the rates requested in this Application and grant CenterPoint Houston such other relief to which it has shown itself entitled.

Respectfully submitted,



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**COUNSEL FOR CENTERPOINT ENERGY
HOUSTON ELECTRIC, LLC**

EXHIBIT A

Municipalities in CenterPoint Houston's Service Area

Municipalities that have relinquished original jurisdiction to the Public Utility Commission of Texas:

Arcola	Hitchcock	Magnolia	Piney Point Village
Bayou Vista, Village of	Humble	Mont Belvieu	Prairie View
Beasley	Iowa Colony	Morgan's Point	San Felipe
Bonney	Jacinto City	Nassau Bay	Stagecoach
Brookshire	Jamaica Beach Village	Needville	Tomball
Cove	Katy	Old River-Winfree	Waller
Galena Park	Kemah	Orchard	Wallis
Hillcrest Village	Kendleton	Pattison	
Hilshire Village	Liverpool	Pine Island	

Municipalities that have retained original jurisdiction:

Alvin	Friendswood	Oyster Creek	Spring Valley
Baytown	Fulshear	Pasadena	Stafford
Beach City	Galveston	Pearland	Sugar Land
Bellaire	Hedwig Village	Pleak	Surfside Beach Village
Brazos Country	Houston	Quintana	Taylor Lake Village
Brookside Village	Hunters Creek	Richmond	Texas City
Bunker Hill	Jersey Village	Richwood	Thompsons
Clear Lake Shores	Jones Creek	Rosenberg	Tiki Island
Clute	Lake Jackson	Sandy Point	Webster
Danbury	La Marque	Santa Fe	West Columbia
Deer Park	La Porte	Seabrook	West University Place
Dickinson	League City	Sealy	Weston Lakes
East Bernard	Manvel	Shoreacres	Wharton
El Lago	Meadows Place	Simonton	
Fairchilds	Missouri City	South Houston	
Freeport	Oak Ridge North	Southside Place	

EXHIBIT B

NOTICE OF RATE CHANGE REQUEST

On April 5, 2019, CenterPoint Energy Houston Electric, LLC (“CenterPoint Houston” or the “Company”) filed with the Public Utility Commission of Texas (“Commission”) a Statement of Intent and Application for Authority to Change Rates (“Application”). The Company is filing the Application in compliance with the rate review scheduling requirements under 16 Texas Administrative Code § 25.247(c)(2)(B) and the Company’s commitment to the timing of a rate filing in Project No. 47945, *Proceeding to Investigate and Address the Effects of the Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*. The Application has been assigned Docket No. _____.

The Application is based on a 12-month test year ending December 31, 2018, as adjusted for known and measurable changes. The Application supports a net increase in retail transmission and distribution rates of approximately \$154 million over adjusted test year revenues, which is an increase of around 7.4%. It also supports an approximately \$6.8 million increase for wholesale transmission service, which is an increase of around 1.8%. If approved and implemented through the Company’s rates for Retail Delivery Service, the impact on a residential customer using 1,000 kilowatt-hours (“kWh”) per month would be an increase of approximately \$2.38 or 5.19% per month. A customer with a retail plan that charges 12.5 cents per kWh would see their rate go to 12.75 cents per kWh, or a 1.91% increase in their total bill. The extent to which these additional charges would be passed on by Retail Electric Providers (“REPs”) is a function of the competitive market. The Company’s proposed effective date of the requested rate change is May 10, 2019.

CenterPoint Houston proposes to change delivery charges to reflect the revenue requirement by function as described in its proposed allocation study. The changes by rate class are reflected in the table below.

CURRENT AND PROPOSED CHARGES (General Rate Schedules)					
CLASS	Type of Charge	Current Charge	Proposed Charge	Inc. or Dec.	Billing Unit
RESIDENTIAL	Customer	\$1.62	\$2.48	\$0.86	per meter
	Metering	\$3.85	\$1.95	(\$1.90)	per meter
	Transmission	\$0.008439	\$0.015080	\$0.006641	per kWh
	Distribution	\$0.016489	\$0.022680	\$0.006191	per kWh
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	Metering	\$4.41	\$2.11	(\$2.30)	per meter
	Transmission	\$0.004437	\$0.009020	\$0.004583	per kWh
	Distribution	\$0.012218	\$0.015510	\$0.003292	per kWh
SECONDARY >10 Kva (Large)	Customer				
	NON-IDR	\$2.26	\$3.22	\$0.96	per meter
	IDR	\$65.83	\$48.28	(\$17.55)	per meter
	Metering				
	NON-IDR	\$18.82	\$6.90	(\$11.92)	per meter
	IDR	\$63.07	\$79.91	\$16.84	per meter
	Transmission				
	NON-IDR	\$1.4318	\$2.7140	\$1.28	per NCP Kva
	IDR	\$2.2387	\$4.0531	\$1.81	per 4 CP Kva
	Distribution	\$3.059429	\$4.835920	\$1.77649	per Billing Kva
PRIMARY	Customer				
	NON-IDR	\$3.58	\$4.83	\$1.25	per meter
	IDR	\$76.73	\$61.26	(\$15.47)	per meter
	Metering				
	NON-IDR	\$181.35	\$285.55	\$104.20	per meter
	IDR	\$138.40	\$198.72	\$60.32	per meter
	Transmission				
	NON-IDR	\$1.7033	\$2.7359	\$1.03	per NCP Kva
	IDR	\$2.1546	\$3.9405	\$1.79	per 4 CP Kva
	Distribution	\$2.002820	\$2.524110	\$0.52	per Billing Kva
TRANSMISSION	Customer	\$154.44	\$222.94	\$68.50	per meter
	Metering	\$1,449.82	\$1,456.82	\$7.00	per meter
	Transmission	\$2.1188	\$4.7203	\$2.60	per 4 CP Kva
	Distribution	\$0.463296	\$0.593150	\$0.13	per 4 CP Kva

Revenues by rate class and number of customers are provided below.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SUMMARY OF REVENUES BY RATE CLASS

<u>Rate Class Description</u>	<u>Number of Customers</u>	<u>Present Revenues¹</u>	<u>Proposed Revenues</u>	<u>Rider UEDIT</u>	<u>Change</u>	<u>Change Pct</u>
		(a)	(b)	(c)	(d) = (b)+(c)-(a)	(d)/(a)
Residential	2,198,225	\$ 1,130,553,347	\$ 1,217,814,820	\$ (17,253,347)	\$ 70,008,125	6.2%
Secondary <= 10kva	148,123	\$ 32,594,719	\$ 30,607,020	\$ (431,501)	\$ (2,419,200)	-7.4%
Secondary > 10Kva	137,862	\$ 654,965,407	\$ 739,867,066	\$ (10,489,328)	\$ 74,412,331	11.4%
Primary	999	\$ 66,701,177	\$ 70,089,549	\$ (992,514)	\$ 2,395,858	3.6%
Transmission	204	\$ 143,211,958	\$ 162,433,957	\$ (2,313,022)	\$ 16,908,977	11.8%
Miscellaneous Lighting	12,698	\$ 3,843,864	\$ 3,126,732	\$ (44,200)	\$ (761,332)	-19.8%
Lighting	5,100	\$ 63,729,997	\$ 58,264,534	\$ (834,750)	\$ (6,300,214)	-9.9%
Retail Electric Delivery Revenue	2,503,211	\$ 2,095,600,469	\$ 2,282,203,678	\$ (32,358,663)	\$ 154,244,545	7.4%
Wholesale Transmission Revenue		\$ 388,968,021	\$ 395,796,573		\$ 6,828,552	1.8%
Total Cost of Service		\$ 2,484,568,490	\$ 2,678,000,251	\$ (32,358,663)	\$ 161,073,097	6.5%

¹Test Year revenues have been adjusted to normalize billing units and adjust for DCRF and TCRF

CenterPoint Houston's proposed tariff for Wholesale Transmission Service includes CenterPoint Houston's proposed wholesale transmission rate and the terms under which wholesale transmission service will be provided. The Company proposes changes to this tariff to reflect CenterPoint Houston's current cost of providing this service. The result of the change will update the Company's wholesale transmission service rate from \$5.781925 per kW to \$5.705672 per kW.

In addition to new rates, CenterPoint Houston requests a prudence determination on all capital investment made in the system since January 1, 2010, the establishment of Rider UEDIT to continue returning to customers approximately \$97 million for the excess deferred federal income tax unprotected balance resulting from the enactment of the Tax Cuts and Jobs Act of 2017, and updated depreciation rates. CenterPoint Houston also seeks permission to install voltage regulation battery assets when necessary and cost-effective situations permit and the amendment of its Facilities Extension Policy to facilitate electric vehicle charging station development.

Additional non-rate changes intended to improve the readability and clarity of the Company's tariffs are addressed in the direct testimony of Company witness Matthew A. Troxle. The Company is also proposing Rider RCE to recover rate case expenses determined to be reasonable by the Commission in this case. Finally, CenterPoint Houston proposes to update the charges for Discretionary Services to reflect CenterPoint Houston's current cost of providing such services, including its Non-Standard Metering Service Recurring Fee, of which the Company is

required to notify REPs prior to making any changes. Proposed changes to Discretionary Services charges are identified in Exhibit MAT-6 to the direct testimony of Mr. Troxle.

The Application affects all REPs serving end-use retail electric customers in CenterPoint Houston's certificated service territory and will affect the retail electric customers of those REPs to the extent that the REPs pass along to their customers the charges under the Company's Tariff for Retail Delivery Service. The Application also affects all customers taking service under the Company's Tariff for Wholesale Transmission Service.

Persons with questions or who want more information about the Application may contact CenterPoint Houston at 1111 Louisiana Street, Houston Texas 77002, or by calling Alice Hart at 713-207-5322. In addition, questions may be sent to CEHERATECASE@CenterPointEnergy.com. A complete copy of the filing will be available for inspection at the address listed above and at the Company's offices in Austin, Texas.

Persons who wish to intervene in or comment upon these proceedings should notify the Commission as soon as possible, as an intervention deadline will be imposed. A request to intervene or for further information should be mailed to the Public Utility Commission of Texas, P.O. Box 13326, Austin, Texas 78711-3326. Further information may also be obtained by calling the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing- and speech-impaired individuals with text telephones (TTY) may contact the Commission at (512) 936-7136. The deadline for intervention in the proceeding is 45 days after the date the application was filed with the Commission. The 45th day after the date CenterPoint Houston filed its application is May 20, 2019.

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, the Public Utility Commission Staff, Office of Public Utility Counsel, and the attorneys of record to the parties in Docket No. 38339 by hand delivery, overnight delivery or first class mail on this 5th day of April, 2019.

Alice A Hart

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

DIRECT TESTIMONY
OF
KENNY M. MERCADO
ON BEHALF OF
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

April 2019

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IV. SAFETY & TECHNICAL TRAINING	23
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LIST OF EXHIBITS

Exhibit KMM-1	CenterPoint Energy Houston Electric Service Area Map
Exhibit KMM-2	Rate Case Witness List
Exhibit KMM-3	Comparison per Rate Case General Instruction 2

1 **EXECUTIVE SUMMARY OF KENNY M. MERCADO**

2 CenterPoint Energy Houston Electric, LLC (“CenterPoint Houston” or the
3 “Company”) has a long history of providing safe, reliable, value-added service to our
4 customers. Since the Company’s last base rate case, Docket No. 38339, *Application of*
5 *CenterPoint Energy Houston Electric, LLC for Authority to Change Rates*, the Company
6 has continued this tradition and successfully met the demands placed on our electric system
7 by a growing economy. As a result, the Company now maintains and operates a
8 transmission and distribution system for the benefit of approximately 2.5 million metered
9 customers—nearly 400,000 more customers than the Company served when it filed its last
10 rate case in Docket No. 38339.

11 This filing presents both the opportunity to review investment and expenses that
12 CenterPoint Houston has incurred since the Company’s last base rate case and to establish
13 a solid foundation that will enable CenterPoint Houston to continue to meet the
14 expectations of our customers, respond to growth and support economic development
15 within the state of Texas. This is vitally important because residential customer growth in
16 the Company’s service territory is expected to continue at a rate of approximately two
17 percent per year for the next 20 years and CenterPoint Houston must be solidly positioned
18 to respond to this demand.

19 In establishing new transmission and distribution rates for CenterPoint Houston,
20 the Company asks the Public Utility Commission of Texas (“Commission”) to provide it
21 with the opportunity to earn a reasonable rate of return on its investment and to recover its
22 necessary expenses, so it can continue to provide safe and reliable electric service. As
23 shown in the Company’s rate filing package, the total cost of service for CenterPoint
24 Houston based on a test year ended December 31, 2018, as adjusted for known and

1 measurable changes, is approximately \$2.3 billion. This includes a proposed return on
 2 equity of 10.4%, a capital structure of 50% debt and 50% equity, and a proposed overall
 3 weighted cost of capital of 7.39% on a rate base of approximately \$6.5 billion. It also
 4 includes the investment of over \$6 billion in transmission and distribution infrastructure
 5 since the Company's last rate case. If approved and implemented through the rates for
 6 Retail Delivery Service, the impact on a residential customer using 1,000 kilowatt-hours
 7 per month would be an increase of approximately \$2.38 per month.

8 My testimony provides an overview of the Company's filing, its operations, and its
 9 rate request. I also introduce the Company witnesses that support the requested rates. In
 10 addition, my testimony highlights the Company's commitment to its five core values:
 11 Safety, Integrity, Accountability, Initiative and Respect. These values serve as the
 12 foundation that drives our actions and fosters our commitment to utilizing new and
 13 innovative technology to enhance safety and performance. It also translates into a
 14 workforce that is focused on the safe and reliable delivery of electric service and shares a
 15 deep sense of duty to our communities and other stakeholders.

16 The testimony and material provided in this filing evidences the Company's
 17 commitment to our customers and our dedication to delivering safe and reliable electricity,
 18 service and value. I look forward to working with the Commission and all stakeholders to
 19 ensure the new rates established for CenterPoint Houston continue to allow the Company
 20 to make necessary investments in its system to safely and reliably serve its customers and
 21 support economic growth throughout Houston and the state of Texas.

DIRECT TESTIMONY OF KENNY M. MERCADO

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. My name is Kenny M. Mercado. I have been with CenterPoint Energy, Inc. (“CNP”) and predecessor companies for the last 34 years. I began my career with CenterPoint Energy Houston Electric, LLC (“CenterPoint Houston” or the “Company”) serving in a number of roles in the Company’s Electrical Engineering Department. I was named Service Area Manager for the Magnolia Park Service Center in 1999, Manager of Purchasing & Logistics in 2001, and Service Area Manager for the Bellaire Service Center in 2004. I was promoted to Vice President of Distribution Operations in 2006. In 2008, I was named Division Senior Vice President of Electric Operations and assumed responsibility for the financial and operational performance of the Company’s electric operations. I am currently leading CNP’s integration efforts with Vectren Corporation (“Vectren”).

I have a Bachelor of Science degree in Electrical Engineering and a Master of Science degree in Engineering Management from the University of Houston, and an Executive MBA from Mays Business School at Texas A&M University. I am a licensed Professional Engineer registered in the state of Texas. In addition, I currently represent the Investor-Owned Utility segment on the ERCOT Board of Directors, as well as serving on the Executive Committee of the Electric Power Research Institute Research Advisory Committee. Beginning July 1, 2019, I will also be serving as the President of the Board of Directors of the Southeastern Electric Exchange, Inc. (“SEE”).

**Direct Testimony of Kenny M. Mercado
CenterPoint Energy Houston Electric, LLC**

1 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

2 A. I am testifying on behalf of CenterPoint Houston.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
4 **PROCEEDING?**

5 A. My testimony provides an overview of CenterPoint Houston and its operations. I
6 explain the Company's organizational and management structure and describe the
7 Company's commitment to its core values. I summarize the Company's rate filing
8 package, including the reasons and need for this filing and the witnesses testifying
9 in support of the request. I discuss the Company's efforts related to system safety
10 and reliability and the impact of economic and customer growth in the Company's
11 service territory since its last base rate case. Finally, I support the reasonableness
12 and necessity of the \$10.4 million in test year expense for the Company's Safety &
13 Technical Training ("Safety and Training") function the Company seeks to recover
14 in this case.

15 **Q. HAVE YOU INCLUDED ANY EXHIBITS WITH YOUR TESTIMONY?**

16 A. Yes. I supervised the preparation of the exhibits listed in the table of contents.

17 **II. COMPANY DESCRIPTION**

18 **Q. PLEASE DESCRIBE CENTERPOINT HOUSTON'S CORPORATE**
19 **STRUCTURE.**

20 A. CenterPoint Houston is an indirect, wholly-owned subsidiary of CNP.
21 Headquartered in Houston, Texas, CNP is an energy delivery company with
22 regulated utility businesses in eight states and a competitive energy businesses
23 footprint in nearly 40 states. Through its electric transmission and distribution,
24 power generation and natural gas distribution businesses, CNP serves more than

1 seven million metered customers. Additional information concerning CNP and its
2 affiliates is available in CNP's 2018 Annual Report and SEC Form 10-K filing,
3 each of which can be found on CNP's website, www.centerpointenergy.com.

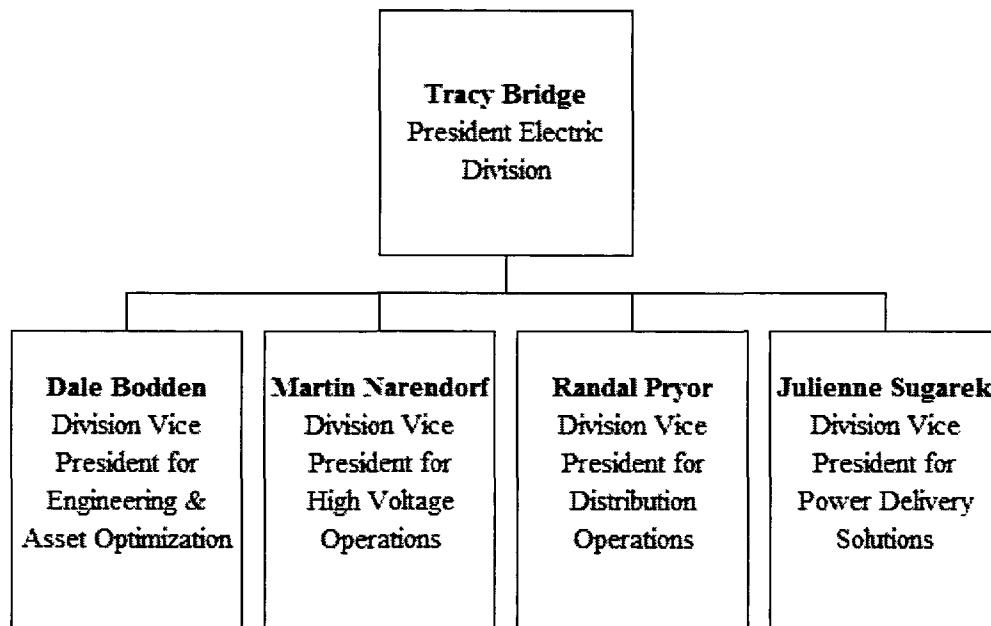
4 **Q. WHERE IS THE COMPANY'S PRINCIPAL OFFICE LOCATED, AND**
5 **WHERE ARE ITS RECORDS KEPT?**

6 A. The Company's principal office in Texas is located at 1111 Louisiana Street,
7 Houston, Texas, and its books, accounts, and records are kept at that same location.

8 **Q. PLEASE DESCRIBE THE ORGANIZATIONAL STRUCTURE OF THE**
9 **COMPANY'S ELECTRIC OPERATIONS IN TEXAS.**

10 A. The Company's current organizational structure is shown in the Figure 1 below.

11 **Figure 1. Electric Operations Organizational Chart**



12 Within these four divisions, a variety of personnel, materials, supplies, vehicles,
13 warehouses, offices, equipment and facilities located throughout CenterPoint

1 Houston's service area support the transmission and distribution delivery system
2 around the clock every day of the year.

3 **Q. HOW MANY CUSTOMERS ARE SERVED BY CENTERPOINT**
4 **HOUSTON?**

5 A. CenterPoint Houston serves approximately 2.5 million metered customers. The
6 Company's electric system covers approximately 5,000 square miles located in and
7 around Houston, Texas and is comprised of approximately 58,000 miles of
8 overhead and underground transmission and distribution lines. Company witness
9 Matthew A. Troxle calculates the adjusted test year average number of customers.
10 A map of the CenterPoint Houston service area appears in Exhibit KMM-1.

11 **Q. HOW DOES CENTERPOINT HOUSTON VIEW ITS ROLE IN**
12 **PROVIDING SERVICE TO ITS CUSTOMERS?**

13 A. The Company is committed to safely and reliably delivering electricity to our
14 customers. In this regard, our activities are guided by five core values: Safety,
15 Integrity, Accountability, Initiative and Respect. The Company puts safety first in
16 everything it does and strives to create a culture of safety excellence. CenterPoint
17 Houston is committed to doing what is right and accepts personal responsibility for
18 our actions and decisions. The Company constantly looks for opportunities and
19 attempts to solve problems as soon as they arise, and shows respect to our customers
20 by giving our best effort every day.

1 **Q. HOW DO THE COMPANY’S EMPLOYEES LIVE THE COMPANY’S**
2 **CORE VALUES ON A DAY-TO-DAY BASIS?**

3 A. The Company places a high priority on sustaining a strong culture of ethics and
4 mutual respect at all levels. For example, CNP’s emphasis on volunteerism led its
5 employees to contribute more than 112,000 volunteer hours and to donate
6 approximately \$9.5 million to non-profit organizations in 2018.

7 **Q. HAS THE COMPANY BEEN RECOGNIZED FOR ANY PARTICULAR**
8 **SUCCESSES SINCE ITS LAST RATE CASE, DOCKET NO. 38339?**

9 A. Yes, it has. Most recently, in 2018, CNP was recognized by the Texas Diversity
10 Council as a Top 25 Company for Diversity in Texas. Other Company awards
11 include:

- 12 • Site Selection Magazine Top Utility – for economic development, 2016;
- 13 • International Smart Grid Action Network – Award of Excellence – for Grid
14 Reliability, 2016;
- 15 • SEE Industry Excellence Award – Cable Life Extension Program, 2016;
16 and
- 17 • Edison Electric Institute’s (“EEI”) Emergency Recovery and Emergency
18 Assistance Awards for storm recovery in Sealy, Texas in May 2017,
19 Hurricane Harvey in August 2017, Hurricane Irma in September 2017, and
20 Hurricane Michael, which impacted Florida in October 2018.

21 In all, CenterPoint Houston has received 12 EEI emergency response awards in
22 recognition of its outstanding efforts to restore service following a storm or other
23 natural disaster.

1 **Q. HAVE THE COMPANY’S EFFORTS PROVIDED VALUE TO ITS**
2 **CUSTOMERS?**

3 A. Yes. CenterPoint Houston is committed to putting the customer at the center of
4 everything we do and our customer service organization prides itself on its ability
5 to consistently provide reliable, value-added service to customers. This emphasis
6 on customer service and reliable performance has led our customers to highly value
7 the service we provide. For example, the 2018 American Customer Satisfaction
8 Index (based on 2017 ACSI Energy Utility Sector Study) found CenterPoint
9 Houston to be a leader in the Energy Utility Sector in the following categories:

- 10 • #1 in Customer Satisfaction;
- 11 • #1 in Perceived Value;
- 12 • #1 in Customer Retention;
- 13 • Sector Leader in Customer Loyalty;
- 14 • Sector Leader in Perceived Overall Quality;
- 15 • #1 in Efforts to Support Green Programs; and
- 16 • #1 in Customers’ trust of the utility.

17 Company witnesses Rebecca Demarr and Diane M. Englet provide additional detail
18 regarding the broad recognition the Company has received for its customer service
19 and other activities.

20 **Q. HOW DOES THE COMPANY ENSURE SAFETY AND RELIABILITY ON**
21 **A DAY-TO-DAY BASIS?**

22 A. Our employees adhere to the guiding principles of Compliance, Accountability,
23 Continuous Improvement, and Customer and Community Focus. CenterPoint
24 Houston employees and contractors are expected to abide by all applicable laws,

1 regulations, Company policies, procedures and guidelines for safely working and
2 operating the Company's systems. Employees are held accountable for reporting
3 incidents, and unsafe practices and conditions, so they can be promptly addressed.
4 The Company continually works to improve by embracing innovation and
5 technology that enhances performance. And, CenterPoint Houston develops and
6 maintains safety programs to educate and inform customers and the public in the
7 communities where we operate.

8 **Q. WHAT HAS THE COMPANY DONE SINCE ITS LAST RATE CASE TO**
9 **ENHANCE SYSTEM SAFETY AND RELIABILITY?**

10 A. CenterPoint Houston has implemented a number of programs and initiatives
11 designed to enhance the safety and reliability of the Distribution Delivery System,
12 including a Pole Maintenance Program, Underground Residential Distribution
13 Cable Life Extension Program, Meter Maintenance Program, Meter Inspection
14 Program, Vegetation Management Program, Feeder Inspection Program, Pole Top
15 Switch Inspection Program, Power Factor Program, Infra-Red Program, Root
16 Cause Analysis Program, Hot Fuse Program and Distribution Automation Program.
17 CenterPoint Houston's experiences with Hurricanes Ike and Harvey have
18 additionally led the Company to engage in system hardening and resilience
19 activities. As discussed in Company witness Randal M. Pryor's testimony, the
20 Company spent approximately \$223 million in proactive trimming, hazard tree
21 removal, and reactive tree trimming over the last eight years. In addition, the
22 Company not only completed raising the entire Memorial substation in response to
23 the extreme flooding that accompanied Hurricane Harvey, but also has additional

1 projects underway to raise the control houses at other substations. These and other
2 storm hardening activities¹ are designed to improve system performance during and
3 after major weather events. The Company has also continued to modernize its
4 practices and infrastructure through the completion of its deployment of advanced
5 meters and the automation of over 20% of its overhead circuits as part of its
6 Intelligent Grid initiative. The programs described above are each discussed in
7 detail by Company witnesses Dale Bodden, Julianne P. Sugarek,
8 Shachella D. James, and Mr. Pryor.

9 **Q. CAN YOU BRIEFLY DISCUSS CNP'S RECENT ACQUISITION OF**
10 **VECTREN?**

11 A. Yes. In April 2018, CNP entered into an agreement and plan of merger with
12 Vectren. Following the satisfaction of various closing conditions, including federal
13 and state regulatory approvals, the transaction closed on February 1, 2019.

14 **Q. PLEASE BRIEFLY DESCRIBE VECTREN'S CURRENT OPERATIONS.**

15 A. With respect to Vectren's utilities, its natural gas operations (comprised of Indiana
16 Gas Company, Inc., Vectren Energy Delivery of Ohio, Inc. and Southern Indiana
17 Gas and Electric Company) provide natural gas distribution and transportation
18 services to nearly 67% of Indiana and about 20% of Ohio, primarily in the west-
19 central area. Its electric operations (comprised of Indiana Electric) provide electric
20 transmission and distribution services to southwestern Indiana, and include power
21 generating and wholesale power operations. In total, these utility operations supply

¹ See Report for Electric Utility Infrastructure Storm Hardening Pursuant to P.U.C Subst. R. 25.95, Project No. 39339, CenterPoint Energy Houston Electric, LLC Storm Hardening Report Summary (May 1, 2018).

1 natural gas and electricity to over one million customers in Indiana and Ohio.

2 Vectren also has activities in infrastructure and energy services businesses.

3 **Q. WILL CENTERPOINT HOUSTON CUSTOMERS BE RESPONSIBLE FOR**
4 **ANY VECTREN-RELATED TRANSACTION COSTS?**

5 A. No. CNP will not seek recovery of any transaction costs from Texas electric
6 customers.

7 **Q. DID THE ACQUISITION OF VECTREN IMPACT THE DAY-TO-DAY**
8 **OPERATIONS OF CENTERPOINT HOUSTON DURING THE TEST**
9 **YEAR?**

10 A. No.

11 **Q. IS THE ACQUISITION OF VECTREN EXPECTED TO IMPACT THE**
12 **DAY-TO-DAY OPERATIONS OF CENTERPOINT HOUSTON MOVING**
13 **FORWARD?**

14 A. No.

15 **Q. PLEASE DESCRIBE THE INTEGRATION EFFORTS THAT ARE**
16 **UNDERWAY TO COMBINE THE COMPANIES.**

17 A. CNP and Vectren are both committed to seamlessly integrating our talent,
18 processes, systems and infrastructure into a combined company. These integration
19 efforts are ongoing. The ultimate impact of integration on CNP will not be known
20 for some time. Company witness M. Shane Kimzey provides additional
21 information regarding the merger in his direct testimony.

1 **III. OVERVIEW OF THE COMPANY'S RATE CASE FILING**

2 **Q. WHY IS THE COMPANY FILING THIS CASE AND WHAT DOES IT**
 3 **HOPE TO ACCOMPLISH?**

4 A. The Company is making this filing in compliance with the rate case review schedule
 5 requirements under 16 Texas Administrative Code § 25.247(c)(2)(B) ("TAC") and
 6 its commitment to the timing of a rate filing in Project No. 47945, *Proceeding to*
 7 *Investigate and Address the Effects of the Tax Cuts and Jobs Act of 2017 on the*
 8 *Rates of Texas Investor-Owned Utility Companies*. This filing will allow the Public
 9 Utility Commission of Texas ("Commission") to determine the prudence of the
 10 capital investment made in the CenterPoint Houston system since the test year in
 11 the Company's last base rate case, Docket No. 38339. As part of this rate filing,
 12 the Company also proposes to update depreciation rates, address the accumulated
 13 deferred federal income tax balances that resulted from the Tax Cuts and Jobs Act
 14 of 2017 ("TCJA"), and set rates that are reflective of the Company's current
 15 reasonable and necessary cost of service and operations. Moving forward, the filing
 16 will allow the Company to address its current revenue requirement deficiency so
 17 the Company may continue investing in safe and reliable infrastructure now and in
 18 the future.

19 **Q. HAS THE CURRENT REGULATORY FRAMEWORK IN TEXAS**
 20 **ENABLED THE COMPANY TO INVEST IN SAFE AND RELIABLE**
 21 **INFRASTRUCTURE SINCE DOCKET NO. 38339?**

22 A. Yes. The current regulatory framework combined with the Company's existing
 23 base rates and 10% return on equity ("ROE") set in the Company's last base rate
 24 case have allowed CenterPoint Houston to make necessary investments in its

1 system. In particular, the periodic adjustments CenterPoint Houston is able to make
2 to its base rates through Transmission Cost of Service (“TCOS”) adjustments in
3 accordance with 16 TAC § 25.192 and Distribution Cost Recovery Factor
4 (“DCRF”) adjustments in accordance with the Public Utility Regulatory Act
5 (“PURA”) and 16 TAC § 25.243 have allowed the Company to gradually modify
6 its rates to track ongoing changes in its invested capital, thereby avoiding the
7 necessity for an even larger incremental rate change in this proceeding. These
8 mechanisms, combined with the Company’s disciplined financial approach and
9 adherence to its core values, have enabled the Company to maintain its credit rating
10 so it can access the credit markets on reasonable terms to obtain the capital required
11 to invest in system safety and reliability, and to operate through and make necessary
12 repairs following Hurricane Harvey. As I discuss below, however, Commission
13 approval of an updated capital structure and return on equity are necessary to
14 maintain this constructive framework going forward in light of the impacts of
15 customer growth and the TCJA on CenterPoint Houston.

16 **Q. HOW HAS GROWTH IMPACTED THE COMPANY SINCE ITS LAST**
17 **BASE RATE PROCEEDING?**

18 A. Growth in the Company’s service territory and the state of Texas has been the
19 primary driver of investment and operations and maintenance (“O&M”) expense
20 since the final order was issued in Docket No. 38339. Since January 1, 2010,
21 CenterPoint Houston has invested over \$6 billion in transmission and distribution
22 infrastructure to safely and reliably support economic and population growth in
23 Houston and its surrounding cities. This investment has allowed CenterPoint

1 Houston to extend service to nearly 400,000 new customers. Additionally,
 2 CenterPoint Houston has installed almost 2.5 million advanced meters and
 3 improved the intelligence and resiliency of its transmission and distribution system.
 4 With customer growth in the Company's service territory expected to continue at
 5 approximately two percent per year for the next 20 years, it is important through
 6 this filing to establish rates that will allow CenterPoint Houston to continue to
 7 efficiently and innovatively meet the needs of its customers for years to come.

8 **Q. HAS GROWTH IN THE COMPANY'S SERVICE TERRITORY BEEN**
 9 **LIMITED TO RESIDENTIAL CUSTOMERS?**

10 A. No. As a port city and trade center, economic and industrial growth in the Houston
 11 area has been a key driver of the Company's investment needs. Over 40,000 of the
 12 customers that CenterPoint Houston added between January 2010 and the end of
 13 the test year were non-residential customers. Customer count for the Company's
 14 largest customers that take service at the transmission level increased by almost
 15 23% since the Company's last rate case. As a result, electric sales to the
 16 transmission class have grown at a rate of almost four percent over the same
 17 timeframe. Included amongst these new large customer additions is the Freeport
 18 Liquefied Natural Gas facility on Quintana Island, which alone has a net forecasted
 19 load of 708MW, as well as 180MW of additional customer load in the Mont Belvieu
 20 area. Over the next couple of years, the Company plans to energize approximately
 21 350MW of projects that it has under contract in its service territory. The Company
 22 is also currently studying projects with potential added aggregate demand of

1 approximately 880MW. Please see the testimony of Company witness
2 Martin W. Narendorf for further discussion of these large non-residential projects.

3 **Q. HOW HAS ECONOMIC GROWTH IN THE COMPANY'S SERVICE**
4 **TERRITORY IMPACTED THE COMPANY'S NEED TO INVEST IN ITS**
5 **SYSTEM?**

6 A. Houston is a vibrant, growing, international port city and trade hub. The Port of
7 Houston complex alone ranked first in the United States in foreign waterborne
8 tonnage, second in total foreign and domestic waterborne tonnage, and third in
9 terms of total foreign cargo value. It is the largest port in Texas and largest Gulf
10 Coast container port, handling 69% of United States Gulf Coast container traffic.
11 Similarly, the Texas Medical Center is the largest medical complex in the world,
12 with an estimated 10 million patients per year visiting a campus of over 50 million
13 square feet. Investments necessary to connect large scale commercial operations
14 to the Company's system, such as those described in the testimony of
15 Mr. Narendorf, serve to ensure the continued economic success of Houston, the
16 state of Texas, and the country. That investment has been a necessary component
17 of the area's economic growth and driver of the Company's capital investment plan.

18 **Q. HAVE CUSTOMER AND ECONOMIC GROWTH IMPACTED THE**
19 **COMPANY'S ONGOING FINANCING NEEDS?**

20 A. Yes. As discussed in the direct testimony of Company witness Robert B. McRae,
21 two factors outside of the Company's control—growth in the Company's service
22 territory, which has materially increased the level of capital investment required on
23 an annual basis and the TCJA, which has significantly reduced the Company's cash

1 flow—are materially impacting CenterPoint Houston’s credit metrics. In
2 particular, reduced cash from operations and earnings before interest, taxes,
3 depreciation, and amortization metrics have the strong potential to cause rating
4 agencies to issue lower credit ratings for CenterPoint Houston absent a constructive
5 response from the Commission that includes an increase in the Company’s
6 authorized equity ratio and ROE. Put differently, two very good things for
7 customers (strong economic growth in the Houston area and tax relief) will
8 negatively impact the Company’s financial condition if its capital structure and
9 ROE are not adjusted to reflect a higher equity ratio and the higher cost of equity.

10 In order to counter this negative impact and facilitate CenterPoint Houston’s
11 ability to respond to economic growth, the Company is requesting a capital
12 structure of 50% equity and 50% long-term debt and an ROE of 10.4%. Mr. McRae
13 explains that a 50% equity ratio will help CenterPoint Houston maintain its current
14 A- issuer rating. Company witness Robert. B. Hevert explains that an ROE of
15 10.4% will continue to allow the Company to attract capital and fund the necessary
16 system investment required to safely and reliably respond to system growth, and
17 efficiently and innovatively meet the needs of its customers.

18 **Q. PLEASE DESCRIBE CENTERPOINT HOUSTON’S FILING IN THIS**
19 **CASE.**

20 A. The Company’s filing has been prepared consistent with the requirements of PURA
21 and the Commission’s Substantive and Procedural Rules, including the Investor-
22 Owned Utility Transmission and Distribution Cost of Service Rate Filing Package,
23 adopted by the Commission on November 19, 2015. CenterPoint Houston’s filing

1 is based on a test year ended December 31, 2018. In addition to the Company's
2 Application and Statement of Intent, the components of the filing include the sworn
3 direct testimony of 26 internal and external witnesses (some of whom cover
4 multiple subjects), direct testimony workpapers, revised tariffs, required schedules,
5 and schedule workpapers. The filing reflects the considerable efforts of many
6 Company employees and additional external resources, and it provides an accurate
7 and transparent view of our business. The witnesses submitting direct testimony in
8 support of CenterPoint Houston's Application and the topics they address are
9 described in the table attached to my testimony as Exhibit KMM-2.

10 **Q. WHAT IS THE TOTAL COST CENTERPOINT HOUSTON INCURS TO**
11 **PROVIDE SERVICE TO ITS CUSTOMERS?**

12 A. As described and supported in the Company's Rate Filing Package, CenterPoint
13 Houston's total cost of service based on a test year ended December 31, 2018, as
14 adjusted for known and measurable changes, is approximately \$2.3 billion. This
15 includes a proposed ROE of 10.4%, a capital structure of 50% debt and 50% equity,
16 and a proposed overall weighted average cost of capital of 7.39% on a rate base of
17 approximately \$6.5 billion. As demonstrated by Company witness Kristie L.
18 Colvin's testimony, the Company has prepared the filing using actual test year
19 books and records, adjusted for known and measurable changes, and using
20 traditional and widely accepted ratemaking principles.

1 **Q. WHAT EFFECT WOULD THE COMPANY’S PROPOSED RATE**
 2 **INCREASE HAVE ON RESIDENTIAL CUSTOMERS?**

3 A. The Company is requesting approval of a rider (“Rider UEDIT”) that will allow the
 4 Company to continue to pass on benefits of the TCJA to customers. Accounting
 5 for the effects of Rider UEDIT, the Company’s filing shows an increase for
 6 residential customers over adjusted test year Retail Electric Delivery revenues of
 7 approximately \$70 million, or approximately 6.2%. If approved and implemented
 8 through the rates for Retail Delivery Service, the impact on a residential customer
 9 using 1,000 kilowatt-hours (“kWh”) per month would be an increase of
 10 approximately \$2.38 per month. A customer with a retail plan that charges
 11 12.51 cents per kWh would see their rate go to 12.75 cents per kWh, or a 1.91%
 12 increase in their total bill. The extent to which these additional charges would be
 13 passed on by Retail Electric Providers is a function of the competitive market.

14 **Q. WHAT ARE THE PRIMARY DRIVERS OF THE REVENUE**
 15 **REQUIREMENT IN THIS CASE?**

16 A. As noted above, the primary drivers are growth related and include the increase in
 17 transmission charges for access to the Electric Reliability Council of Texas
 18 (“ERCOT”) system that CenterPoint Houston incurs. Since the Company’s last
 19 rate case, CenterPoint Houston has seen these transmission costs increase by
 20 approximately \$344 million. In addition, CenterPoint Houston’s total plant in
 21 service since the end of the test year presented in Docket No. 38339 has increased
 22 approximately \$4.3 billion. This investment includes 6,543 additional miles of
 23 distribution lines, 80 new miles of transmission lines, six new distribution

1 substations and six new transmission substations, and associated plant in service
2 necessary to meet the demands of a growing service territory. Similarly, day-to-
3 day O&M expense levels for activities such as vegetation management, external
4 contractor costs, property taxes, municipal franchise fees, and labor and benefits
5 expense, have been impacted by the nearly 20% increase in customer counts over
6 the past nine years. Additionally, the Company's need to install technology
7 upgrades and conversions required to maintain support or ensure data and
8 cybersecurity are impacting the Company's cost of service. As discussed in the
9 direct testimonies of CenterPoint Houston's witnesses, these are reasonable and
10 necessary costs incurred to safely and reliably serve the Company's larger and
11 expanding footprint.

12 **Q. ARE ANY OTHER FACTORS RELEVANT WHEN EVALUATING**
13 **CENTERPOINT HOUSTON'S CURRENT REVENUES COMPARED TO**
14 **ITS REQUESTED REVENUE REQUIREMENT AND CURRENT RATE**
15 **DEFICIENCY?**

16 A. Yes. As a result of the enactment of the TCJA, the Company's current DCRF and
17 TCOS rates include one-time adjustments to refund certain 2018 tax expense
18 amounts. The impact of these one-time TCJA-related refunds is currently reducing
19 the Company's annual revenues below what they would normally be, absent the tax
20 change. Please see the direct testimonies of Mr. Troxle, Ms. Colvin and Company
21 witness Charles W. Pringle for discussion of how CenterPoint Houston's revenue
22 requirement was calculated and the impact of tax reform on the Company.

1 **Q. HAS CENTERPOINT HOUSTON WORKED TO SUCCESSFULLY**
2 **REDUCE CERTAIN COMPONENTS OF ITS COST OF SERVICE?**

3 A. Yes. While the amounts paid to other transmission providers in ERCOT are outside
4 the Company's control, it has been able to reduce certain components of its cost of
5 service through prudent practices. For example, CenterPoint Houston has been able
6 to take advantage of capital market conditions to lower CenterPoint Houston's cost
7 of debt from 6.74% to 4.38%, as discussed in Mr. McRae's direct testimony, and
8 has reduced its Cash Working Capital Requirements by almost 50% since
9 Docket No. 38339, as discussed in Company witness Timothy S. Lyons' direct
10 testimony. In addition, Rider UEDIT will return approximately \$97 million to
11 customers over the next three years.

12 **Q. HAS THE COMPANY PROVIDED A SUMMARY COMPARISON OF THE**
13 **PROPOSED COST OF SERVICE AND THE APPROVED COST OF**
14 **SERVICE IN DOCKET NO. 38339?**

15 A. Yes. Consistent with Rate Case General Instruction 2, my Exhibit KMM-3 contains
16 a comparison of the rate base, rate of return, sales/other revenues, operating
17 expenses by major category, and operating income as authorized in CenterPoint
18 Houston's last rate case and as proposed in this proceeding.

19 **Q. IS THE COMPANY MAKING ANY OTHER REQUESTS IN THIS CASE?**

20 A. Yes. The Company seeks approval of various tariff and rate schedule changes,
21 including, as noted above, the establishment of Rider UEDIT, which will continue
22 to return to customers approximately \$97 million in accumulated deferred federal
23 income tax unprotected balances that resulted from the TCJA. Other tariff revisions

1 include updated or clarifying language throughout its tariffs for Retail Delivery
 2 Service and service rules and regulations, facilities extension policy changes for
 3 electric vehicle charging infrastructure, and permission to install voltage regulation
 4 battery assets, when necessary and cost-effective situations permit. CenterPoint
 5 Houston also seeks to update its depreciation rates and property insurance reserve.
 6 And, the Company requests approval of a Rate Case Expense Recovery Rate
 7 Schedule that provides for the recovery of the reasonable rate case expenses
 8 incurred in this proceeding and deferred costs from prior rate proceedings.

9 With respect to the cost of service portion of its request, the Company's
 10 filed cost of service data demonstrates that CenterPoint Houston's annual cost of
 11 service totals approximately \$2.3 billion while current annual revenues are
 12 approximately \$2.1 billion. Consequently, there is a total annual net revenue
 13 deficiency under existing rates of approximately \$154 million, after adjustments
 14 for known and measurable changes, and incorporating the effects of Rider UEDIT.
 15 The Company proposes to eliminate this annual earnings deficiency and to have its
 16 rates set at a level to provide it a reasonable opportunity to earn a reasonable ROE
 17 of 10.4%.

18 **Q. HAS THE COMPANY SOUGHT TO CONTROL O&M EXPENSE SINCE**
 19 **ITS LAST GENERAL RATE CASE?**

20 **A.** Yes. The Company works hard to control its operating costs while continuing to
 21 provide safe and reliable service at reasonable rates and has a number of processes
 22 and procedures in place to ensure the Company's costs are properly managed and
 23 remain at reasonable levels. The testimonies of Mr. Pryor, Mr. Narendorf,

1 Ms. Bodden, Ms. Sugarek, Ms. James and Company witness Michelle M.
 2 Townsend discuss various cost control initiatives implemented by CenterPoint
 3 Houston, as well as the Company's efforts and processes to monitor and control
 4 costs on a daily basis. Despite continuous cost control efforts, operating expenses
 5 associated with new installations, regulatory compliance, and maintenance
 6 activities within the division are rising as the Company responds to growth in its
 7 service territory. These costs are necessary to serve continuous load growth and to
 8 sustain our commitment to safety and reliability.

9 **Q. HOW DOES THE COMPANY PROPOSE TO RECOVER REASONABLE**
 10 **RATE CASE EXPENSES?**

11 A. As discussed in more detail in Mr. Troxle's testimony, the Company is including a
 12 rate case expense recovery rider in its filing package to ensure that the Company
 13 can recover the reasonable and reimbursable rate case expenses incurred in this
 14 proceeding, as well as other prior rate proceedings for which rate case expense
 15 recovery is appropriate. Company witness Myles F. Reynolds supports CenterPoint
 16 Houston's rate case expense request.

17 **Q. IS THE COMPANY ALSO SEEKING RATE RELIEF IN THE**
 18 **INCORPORATED AREAS OF CENTERPOINT HOUSTON?**

19 A. Yes. Concurrent with this filing, the Company is filing Statements of Intent and
 20 underlying support with each of the cities in CenterPoint Houston's service area
 21 retaining original jurisdiction. CenterPoint Houston has calculated its proposed
 22 rates on a system-wide basis. Accordingly, the proposed rates and tariff changes
 23 filed with the cities are identical to the proposed rates and tariff changes filed with

1 the Commission. The Company anticipates that it will appeal and consolidate with
2 this docket any municipal actions as they occur.

3 **Q. HAVE SOME CITIES SURRENDERED THEIR ORIGINAL**
4 **JURISDICTION TO THE COMMISSION?**

5 A. Yes. Currently, 34 cities have surrendered their original jurisdiction to the
6 Commission. The cities that have surrendered original jurisdiction to the
7 Commission are identified in Exhibit MAT-9 of Mr. Troxle's direct testimony.

8 **IV. SAFETY & TECHNICAL TRAINING**

9 **Q. WHAT ROLE DOES SAFETY AND TRAINING SERVE IN THE**
10 **COMPANY'S ELECTRIC OPERATIONS?**

11 A. The Company is committed to the protection of our employees, contractors,
12 systems, our customers and communities. Our goal is to maintain a safe work
13 environment and deliver electricity safely to the customers and communities we
14 serve. As a result, CenterPoint Houston is guided by the following principles:
15 (1) compliance with applicable safety laws and regulations; (2) understanding and
16 incorporating safety responsibilities into daily work activities, and being
17 accountable for reporting incidents, injuries and unsafe practices or conditions so
18 they can be promptly addressed and corrected; (3) continuous improvement in our
19 safety performance and culture; (4) the development and maintenance of effective
20 safety programs that educate and inform customers and the public in the
21 communities where we operate; and (5) the development and implementation of
22 technical training programs to develop the technical skills of the Company's field-
23 based workforce.

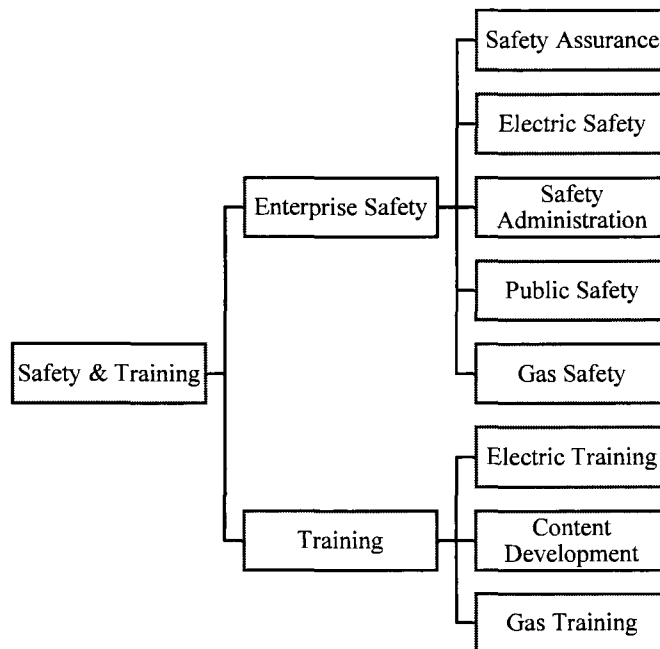
1 Q. WHAT AMOUNT OF TEST YEAR EXPENSE IS CENTERPOINT
2 HOUSTON SEEKING TO INCLUDE IN RATES FOR SAFETY AND
3 TRAINING?

4 A. For the test year, CenterPoint Houston seeks to recover approximately
5 \$10.4 million in direct O&M expense for Safety and Training.

6 Q. PLEASE DESCRIBE THE CURRENT SAFETY AND TRAINING
7 ORGANIZATION STRUCTURE?

8 A. The Safety and Training organization provides support services to CenterPoint
9 Houston and all other Company affiliates. The functional departments within the
10 Safety and Training organization are reflected in Figure 2 below:

11 **Figure 2. Enterprise Safety & Training Organization Chart**



1 **Q. WHAT ARE THE RESPONSIBILITIES OF THE SAFETY AND**
2 **TRAINING ORGANIZATION?**

3 A. The responsibilities of the Safety and Training Organization are explained by its
4 two primary functions: Safety and Training. Safety is a centralized support
5 organization that provides safety-related support services and management
6 oversight for business unit-specific functions as well as operations support to gas
7 and electric utility operations and energy services. Safety has responsibility for five
8 of the functions shown in Figure 2 above. Safety Assurance is responsible for
9 ensuring compliance with applicable federal, state, and local safety regulations and
10 standards as well as contractor safety oversight. This function ensures proper
11 certification and testing of commercial motor vehicle drivers; employee workplace
12 exposure monitoring and protection; oversight of incident investigations and
13 corrective action implementation; and management of behavior-based employee
14 safety programs. Electric Safety is responsible for oversight of employee safety
15 and health programs, including safety training, field operations inspections, safe
16 work practice development, and facility audits for electric utility operations. Safety
17 Program Administration is responsible for managing cases related to employee
18 work-related injuries, Occupational Safety & Health Administration (“OSHA”)
19 recordkeeping, safety metric tracking, benchmarking and reporting, employee
20 safety communications, and employee workplace exposure monitoring and testing.
21 Public Safety is responsible for providing electric safety awareness and education
22 on the dangers of electricity and measures to avoid incidents around electric utility
23 facilities to the public and various third-party organizations such as contractors and

1 emergency responders. This group also investigates incidents involving members
2 of the public coming into contact with electric utility assets.

3 Training is a centralized support organization that provides training-related
4 services to the gas and electric utility operations. Training has responsibility for
5 three of the functions shown in Figure 2 above. Electric Training is responsible for
6 developing and delivering training for field-based CenterPoint Houston employees.
7 The department will design and develop training curriculum to support the
8 construction, operations, and maintenance of the electric system. They do so by
9 leveraging company and industry standards as well as feedback from subject matter
10 experts to ensure that the curriculum supports safe and efficient work practices.
11 The department executes on the curriculum and delivery of the content to
12 CenterPoint Houston's field personnel through technical training courses. Content
13 Development is responsible for creating and modifying technical training content
14 in accordance with company and industry standards. The content is used by the
15 Electric Training department in the development of the skills of CenterPoint
16 Houston's field-based personnel.

17 **Q. HOW DOES SAFETY AND TRAINING PROVIDE SERVICES TO THE**
18 **BUSINESS UNITS?**

19 A. As described above, Safety and Training resides within CenterPoint Houston but
20 provides services to the different Company affiliates throughout the enterprise.

1 **Q. WHAT TYPES OF EXPENSES DOES SAFETY AND TRAINING**
2 **TYPICALLY INCUR?**

3 A. The majority of expenses incurred by CenterPoint Houston related to Safety and
4 Training are labor-related for the staff needed to execute the safety and training
5 programs. Additional non-labor expenses are incurred where supplemental
6 resources or services are needed to support program development, enhancement
7 and execution. For the test year, CenterPoint Houston incurred approximately
8 \$10.4 million in direct O&M expense related to Safety and Training.

9 **Q. WHAT NECESSARY SERVICES DID SAFETY AND TRAINING**
10 **PROVIDE CENTERPOINT HOUSTON DURING THE TEST YEAR?**

11 A. Consistent with the services I described above, Safety and Training provided
12 services related to maintaining compliance with applicable federal, state, and local
13 safety regulations and standards as well as contractor safety oversight. The
14 organization oversaw the certification and testing of commercial motor vehicle
15 drivers, employee workplace exposure monitoring, incident investigations and
16 corrective actions, and management of behavior-based employee safety programs.
17 It provided safety training, field operations inspections, safe work practice
18 development, and facility audits for electric utility operations. The organization
19 also managed OSHA recordkeeping, safety metric tracking, benchmarking and
20 reporting, employee safety communications, and employee workplace exposure
21 monitoring testing. The organization provided electric safety presentations to
22 various companies and organizations such as contractors and emergency
23 responders on the dangers of electricity and avoiding incidents around electric

1 utility facilities. This group responded for investigative purposes to incidents
2 involving members of the public coming into contact with electric utility assets.
3 The group also provided computer-based, classroom and hands-on field-based
4 skills training for those individuals who construct, operate and maintain the electric
5 system infrastructure.

6 **Q. CAN YOU PLEASE ELABORATE ON SOME OF THE SPECIFIC SAFETY**
7 **AND TRAINING SERVICES THAT WERE PROVIDED TO**
8 **CENTERPOINT HOUSTON DURING THE TEST YEAR?**

9 A. Yes. Some specific examples of services provided by the Safety and Training
10 Organization during the 2018 test year are as follows:

- 11 • 655 safety worksite visits were conducted;
- 12 • 39 public safety presentations for emergency responders, contractors, and
13 city officials were performed and 231 hours were spent providing safety
14 information to members of the public on electric utility safety;
- 15 • Approximately 500 vehicle and equipment inspections were completed;
- 16 • 60 Automatic External Defibrillators (“AED”) and 400 AED batteries were
17 replaced in CenterPoint Houston vehicles;
- 18 • 74 First Aid/CPR and AED training sessions were conducted for
19 545 employees;
- 20 • 17 safety meeting kits were developed and delivered for 3000 employees;
- 21 • 234 vehicles were equipped with collision detection equipment;
- 22 • Training courses to develop 343 apprentices throughout electric operations
23 were provided throughout the year; and
- 24 • Refresher training was provided to 542 substation, major underground and
25 transmission operating personnel and to the entirety of distribution
26 operations.

1 **Q. DOES THE SAFETY AND TRAINING ORGANIZATION ENGAGE IN**
2 **PROCESSES THAT BUDGET, MONITOR AND CONTROL COSTS?**

3 A. Yes. Safety and Training engages in the same Company wide processes that
4 budget, monitor and control costs that are discussed in the direct testimonies of
5 Ms. Bodden, Ms. Colvin, and Ms. Townsend. Budgets are reviewed and monitored
6 monthly and managed to meet budget targets and the business objectives.
7 Additionally, Safety and Training works with Electric Operations to manage costs.
8 Safety worked with Operations to evaluate and implement new personal protective
9 clothing and equipment along with tools used by skilled personnel. Training
10 worked with Operations to budget for the coming year's training activity and ensure
11 training schedules efficiently allow Operations to meet their objectives, while
12 ensuring that our employees are well trained. The group also worked with the
13 Supply Chain organization to ensure fair prices are paid for materials and
14 contracted services. The organization has introduced innovative applications that
15 have resulted in cost savings such as:

- 16 • reduction in printing costs for safety manuals with the introduction of an
17 electronic platform to access the information;
- 18 • repurpose or reuse of field equipment and material;
- 19 • scheduling of training during non-peak times for operations; and
- 20 • maximizing training hours by covering several requirements while
21 employees are available for training.

1 **Q. WHAT SERVICES DID THE SAFETY AND TRAINING ORGANIZATION**
2 **PROVIDE TO OTHER COMPANY AFFILIATES DURING THE TEST**
3 **YEAR?**

4 A. The Safety and Training Organization provided services to the other company
5 affiliates that are similar to those provided to CenterPoint Houston. However, in
6 many cases, the costs for services provided to the other affiliates were directly
7 incurred by the affiliates themselves. Any common expenses were assigned to the
8 other service affiliates and are thus not included in the costs assigned to CenterPoint
9 Houston.

10 **Q. HAVE THE COSTS ASSOCIATED WITH PROVIDING SAFETY AND**
11 **TRAINING SERVICES TO OTHER COMPANY AFFILIATES BEEN**
12 **CREDITED AGAINST THE COMPANY'S COST OF SERVICE IN THIS**
13 **FILING?**

14 A. Yes. Ms. Townsend discusses the credits to CenterPoint Houston's cost of service.

15 **Q. HOW DOES THE COMPANY ENSURE THE PROPER ASSIGNMENT OF**
16 **SAFETY AND TRAINING ORGANIZATION COSTS TO CENTERPOINT**
17 **HOUSTON AND OTHER COMPANY AFFILIATES?**

18 A. Costs associated with these services are directly billed to other Company affiliates
19 according to the provisions of the Cost Center Assignment Manual that is discussed
20 by Ms. Townsend and provided in Exhibit MMT-6.

1 **Q. WERE THE O&M EXPENDITURES INCURRED BY CENTERPOINT**
2 **HOUSTON RELATED TO SAFETY AND TRAINING DURING THE TEST**
3 **YEAR REASONABLE AND NECESSARY?**

4 A. Yes. The O&M expenses for the Safety and Training Department that the Company
5 seeks to recover in this case are for functions that directly impact the safety of our
6 employees, contractors, customers, members of the public, and our system.

7 **V. CONCLUSION**

8 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

9 A. Yes. The purpose of this rate case is to allow rates to be established based on the
10 current, actual costs of operating CenterPoint Houston's transmission and
11 distribution utility. As the Company's filing demonstrates, the existing rates do not
12 accurately reflect the Company's current cost of service. It is my opinion that the
13 rates requested in this filing are just, reasonable, and in the public interest and I
14 request that the Commission provide prompt and adequate rate relief.

15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes.

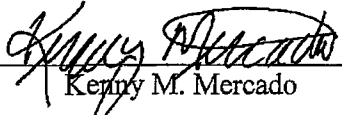
STATE OF TEXAS §
 §
COUNTY OF HARRIS §

AFFIDAVIT OF KENNY M. MERCADO

BEFORE ME, the undersigned authority, on this day personally appeared Kenny M. Mercado who having been placed under oath by me did depose as follows:

1. “My name is Kenny M. Mercado. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge.”

Further affiant sayeth not.

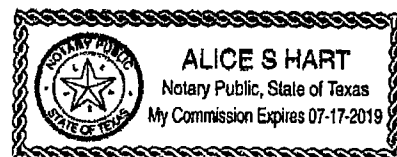

Kenny M. Mercado

SUBSCRIBED AND SWORN TO BEFORE ME on this 21st day of March, 2019.

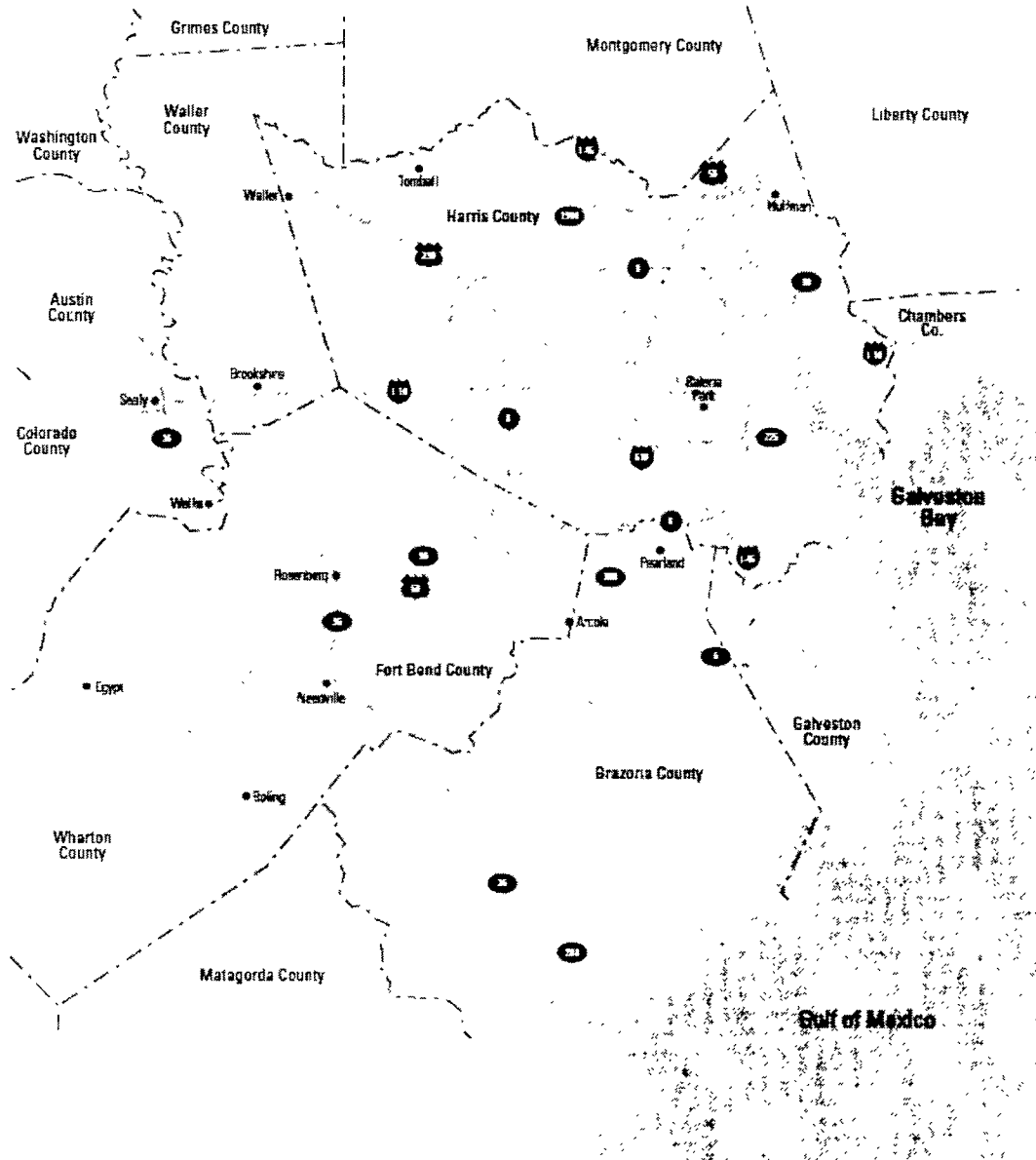


Notary Public in and for the State of Texas

My commission expires: 07/17/2019



CENTERPOINT ENERGY HOUSTON ELECTRIC SERVICE AREA



Witness	Subjects Addressed	Volume/Pages
Kenny M. Mercado	Mr. Mercado provides an overview of the Company's filing, introduces witnesses that support CenterPoint Houston's request, discusses Company values that drive prudent decision making on a daily basis, and describes changes that have occurred in major operating expense categories since the Company's last base rate proceeding.	Volume I/Pages 36-165
Randal M. Pryor	Mr. Pryor describes the Company's Distribution Operations Division, supports the reasonableness of the Company's distribution-related capital costs, and demonstrates the reasonableness of CenterPoint Houston's test-year O&M expenses incurred by the Distribution Operations Division.	Volume I/Pages 166-325
Martin W. Narendorf Jr.	Mr. Narendorf explains the structure and functions of CenterPoint Houston's High Voltage Operations Division, supports the reasonableness of the Company's transmission, substation and Major Underground investment, demonstrates the reasonableness of CenterPoint Houston's test-year O&M expenses incurred by the High Voltage Operations Division, and discusses certain Hurricane Harvey restoration-related efforts.	Volume I/Pages 326-573
Dale Bodden	Ms. Bodden describes the Company's Engineering & Asset Optimization Division, supports the reasonableness and necessity of test-year O&M costs incurred by the Engineering & Asset Optimization Division in support of the transmission and distribution functions, and details the processes used to plan, monitor, and control investments and expenditures.	Volume I/Pages 574-657
Julienne P. Sugarek	Ms. Sugarek details the structure and functions of the Company's Power Delivery Solutions Division, supports the reasonableness and necessity of test-year O&M expenses incurred by Power Delivery Solutions in support of the transmission and distribution functions, supports the Company's requests related to proposed battery assets, and presents the Company's proposals to modify CenterPoint Houston's tariffs to facilitate the development of electric vehicle charging stations and update to the Company's Lighting Services Policy.	Volume I/Pages 658-762
John R. Hudson	Mr. Hudson describes CenterPoint Houston's Market Operations group and supports the reasonableness and necessity of test-year O&M expenses incurred by Market Operations.	Volume I/Pages 763-828

Witness	Subjects Addressed	Volume/Pages
Kristie L. Colvin	Ms. Colvin sponsors the books and records of CenterPoint Houston, presents the Company's accounting schedules, itemizes and explains all test-year adjustments, supports the Company's overall cost of service and requested revenue requirement, including the revenue requirement for Rider UEDIT, and demonstrates the reasonableness and necessity of certain CenterPoint Energy Service Company, LLC ("Service Company") Executive Management and Chief Accounting Organization services to CenterPoint Houston.	Volume I/Pages 829-986
Charles W. Pringle	Mr. Pringle presents CenterPoint Houston's testimony related to federal income taxes, supports the Company's EDIT Regulatory Liability, addresses issues related to the appropriate treatment of income taxes, and demonstrates that federal income tax and Texas margin tax amounts included in the Company's cost of service are reasonable and necessary.	Volume II/Pages 987-1047
Justin J. Hyland	Mr. Hyland supports the Company's property tax-related expense, describes how Service Company ensures that CenterPoint Houston and its customers pay no more than their fair share of property tax burden, and confirms that the process used to functionalize property tax expense is the same as approved by the Commission in its previous three base rate reviews.	Volume II/Pages 1048-1063
Michelle M. Townsend	Ms. Townsend describes Service Company, explains how Service Company and CenterPoint Energy Resources Corp. ("CERC") control costs, details the Service Company and CERC methodologies for assigning affiliate costs to CenterPoint Houston, and confirms that Service Company and CERC corporate support service affiliate costs are reasonable and necessary and that CenterPoint Houston is not charged a higher price than those charged to other affiliates.	Volume II/Pages 1064-1552
John E. Slanina	Mr. Slanina explains the structure and role of Business and Operations Support functions provided by Service Company and demonstrates the reasonableness and necessity of test-year Business and Operations Support costs assigned to CenterPoint Houston.	Volume II/Pages 1553-1573
Shachella D. James	Ms. James explains the structure and services provided by Service Company's Technology Operations group and demonstrates the reasonableness and necessity of test-year Technology Operations costs assigned to CenterPoint Houston.	Volume II/Pages 1574-1636

Witness	Subjects Addressed	Volume/Pages
Rebecca Demarr	Ms. Demarr explains the structure and services provided by Service Company's Customer Operations organization and demonstrates the reasonableness and necessity of test-year Customer Operations costs assigned to CenterPoint Houston.	Volume II/Pages 1637-1661
M. Shane Kimzey	Mr. Kimzey details the services provided by Service Company's Legal, Claims, Corporate Records and Information, and Corporate Ethics and Compliance Departments and demonstrates the reasonableness and necessity of test-year affiliate costs assigned from those departments to CenterPoint Houston.	Volume II/Pages 1662-1689
Kelly C. Gauger	Ms. Gauger explains the services provided by Service Company's Audit Services organization and demonstrates the reasonableness and necessity of test-year Audit Services costs assigned to CenterPoint Houston.	Volume II/Pages 1690-1705
Diane M. Englet	Ms. Englet discusses the services provided by Service Company's Communications and Community Relations department and demonstrates the reasonableness and necessity of test-year Communications and Community Relations costs assigned to CenterPoint Houston.	Volume II/Pages 1706-1826
Lynne Harkel-Rumford	Ms. Harkel-Rumford discusses the services provided by Service Company's Human Resources Organization, demonstrates the reasonableness and necessity of test-year Human Resources Organization costs assigned to CenterPoint Houston, sets forth the Company's compensation philosophy, describes the types of health and welfare benefits provided to CenterPoint Houston employees, explains the Company's retirement-related plans, and supports the Company's expense requests related to postretirement and postemployment benefits.	Volume II/Pages 1827-1894
John J. Reed	Mr. Reed supports the Company's overall compensation practices and request for the recovery of incentive compensation expense.	Volume III/Pages 1895-1991
Timothy S. Lyons	Mr. Lyons sponsors CenterPoint Houston's lead-lag study used to determine the Company's cash working capital requirement.	Volume III/Pages 1992-2436
Dane A. Watson	Mr. Watson supports the reasonableness of depreciation rates proposed by the Company and presents his depreciation study in support of the requested rates.	Volume III/Pages 2437-2659
Robert B. Hevert	Mr. Hevert supports the Company's requests related to return on equity and capital structure.	Volume III/Pages 2660-2817



















Exhibit KMM-2
Rate Case Witness List
Page 4 of 4

Witness	Subjects Addressed	Volume/Pages
Robert B. McRae	Mr. McRae supports the reasonableness and need for CenterPoint Houston's requested capital structure and return on equity, presents the Company's cost of debt, and demonstrates the reasonableness and necessity of test-year Service Company Treasury Department Organization costs assigned to CenterPoint Houston.	Volume IV/Pages 2818-2887
Gregory S. Wilson	Mr. Wilson supports the need for the Company's self-insurance reserve and the appropriate level of expense to be included in the Company's cost of service.	Volume IV/Pages 2888-2922
J. Stuart McMenamin	Mr. McMenamin presents methods and data used to develop weather-related adjustments included in the Company's filing.	Volume IV/Pages 2923-2988
Matthew A. Troxle	Mr. Troxle presents the Company's proposed allocation of costs to rate classes, rate design and tariffs, including Riders RCE and UEDIT.	Volume IV/Pages 2989-3743
Myles F. Reynolds	Mr. Reynolds supports the Company's request for reimbursement of rate case expenses.	Volume V/Pages 3744-3815

CENTERPOINT HOUSTON ELECTRIC
2019 RATE CASE REVENUE REQUIREMENT
(Thousands)

	Approved Docket 38339	2019 Proposed Rates
Total Rate Base	\$ 3,474,755	\$ 6,482,512
Rate of Return	8.21%	7.39%
Operating and Maintenance Expense	\$ 434,061	\$ 616,380
Net Wholesale Transmission from Others	\$ 202,510	\$ 546,606
Depreciation and Amortization Expense	\$ 250,639	\$ 351,230
Taxes Other Than Federal Income Tax	\$ 233,784	\$ 278,298
Federal Income Tax Expense	\$ 63,020	\$ 76,724
Return on Rate Base	\$ 285,277	\$ 479,058
Total Cost of Service	\$ 1,469,291	\$ 2,348,296
Other Revenues	\$ 50,212	\$ 66,092
Total Adjusted Revenue Requirement	\$ 1,419,079	\$ 2,282,204

KENNY M. MERCADO WORKPAPERS:

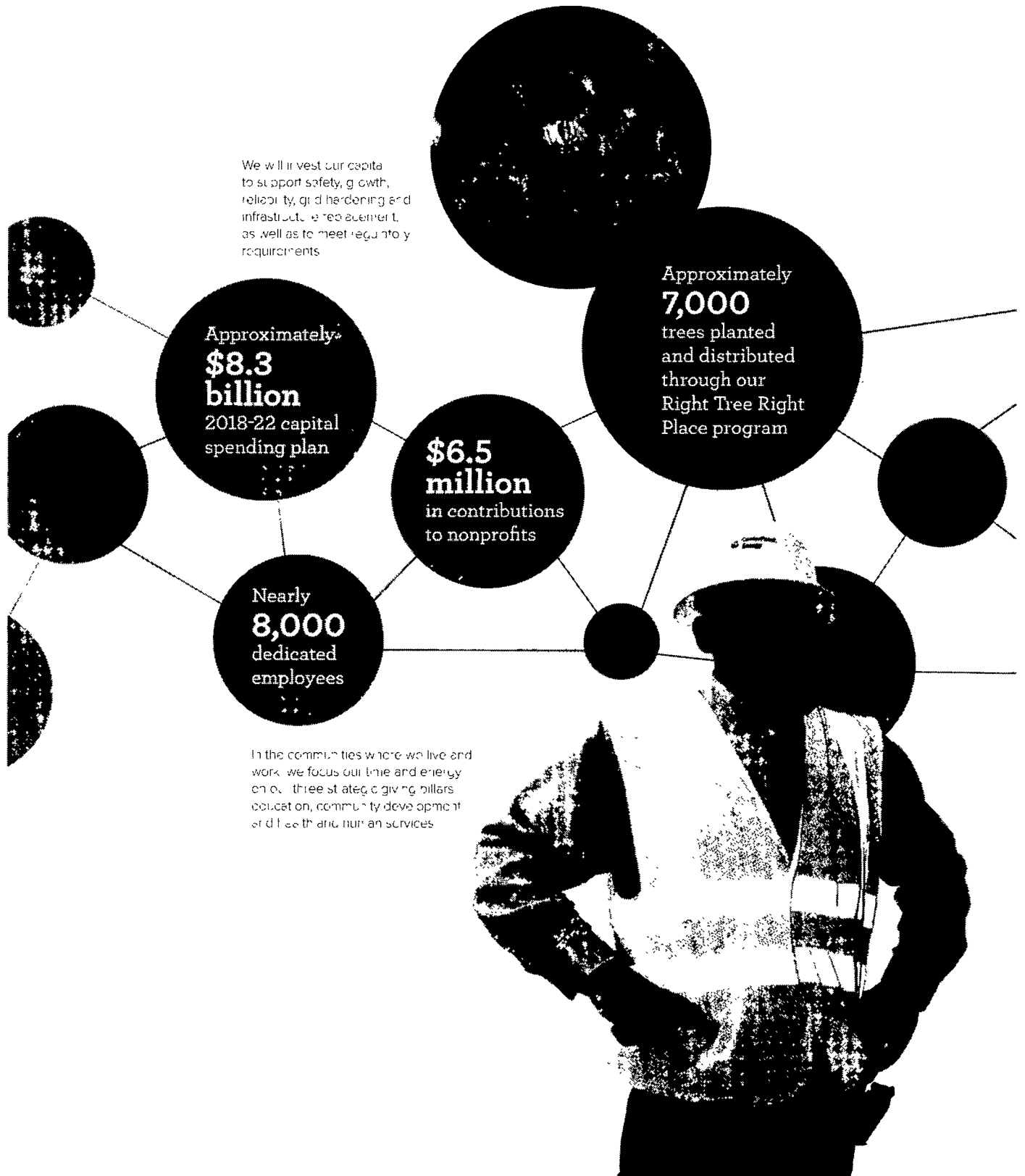
-  WP KMM-01 (2017 CNP Corp Resp Report).pdf
-  WP KMM-02 (Proj 47945 CNP letter).pdf
-  WP KMM-03 (25.243 DCRF).pdf
-  WP KMM-04 (25.192 TCOS).pdf
-  WP KMM-05 (Res Bill Effects).pdf
-  WP KMM-05 (Res Bill Effects).xlsx
-  WP KMM-06 (EEI CNP Emer Response Awards).pdf
-  WP KMM-07 (TX Diversity Mag).pdf
-  WP KMM-08 (09 to 18 10K TD Mileage Delta).pdf
-  WP KMM-08 (09 to 18 10K TD Mileage Delta).xlsx
-  WP KMM-09 (09 to 18 10K Cust Delta).pdf
-  WP KMM-09 (09 to 18 10K Cust Delta).xlsx
-  WP KMM-10 (09 to 18 10K CEHE CapEx).pdf
-  WP KMM-10 (09 to 18 10K CEHE CapEx).xlsx
-  WP KMM-11 (Load Growth).pdf
-  WP KMM-11 (Load Growth).xlsx
-  WP KMM-12 (Port of Houston).pdf
-  WP KMM-13 (Texas Medical Center).pdf



STEWARDSHIP

through Values

2017 CORPORATE RESPONSIBILITY REPORT



Our residential customers ranked us highest in customer satisfaction among large natural gas utilities in the South region in the annual study by J.D. Power and Associates



Added
70,000+
metered
customers

1.3 million
power restorations
during Hurricane
Harvey

1 million
customers enrolled
in Power Alert
Service

146,000
hours volunteered

CenterPoint Energy strives to make a positive difference for all of our stakeholders through our values of
**safety, integrity,
accountability,
initiative and
respect.**



Table of Contents

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About This Report	2	CenterPoint Energy is pleased to report continued progress on our corporate responsibility efforts since we published our first Corporate Responsibility Report last year. Our 2017 report provides more insight into our efforts regarding corporate responsibility and stewardship.
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2017 Results	7	In line with our core values of safety, integrity, accountability, initiative and respect, we strive to address issues that are important to our stakeholders in a thoughtful and transparent manner. Our stakeholder engagement overview is included on page 37 of this report.
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Approach	11	
Risk Management	11	
Ethics and Compliance: Living Our Values	12	Because we recognize that corporate responsibility is a critical aspect of our performance, CenterPoint Energy's approach continues to evolve.
Leadership	14	
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Policy and Approach	21	A work group composed of employees from CenterPoint Energy's businesses and functions provided data for this report, based on the company's material issues, as well as the programs and initiatives that address them. Our material topics include governance, ethics and compliance, environmental impacts and G-C emissions, energy efficiency, biodiversity, community relations and economic development, customers, employees and safety.
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Stakeholder Engagement	37	CenterPoint Energy's 2017 report follows the Global Reporting Initiative (GRI) standards, the leading framework used by organizations to disclose economic, environmental and social performance. This report has been prepared in accordance with the GRI Standards Core option.
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Letter to Stakeholders

Dear Stakeholder:

Over our long history, CenterPoint Energy has evolved into a leader in the energy industry, and we are well-positioned to enhance that role in the future. We are charting a dynamic, innovative course for what an energy delivery company can be in the 21st century. Corporate responsibility and stewardship will continue to shape our priorities as we move forward.

Our company's values of safety, integrity, accountability, initiative and respect serve as the foundation that drives our actions, including stewardship. This translates into a workforce that has a deep sense of duty to our stakeholders. While our focus is on safe and reliable delivery of electricity and natural gas, we actively engage in improving lives and addressing the needs in our communities.

We recognize that key environmental, social and governance (ESG)-related issues are integral to our performance. To that end, we have expanded our reporting to align with the Global Reporting Initiative (GRI) framework. GRI is the leading set of standards used by organizations to disclose ESG performance. In addition to greater insight into CenterPoint Energy's policies and programs, this report highlights our approach on environmental stewardship, enriching our communities and providing a safe, inclusive workplace.

In 2017, CenterPoint Energy delivered strong financial and operational results, while further positioning our company for the future through strategic capital investments. Through robust oversight, guidance and direction from our board of directors, our Operate, Serve, Grow strategy guides our value creation.

As a ways, safety is our highest priority. We are guided by our companywide approach to safety performance, *Safety Forward*, which we believe has resulted in improved safety metrics, expanded employee participation and an increased emphasis on the safety of our employees, contractors, systems and the public.

We strive for strong stewardship of the environment, with a continued focus on reducing greenhouse gas emissions from our operations, including our participation as a founding partner in the U.S. Environmental Protection Agency's Natural Gas Methane Challenge Program.

Our nearly 8,000 employees live our values every day. We are committed to creating a safe and open work environment where business results are achieved through the talents of our diverse workforce.

2017 was another outstanding year for our community involvement. We advanced our community engagement in the areas of education, community development, and health and human services. Six out of every 10 CenterPoint Energy employees volunteered their time last year for a total of more than 146,000 hours.

Thank you for your interest in CenterPoint Energy's corporate responsibility efforts. We look forward to continuing our conversations with communities, customers, employees, investors and other stakeholders on ESG topics that are important to all of us.



Scott M. Prochazka
President & CEO



PAGE 4 CENTERPOINT ENERGY

About CenterPoint Energy

Our Business



Our Vision

To Lead the Nation
in Delivering Energy,
Service and Value

CenterPoint Energy (NYSE: CNP), headquartered in Houston, Texas, is a domestic energy delivery company that includes electric transmission and distribution, natural gas distribution and energy services operations. The company serves 5.9 million metered customers, primarily in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. With nearly 8,000 employees, CenterPoint Energy and its predecessor companies have been in business for more than 150 years.

Our electric transmission and distribution business provides electricity to more than 2.4 million metered customers in a 5,000 square mile area that includes Houston, the nation's fourth largest city. Our natural gas distribution business serves approximately 3.5 million customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas.

CenterPoint Energy Services (CES), our competitive natural gas sales and services business, serves 100,000 customers across 33 states. CES continues to add to its supply portfolio with renewable natural gas (RNG/biogas) and is committed to reducing greenhouse gases through the efficient use of biogas as a transportation fuel in compressed natural gas (CNG) and liquefied natural gas (LNG) vehicles. CES has also worked with landfills and continues to pursue other strategic partnerships with producers, both within and beyond its existing industrial and municipal customer base, for acquiring biogas production for use as transportation fuels.



Our Strategy

We believe that CenterPoint Energy's success is driven by the disciplined execution of its long-term Operate, Serve, Grow strategy. At the same time, we are committed to fostering strong relationships with our customers and communities. We remain focused on our innovative, customer-focused energy delivery solutions that provide superior performance.

Operate

- Ensure safe, reliable, efficient and environmentally responsible energy delivery businesses.
- Utilize now and innovative technology to enhance safety and performance.

Serve

- Add value to energy delivery through superior customer service, technology and innovation.
- Demonstrate leadership in the communities we serve.

Grow

- Develop a diverse and highly capable employee base.
- Invest in core energy delivery businesses.

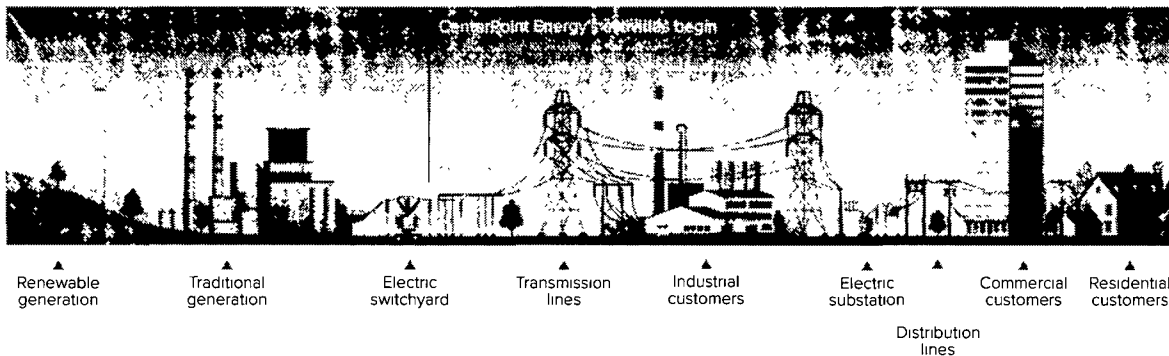
About CenterPoint Energy

Operations Map



Business Activities

CenterPoint Energy's electric transmission and distribution business begins after electricity is generated and received from other companies. Our activities end at the meter. As an energy delivery company, CenterPoint Energy does not sell electricity or send electric bills.



2017 Results

Throughout 2017, CenterPoint Energy continued to successfully deliver on our Operate, Serve, Grow strategy, resulting in another excellent year for our company. Our disciplined performance and strategic focus contributed to our strong year-end financial results and operational excellence across our businesses.

Our electric transmission and distribution business, which serves more than 2.4 million metered customers in nearly all of the Houston/Galveston metropolitan area, benefited from growth and rate relief. Throughout the year, the business advanced its electric projects and infrastructure improvements, with a focus on recovery and efficiency.

Our natural gas distribution business also had a strong year. We continued to benefit from customer growth in our Texas footprint and in Minneapolis, as well as rate recovery mechanisms across most of our service territory. The business serves approximately 3.5 million residential, commercial and industrial customers via more than 120,000 miles of main and service lines.

In all, our electric and natural gas utilities added more than 70,000 metered customers during the year.

CES, our competitive natural gas marketing and sales business, provides a wide range of energy services to more than 100,000 customers across 33 states. The business continues to be a steady contributor to earnings growth. In 2017, *Natural Gas Intelligence* ranked CES among the top 10 North American natural gas marketers.

The Tax Cuts and Jobs Act contains several changes that will impact CenterPoint Energy, including the reduction of the corporate income tax rate from 35 to 21 percent, which became effective January 1, 2018. We anticipate that a significant portion of these tax savings will be returned to customers with the approval of our regulators.

\$1.1 billion

Operating income

19.59 percent

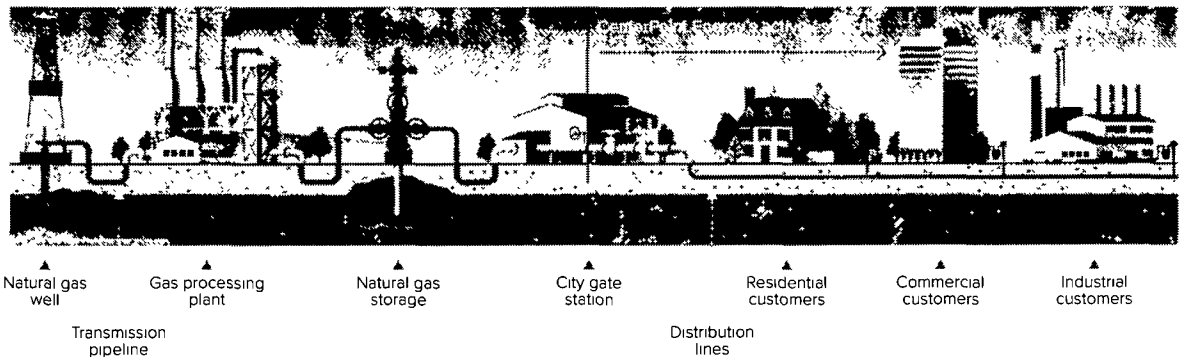
Total shareholder return

70,000+

Metered customers added

CP 102.45

CenterPoint Energy's natural gas distribution and services and sales businesses begin after other companies extract and process the natural gas.



PAGE 8 CENTERPOINT ENERGY

About CenterPoint Energy

MAJOR PROJECTS

Brazos Valley Connection

The Brazos Valley Connection is a 60-mile, 345-kilovolt (kV) electric transmission line in Texas that runs from Grimes County to Harris County. The project will help meet growing demand and reliability needs.

It is expected to go into service early in the second quarter of 2018 – ahead of the original June 2018 energization date – and under budget.

Bailey-Jones Creek Project

In late 2017, the Electric Reliability Council of Texas (ERCOT) endorsed the need for the Bailey-Jones Creek project. Totalling approximately \$250 million, the project will include enhancements to two substations and a new transmission line to serve the growing petrochemical industry along the Texas Gulf Coast. We expect that the Public Utility Commission of Texas will provide a decision in 2019 regarding the design and route of the project.

Substation Engineering

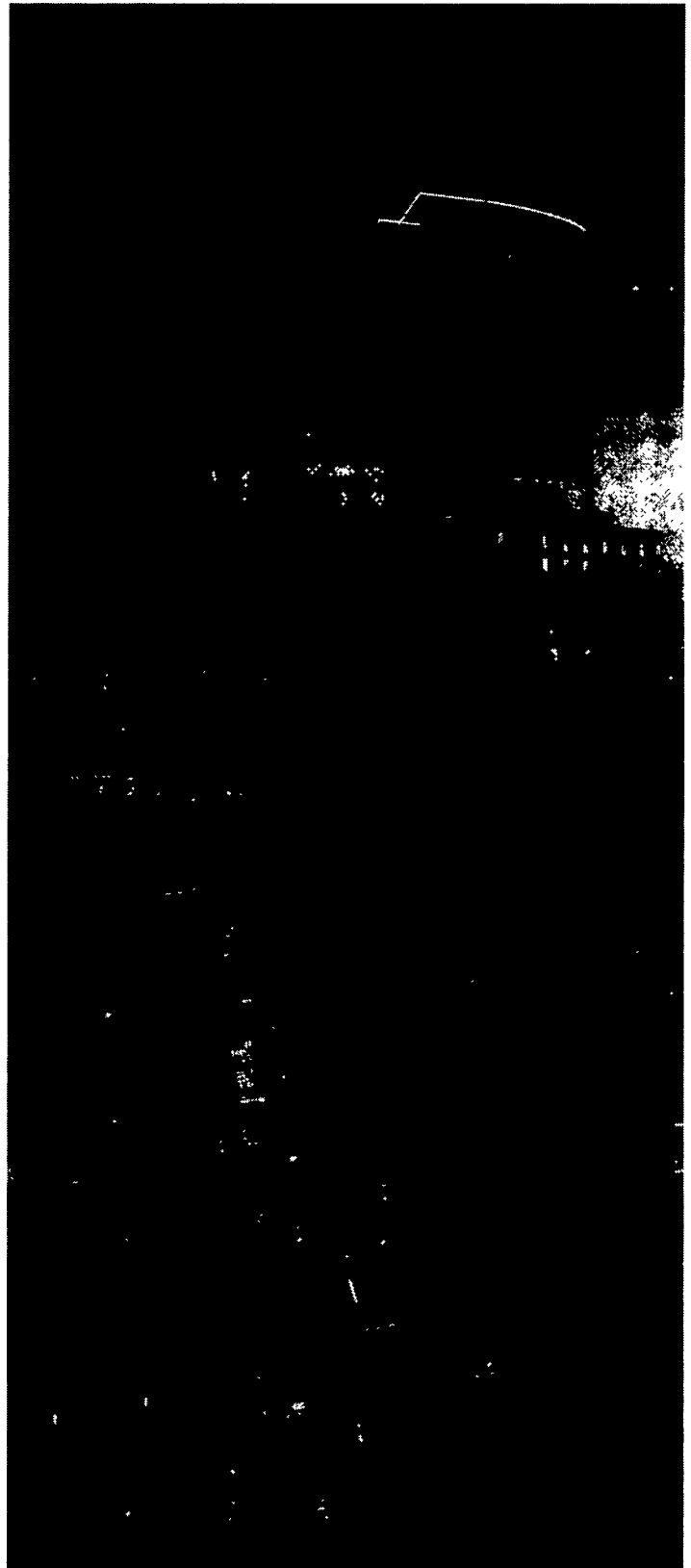
CenterPoint Energy's substation capital investments continue to increase as our load and customer base grows. Substation engineering continues to increase efficiency associated with project execution, using design and process revisions in response to continued load growth along the Gulf Coast region. CenterPoint Energy invested approximately \$66 million to construct the Jones Creek Substation. Energized in May 2017, the substation is providing energy for the growing load in the Freeport, Texas, area.

Pipe Replacement

CenterPoint Energy has been investing in cast-iron and bare steel pipeline replacement programs across our service territory. We expect to replace the cast-iron natural gas pipelines across our six-state territory in 2018. The programs further enhance the efficiency and safety of our distribution system.

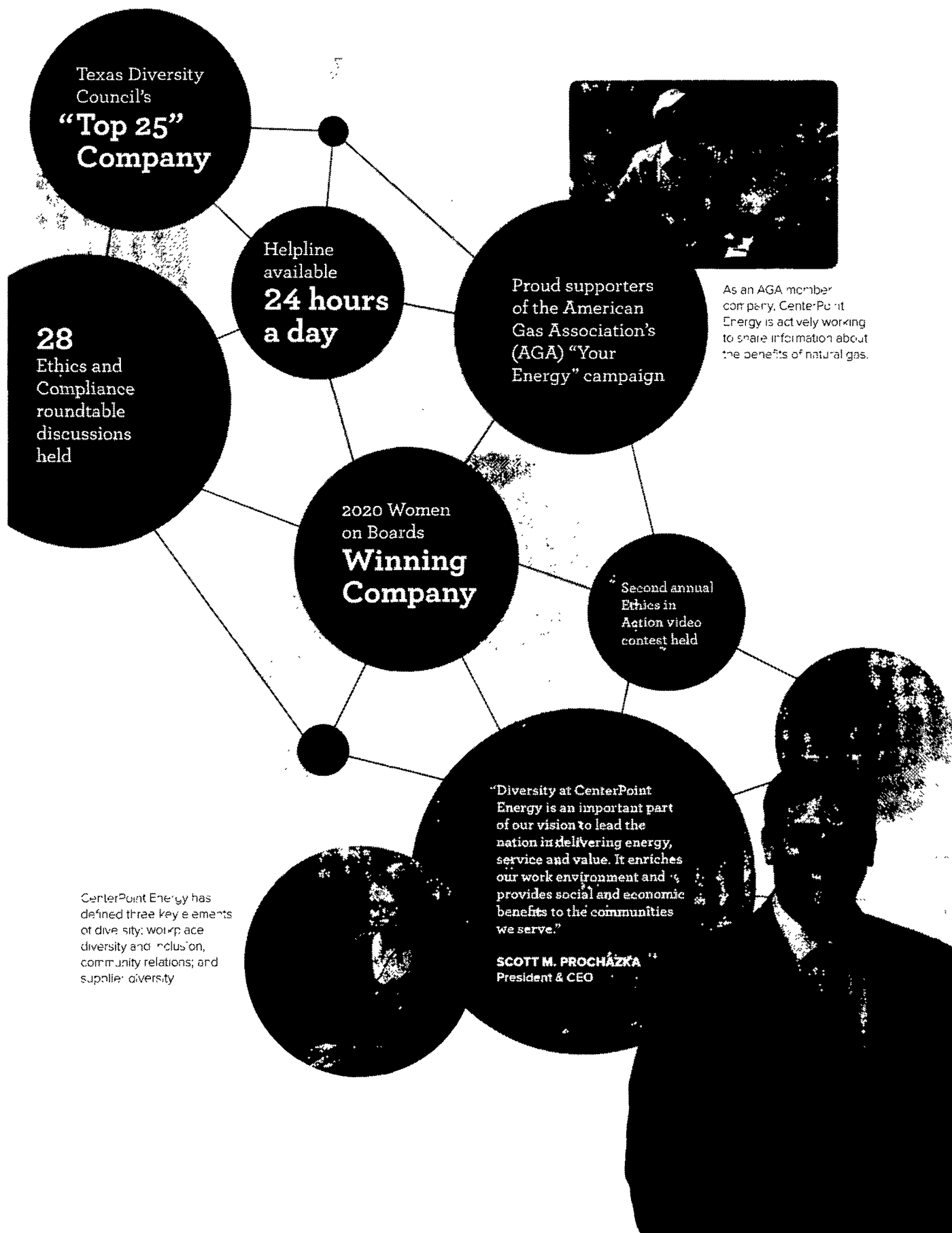
LOOKING AHEAD

Customer growth and prudent investments will continue to drive CenterPoint Energy's performance. Over the next five years, we expect to make capital investments totaling approximately \$8.3 billion. These investments will support maintaining reliability and safety, increasing efficiency and expanding our systems through value-added projects and infrastructure programs. We will continue to seek ways to manage costs and improve system operations in order to maintain our profitability and maximize shareholder value.



Growth in Texas

CenterPoint Energy is proud to support the continued growth of our economy in Texas and Houston through our services and economic development activities. The Greater Houston Partnership is forecasting that Houston's Gross Metro Product will outpace the national Gross Domestic Product over the next 20 years by a full percentage point. Additionally, the Partnership expects residential customer growth to continue at 2 percent per year over the next 20 years.



Governance

Approach

Our Approach

Ethical conduct and good corporate governance are priorities for our company, leadership and board of directors. We believe that good corporate governance, as well as a strong ethics and compliance program, are in the best interests of our stakeholders and critical to our long-term success. To that end, we have implemented corporate governance and business conduct policies and procedures designed to help us operate effectively with accountability, integrity and transparency.

2017 Highlights

- CenterPoint Energy was recognized by the Texas Diversity Council as a "Top 25 Company for Diversity in Texas" for one of the highest percentages of women and minorities in executive leadership and on our board of directors. Awards were determined based on the results from a workforce diversity and corporate governance study conducted with 100 Texas Fortune 1000 corporations.
- CenterPoint Energy has been designated as a 2020 Women on Boards Winning Company. Winning companies champion diversity by having 20 percent or more of their board seats held by women.

GOVERNANCE CONTENTS

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Enterprise Risk Management	
Business Conduct	

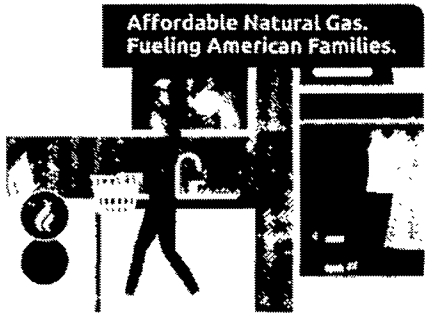
Risk Management

At CenterPoint Energy, management is responsible for developing and implementing risk management with active oversight by the board of directors. To safely and responsibly deliver energy service and value to our customers and communities, CenterPoint Energy makes significant effort to prepare for and mitigate risks and uncertainties associated with our industry. Our risk management approach is based on consensus, expertise and collaboration with all of the business units involved in the process. We strive for transparency and accountability.

For Enterprise Risk Management, CenterPoint Energy utilizes the established corporate-adopted model from the nationally recognized Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Using this framework, the company identifies risks associated with the corporation and business units, major projects and department functions.

Our company and its businesses are subject to risks and uncertainties. CenterPoint Energy utilizes a dynamic risk management process with frequent assessments. We also assign risk and risk mitigation ownership to drive accountability and maintain risk transparency.

CenterPoint Energy's Form 10-K, which is available in the investors section of CenterPointEnergy.com, provides information about the company's risk factors.



Feature: Supporting Industry Dialogue

"Your Energy" is the American Gas Association's (AGA) consumer advocacy and education campaign. The campaign is focused on raising awareness and support for natural gas. As an AGA member company, CenterPoint Energy is actively working to share the benefits of natural gas. "Your Energy" aims to identify advocates and champions for natural gas and the critical role it plays in meeting America's energy needs. CenterPoint Energy employees are lending their voices to the conversation. In addition, information about natural gas is available at our community and industry events, as well as through our customer communications and social media channels.

Governance

Ethics and Compliance: Living Our Values

CenterPoint Energy is committed to doing business in line with our core values.

- We put **safety** first in everything we do. We strive to create a culture of safety excellence at every level of our company. We are committed to performing our work safely.
- **Integrity** means doing what is right, even when no one is looking. We are committed to following our company's policies, procedures and the law. CenterPoint Energy's reputation and our customers' trust depend on our integrity.
- **Accountability** means that we accept personal responsibility for our actions and decisions.
- **Initiative** means we're prepared to speak up, take bold and innovative action and address opportunities and problems as soon as they arise.
- We show **respect** to our customers, our stakeholders and one another by giving our best effort — every day. We conduct ourselves in a way that shows we are deserving of trust.

Our Ethics and Compliance Code builds on our strong tradition of doing business the right way, with no exception. The code explains many of the basic rules that apply to our business, including: having a values-driven culture, being accountable for our actions; protecting company assets and information; avoiding conflicts of interest; treating customers and competitors with respect; creating a workplace that values employee contributions; complying with company policies; providing a safe and healthy work environment; being responsible corporate citizens; and leading with integrity.

In addition, we have specific expectations for our chief executive officer, chief financial officer and senior financial officers, as well as our consultants, contractors, suppliers and vendors. They are outlined in CenterPoint Energy's respective codes of conduct for these stakeholders and are available on the company's website.

DIVERSITY

Our Approach

At CenterPoint Energy, individuals are respected for their contributions to our company. Diversity enriches our company and work environment, and provides social and economic benefits to the communities we serve.

CenterPoint Energy has defined three key elements of diversity: workplace diversity and inclusion, community relations, and supplier diversity.

- We believe it is vital to have a workforce that reflects the diversity of our customers and the communities we serve. Our commitment to diversity extends beyond employment practices; it is also reflected in our company's long history of community involvement.
- For more than 100 years, CenterPoint Energy has supported educational initiatives, community redevelopment and other programs through financial support and employee volunteerism.
- CenterPoint Energy is proud to be a part of the success of many Minority owned and Women owned Business Enterprises (MWBES). We support these companies by providing business opportunities, as well as mentoring and training for future leaders. Our supplier diversity program builds partnerships that deliver value to our stakeholders.



From left:

Milton Chirba, Executive Chairman of the Board
and Scott M. Podlasko, President & CEO



concerns
Helpline
888.888.3155

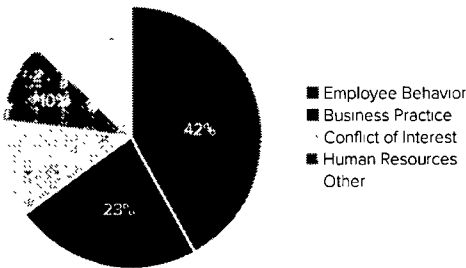
See pages 44 and 49 for additional details about our company's commitment to diversity.

Reporting or Raising Concerns

We encourage a culture of speaking up. If an employee does not feel comfortable or it is impractical to talk with a supervisor, help can be sought from any member of management, Human Resources, Audit Services, Legal, Corporate Security or Ethics and Compliance. Our Concerns Helpline also plays an important role in safeguarding our strong ethics and compliance culture. Employees, customers, contractors and vendors can reach the Helpline at 888-883-3155 or online at reportnewcon.com/CenterPointEnergy. Available 24 hours a day, seven days a week, the Helpline supports multiple languages and allows individuals to remain anonymous. CenterPoint Energy does not tolerate retaliation and will take action to protect employees from retaliation.

We received 168 concerns in 2017, compared with 182 reports in 2016 and 95 in 2015. The percentage of anonymous reports was 49 percent in 2017, compared with 39 percent in 2016 and 50 percent in 2015. Our latest employee engagement survey showed 98 percent of employees understand their responsibility to report any potential violations, and 89 percent said they would feel comfortable reporting unethical or illegal behavior.

2017 Helpline Cases by Category
percent



Training and Awareness

All CenterPoint Energy employees are required to complete annual compliance training. All active employees and the board of directors received training on our ethics and compliance code in 2017. In addition, employees completed training on safety, insider trading, data privacy and security awareness. New employees and managers receive additional training to further reinforce the company's values. All leaders receive monthly newsletters reinforcing ethical topics and maintaining awareness of our ethics and compliance program and principles. In addition to regularly scheduled training, we communicate with our employees on new emerging or topical issues as they arise in other companies or industries.

2017 Highlights

- In the fall of 2017, an anonymous Ethics and Compliance Culture Survey was provided to all employees to assess how CenterPoint Energy is doing as an organization. All questions are on a seven-point scale with seven being the highest ethical value.

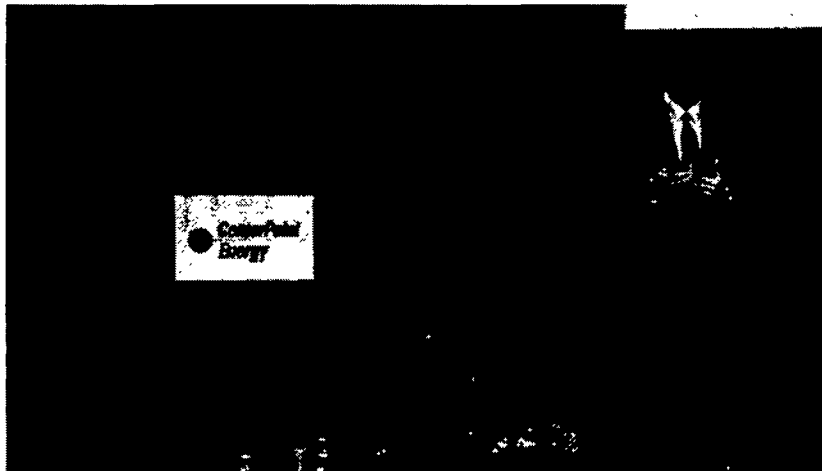
2017 Ethics and Compliance Culture Survey Results

	2017	2016 Ethics Index
Comfort Speaking Up	5.82	5.82
Organizational Justice	5.67	5.71
Tone at the Top	5.60	5.54
Trust in Colleagues	5.26	5.28
Direct Manager Leadership	5.90	5.95
Clarity of Expectations	6.18	6.12
Openness of Communications	5.49	5.43

- The Ethics and Compliance department held 28 roundtable discussions reaching 6 percent of our total employee population in different businesses, functions and locations. Of these employees, 94 percent said they understood how to report an unethical issue or a violation of a policy or law. This level of response was consistent with our latest employee engagement survey. Ninety-four percent of employees said they understood compliance policies and how they apply them to their jobs.
- A second annual voluntary Ethics in Action employee-driven video contest was conducted to raise positive awareness about our values.

Governance

Leadership



CenterPoint Energy's board of directors serves as the company's ultimate decision-making body, except with respect to those matters reserved to the shareholders or delegated to management. The board is responsible for overseeing executive management, long-term business strategy and performance, succession planning and risk management. Through oversight, review and counsel, CenterPoint Energy's board establishes and supports the company's business and organizational objectives.

As of Dec. 31, 2017, CenterPoint Energy's board was composed of 10 members, representing a broad range of business experience and professional skills. The company's board is chaired by Milton Carroll, Our President and Chief Executive Officer. Scott M. Prochazka serves as a member of our board, but does not serve on any of its committees or receive additional compensation for his service as a director. With the exception of Milton Carroll and Scott M. Prochazka, all members of CenterPoint Energy's board are independent, according to the standards established by the New York Stock Exchange. We seek diversity on our board, which includes four women or minorities.

As of Dec. 31, 2017, the average director's tenure was approximately 8.5 years. Five of the 10 board members had tenure of less than five years, two had tenure of five to 10 years, and three had tenure exceeding 10 years.

CenterPoint Energy's board has the following four standing committees, each composed solely of independent directors: Audit, Compensation, Finance, and Governance. Each committee has duties assigned by the board in compliance with the company's bylaws and committee charters. Our board and its committees meet regularly throughout the year. The board and committees routinely meet in executive sessions without members of management present to consider matters requiring their attention.

Percentage of women or minorities

40 percent

Board of Directors

40 percent

Executive Committee

- K. Steve Colvin, Senior Vice President and Chief Accounting Officer
- Scott E. Doyle, Senior Vice President, Natural Gas Distribution
- Gary W. Hayes, Senior Vice President, and Chief Information Officer
- Gregory (Greg) Knight, Senior Vice President and Chief Customer Officer
- Kenneth M. Morado, Senior Vice President, Electric Operations
- Joseph J. Vocherms, Senior Vice President, Energy Services
- Richard A. (Rick) Zapalac, Senior Vice President, Gas Operations

	Percent voted "Yes"
Election of Directors (average)	99%
Ratification of Appointment of Independent Auditors	98%
Advisory Vote on Executive Compensation	94%
Advisory Vote on Frequency of Future Shareholder Advisory Votes on Executive Compensation (every year)	87%

Governance

Political Engagement

Because local, state and federal elected officials and regulators have a significant impact on our business and industry, CenterPoint Energy believes participation in the public policy process is essential to achieving our vision.

CenterPoint Energy and its employees participate in the public policy process in several ways, including:

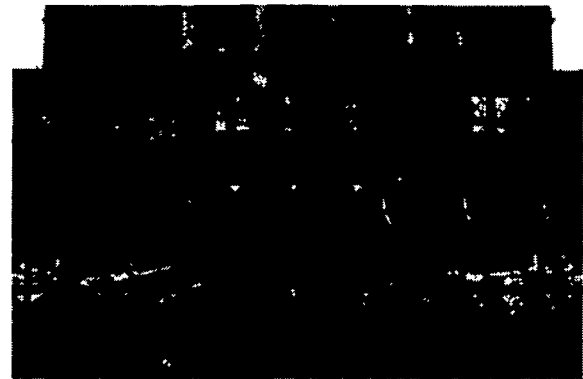
- Outreach to government officials to help educate them on key public policy issues related to the company's business;
- Participation in CenterPoint Energy's Political Action Committees (PACs) and conduit funds; and
- Involvement in trade associations that help advance the company's business interests.

The company has decision-making and oversight processes in place to ensure that our political activities and contributions are legally permissible.

Each year, CenterPoint Energy discloses its political engagement and contributions. The Political Activities Report is available in the [Political Engagement](#) section of [CenterPointEnergy.com](#).

Lobbying Activity

Lobbying is one of the ways in which we communicate our positions on key issues to officials and members of their staff. Employees actively engage with public officials on issues that impact our business. The company also retains outside advisors to advocate on its behalf, as needed. It is important for CenterPoint Energy to comply with local, state and federal requirements concerning lobbying activities and related disclosures.

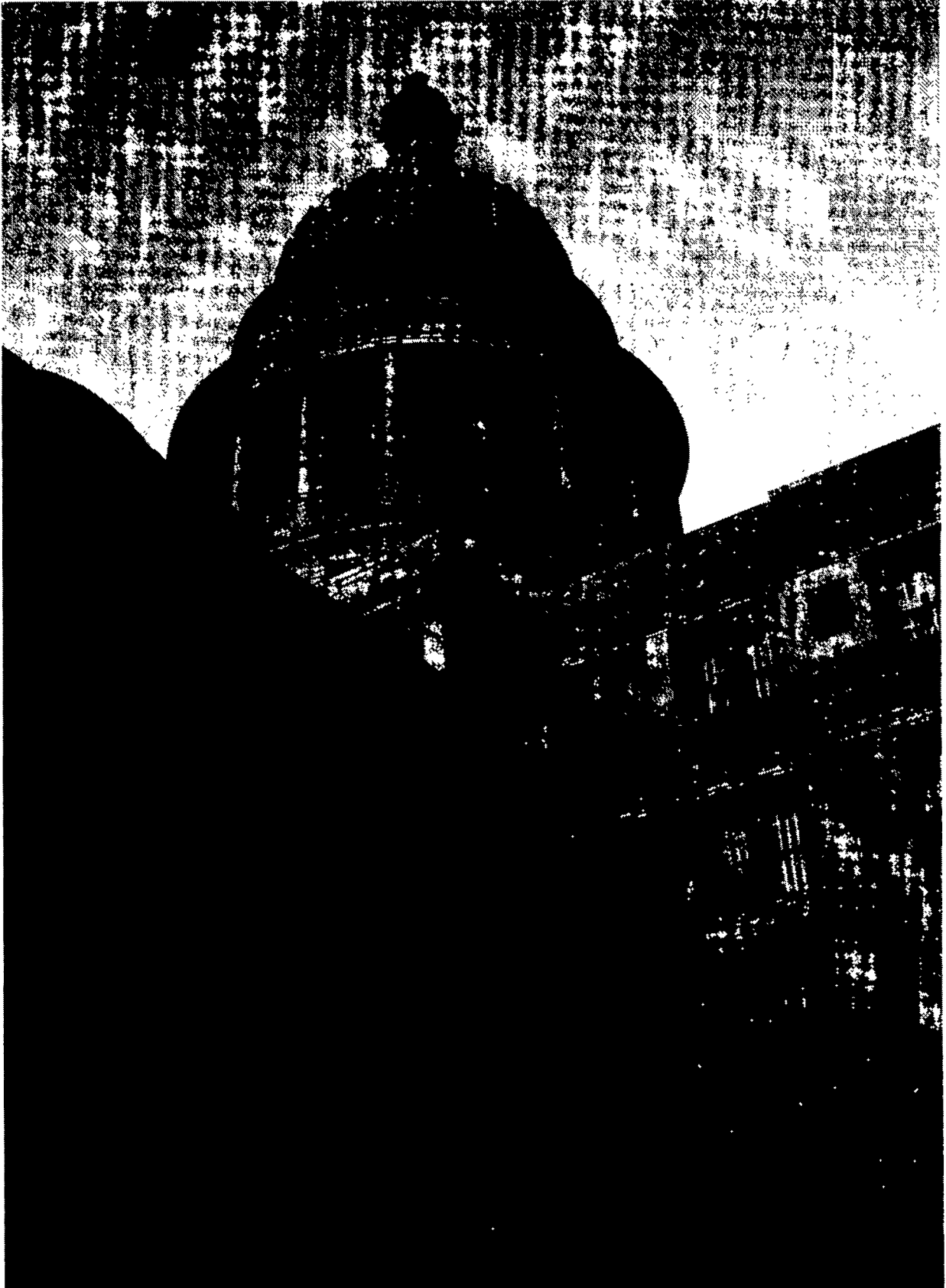


Employee Involvement

To give our employees a voice in the political process, CenterPoint Energy sponsors two PACs, CenterPoint Energy Inc. PAC (federal) and CenterPoint Energy, Inc. Texas PAC. The company also sponsors the CenterPoint Energy Minnesota Conduit Fund. The PACs and fund are nonpartisan and funded by voluntary employee contributions. Through the PACs and the fund, we make political contributions when permitted by law and in accordance with established guidelines.

Trade Associations

CenterPoint Energy is a member of several [trade associations](#) that provide business, technical and industry benefits to the company. These associations may engage in advocacy activities or lobby with respect to issues that are important to CenterPoint Energy.



CenterPoint Energy in Action

Hurricane Harvey Facts

147,612

Calls handled by
Customer Service agents

337,843

Automated voice response
system calls

Case Study: Hurricane Harvey Restoration

One of the most devastating storms in U.S. history, Hurricane Harvey dropped 52 inches of rain in southeast Texas and southwest Louisiana in late August and early September 2017. More than 42,000 lightning strikes were recorded across CenterPoint Energy's electric service territory and 150 tornado warnings were issued in Houston, with more than 30 twisters touching down.

Throughout the natural disaster, CenterPoint Energy fulfilled our brand promise of being *Always There* for our customers and communities. More than 2,200 CenterPoint Energy employees, along with 1,500 contractors and mutual assistance personnel from seven states, worked safely and efficiently to execute our restoration response in partnership with local first responders and emergency organizations.

Because of CenterPoint Energy's extensive experience, comprehensive emergency response plan and innovative technology, we could quickly isolate power problems. Automation, such as intelligent grid switches, helped avoid nearly 41 million outage minutes for customers, while smart meters increased our efficiency. Fifteen drones were used to identify locations with issues and enabled us to quickly direct crews to them.

Torrential rains left multiple substations under water for days, including our Memorial substation in west Houston. To serve customers in this hard-hit area, CenterPoint Energy was able to construct the temporary Vianney Memorial mobile substation on a church parking lot in seven days.

CenterPoint Energy's natural gas operations crews responded to more than 8,200 natural gas emergency orders and assessed nearly 125,000 meters for damage due to flooding.

CenterPoint Energy communicated with customers, media and other stakeholders before, during and after the event. Before the storm, customers were given safety and readiness tips and encouraged to enroll in the company's Power Alert Service for personalized outage notifications. During the storm, we shared systemwide information and targeted communications to customers by neighborhood. Our website traffic at the height of the storm was 600 percent higher than average. We responded to more than 8,000 social media service requests and answered television and radio media inquiries from around the nation.

Relief Efforts

CenterPoint Energy and our employees are well-known for their community spirit, which we put into action with a \$1.25 million donation to Hurricane Harvey recovery and relief efforts. Our contributions included \$250,000 each to the American Red Cross, the City of Houston Mayor's Hurricane Harvey Relief Fund and the United Way of Greater Houston's disaster relief effort.

To support CenterPoint Energy employees who were significantly impacted by Hurricane Harvey, we donated \$300,000 and established the CenterPoint Energy Employees 1st Fund. The company also matched employees' contributions to the fund up to a total of \$200,000.



"In the midst of a natural disaster, our employees reinforced CenterPoint Energy's reputation for coming together and working safely and efficiently. This crisis revealed the true character of many others in our communities, including law enforcement officers, firefighters and other emergency responders. The response of everyday citizens, taking it upon themselves to help those in need, was inspiring."

Scott M. Prochazka
President & CEO



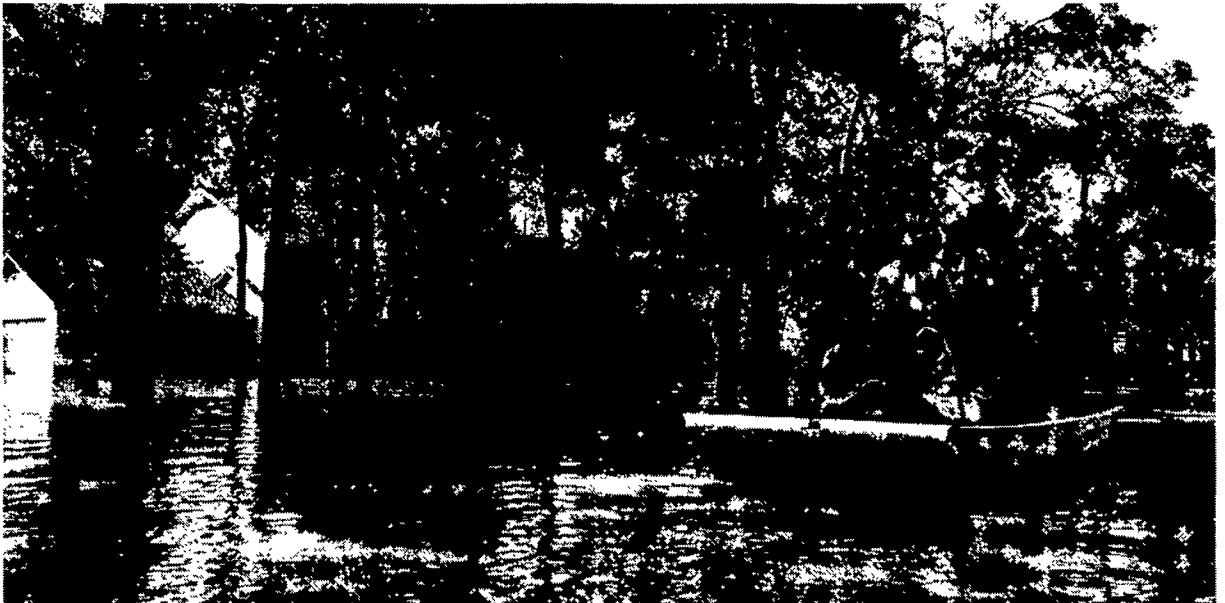
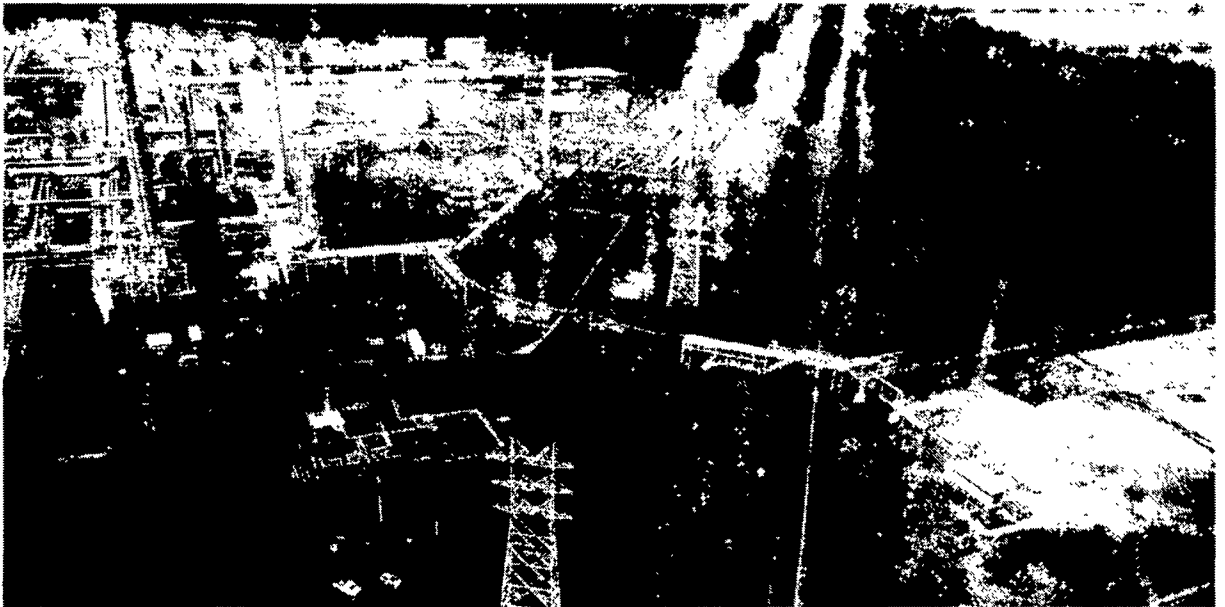
352,629

Power Alert Service notifications

\$1.25 million

Donated to relief and
recovery efforts

The Edison Electric Institute (EEI) presented CenterPoint Energy with two Emergency Recovery Awards for its outstanding work assisting customers impacted by Hurricanes Harvey and a microburst in Sealy, Texas in May 2017. EEI also recognized the company with a third award for our mutual assistance in Florida following Hurricane Irma in September 2017.





CenterPoint Energy participates in the Energy Power Research Institute's Energy Sustainability Interest Group, which works to advance sustainability in the electric power sector.

All new facilities are built and operated to Leadership in Energy and Environmental Design (LEED) standards. Pictured is CenterPoint Energy's Nicollet Mall building in Minneapolis.



CenterPoint Energy joined the EPA Methane Challenge Program in 2016 and submits its reports annually.

15 million+
pounds of scrap
metal recycled

More than
20 new
energy efficiency
programs

13 years
as an ENERGY STAR
Sustained Excellence
partner

91 percent
Power Alert Service
satisfaction rate

**Less than
0.1 percent**
of produced natural gas is
emitted from distribution
systems owned and
operated by local natural
gas utilities*

CenterPoint Energy, along with other AGA member companies, participated in and co-funded three methane studies within the past five years.



* According to the 2017 AGA study on page 24

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Environmental

Policy and Approach

Environmental Policy

CenterPoint Energy is committed to ensuring safe, efficient and reliable energy delivery and providing highly valued customer service while conducting our operations in an environmentally responsible manner. To achieve this objective, CenterPoint Energy has established the following policy:

- CenterPoint Energy management, with the support and guidance of the Environmental Services department and environmental officer, is responsible for communicating the importance of compliance with environmental laws and regulations applicable to operations in their respective areas to all employees.
- CenterPoint Energy strives to be a valued strategic partner in environmental matters and to promote environmental stewardship and effective, well-founded environmental laws and regulations.
- CenterPoint Energy strives to plan, design, build and operate our facilities in compliance with environmental laws and regulations.

Implementing this Environmental Policy as an integral part of CenterPoint Energy's corporate culture, the company will better serve its employees, customers, communities and shareholders.

Our Approach

Environmental stewardship is an integral component of our overall corporate responsibility approach. We have a long history of conducting our businesses in a safe, environmentally responsible manner. The company is committed to compliance with all applicable environmental laws and regulations. The Environmental Services department partners with operational business units to provide environmental updates and training in a variety of ways, including targeted employee training initiatives across our footprint, meetings and computer-based project collaboration.

In addition to compliance, actively managing short- and long-term environmental risk is a key focus and function of the Environmental Services department. This is achieved primarily through vendor audit programs, excess liability insurance and proactive involvement in the legislative and regulatory development processes, as well as collaboration with local, state and federal agencies and our communities. CenterPoint Energy's environmental policy and the Environmental Services department's mission are central to our actions at all levels. These actions are also reviewed by the company's environmental officer.

While CenterPoint Energy proactively manages its environmental risk, the company also proactively engages governmental and nongovernmental organization partners in voluntary environmental enhancement and education efforts. Our conservation initiatives include habitat restoration projects, endangered species conservation efforts and native wildlife rescue and release efforts. Our employees are active participants in local environmental events.

