Q. HOW HAS THE COMPANY FUNCTIONALIZED M&S?

A. M&S inventory has been functionalized based upon warehouse and part numbers that specifically identify the function using that inventory as shown on Workpaper II-B-8.

J. Cash Working Capital

Q. WHAT IS CASH WORKING CAPITAL?

A. Cash working capital ("CWC") is the difference between current assets and current liabilities that the Company requires to finance day-to-day operations. CWC is the average amount of funds necessary to bridge the disparity between the time disbursements are made to provide services and the time revenues are received for those services. Because business operations both generate and expend cash, CWC can be a net inflow or a net outflow to a company. If a utility's average CWC is a net outflow, then that represents a continuing investment that investors must make to provide utility service. If that is the case, the amount of CWC is added to the utility's rate base. If a utility's CWC is a net inflow, then that represents a source of non-investor financing and must be subtracted from rate base.

Q. WHAT HAS THE COMPANY INCLUDED IN THE ADJUSTED TEST YEAR RATE BASE BALANCE FOR CWC?

A. The Company's adjusted test year balance for CWC is a cash outflow of $26.2 million. As required by 16 TAC § 25.231(c)(2)(B)(iii)(IV), the Company's CWC is based on the lead-lag study performed by Company witness Timothy S. Lyons who discusses the study in detail in his direct testimony. The CWC calculation, based on Mr. Lyons' lead-lag study, can be found on Schedule II-B-9.

Q. PLEASE EXPLAIN THE DIFFERENCES IN THE COMPANY'S LEAD-LAG STUDY TEST YEAR COMPARED TO THE RFP TEST YEAR?

A. The Company's lead-lag study was conducted based on the twelve-month period ending in September 2018, whereas the Company's test year for the rate filing is the twelve-month period ending as of December 31, 2018. The instructions to Schedule II-B-9 allow for a lead-lag study to be conducted for a twelve-month period that differs from the test year. Specifically, the instructions state, "if a new lead-lag study is provided, it may end the quarter prior to the test year end or the most recent calendar year."

Q. IS THE COMPANY'S CWC GREATER THAN ONE-EIGHTH OF O&M AS REFERENCED IN 16 TAC § 25.231(c)(2)(B)(iii)(I)?

A. No. Schedule II-B-9 illustrates that CWC does not exceed one-eighth of the Company's total O&M expense, excluding prepayments and M&S expenses.

Q. HOW HAS THE COMPANY FUNCTIONALIZED CWC?

A. The Company has functionalized CWC based upon total O&M and A&G expenses excluding fuel and purchased power.

K. Prepayments

Q. WHAT ARE THE COMPONENTS OF PREPAYMENTS IN THIS FILING?

A. Prepayments are prepaid expenditures for goods or services paid in advance in one accounting period to be received in a future period. The adjusted prepayment 13-month average balance reflected in FERC Account 1650 consists of insurance in the amount of $5.9 million, other taxes in the amount of $5.3 million, and other miscellaneous items in the amount of $2.9 million. As shown on Schedule II-B-10, the total adjusted test year balance for these prepayments is $14.1 million. As instructed by the RFP General Instructions, prepayments are included in rate base using a 13-month average balance for the test year ended December 31, 2018. Because the short-term balances in these accounts can vary significantly, a 13-month average is utilized to provide a more accurate representation of the amount invested throughout the year.

Q. HAS THE 13-MONTH AVERAGE BALANCE FOR PREPAYMENTS BEEN ADJUSTED IN THE TEST YEAR?

A. Yes. The prepayments balance has been adjusted to be consistent with Docket No. 38339. Prepayment amounts related to executive benefit life insurance policies have been removed.[122] The second adjustment is the inclusion of the prepaid pension asset as discussed below.[123] The third adjustment removes an amount ultimately billed to affiliates for GPS devices.[124] Please see Workpaper II-B-10 for details.

Q. HOW HAS THE COMPANY FUNCTIONALIZED PREPAYMENTS?

A. The Company has functionalized insurance and other miscellaneous prepayments by net plant in service and the other taxes prepayment by property taxes as shown on Schedule II-B-10.

Q. PLEASE DESCRIBE THE PREPAID PENSION ASSET THE COMPANY IS REQUESTING TO INCLUDE IN PREPAYMENTS IN RATE BASE.

A. The Company had a prepaid asset for pension of $170.4 million at the end of the test year. Traditionally, the pension expense that results from the pension plan

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[122] *See* WP/II-B-10 for Adj 2 Historic Executive Benefit Plans adjustment.
[123] *See* WP/II-B-10 for Adj 3 Prepaid Pension Assets adjustment.
[124] *See* WP/II-B-10 for Adj 1 Other Affiliates adjustment.

actuarial study are recoverable in rates because the Company incurred the expenses for the pension plans on behalf of employees. Due to this expense recovery, the Company is also requesting recovery of the costs it incurred to finance the pension plan.

The prepaid pension asset represents investor capital contributed to the pension plan and, therefore, should be included as a component of rate base. This prepaid pension asset is the result of the Company's cumulative cash contributions to its pension plan exceeding the cumulative actuarially determined pension expense under ASC 715. Pension expense for the Company is calculated by CNP's actuary, Aon, based upon the census data of the CNP's employees and is recorded on the books and records. Exhibit KLC-09 details the prepaid pension asset balance each year since the Docket No. 38339 test year of 2009.

Q. IS IT REASONABLE TO INCLUDE THE PREPAID PENSION ASSET IN RATE BASE?

A. Yes. In 2007, the Commission allowed AEP Texas Central Company in Docket No. 33309[125] and Entergy Texas, Inc. in Docket No. 39896[126] to include their prepaid pension assets in rate base.[127] Consistent with traditional ratemaking principles, it is reasonable and appropriate to include the prepaid pension asset in rate base because the Company has funded the asset. This Commission has consistently allowed utilities to include items in rate base for which a utility makes

[125] *Application of AEP Texas Central Company for Authority to Change Rates,* Docket No. 33309, Order on Rehearing at Finding of Fact 25 (Mar. 4, 2008).
[126] *Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment,* Docket No. 39896, Order on Rehearing at Finding of Fact 28 (Nov. 2, 2012).
[127] The Company did not request a prepaid pension asset as part of its direct case in Docket No. 38339.

cash contributions on behalf of customers before it recovers the corresponding expenses through rates.[128] For instance, prepayments and M&S are regularly included in rate base. For these reasons, the prepaid pension asset should be given the same rate base treatment. Therefore, the Company is requesting approval to include the prepaid pension asset in rate base.

Q. WHAT IS THE 13-MONTH AVERAGE PREPAID PENSION ASSET BALANCE REQUESTED IN PREPAYMENTS?

A. The 13-month average prepaid pension asset balance included in Prepayments in $176.3 million.

Q. HOW HAS THE COMPANY FUNCTIONALIZED THE PREPAID PENSION ASSET?

A. The Company has functionalized the asset based on payroll.

L. Customer Deposits

Q. ARE THERE ANY CUSTOMER DEPOSITS INCLUDED IN THIS FILING?

A. Yes. The Company collects deposits from customers for EE participation, right of way damages and advances for construction. An adjustment has been made to remove $0.1 million related to EE from customer deposits.[129] The Company has also removed the Advances for Construction deposits of $17.4 million.[130] Customer deposit balances of $0.4 million remain on the Company's books and records until the balances have been exhausted or refunded to customers. Test

[128] 16 TAC § 25.231(c)(2)(B)(ii).
[129] *See* WP/II-B-11 Adj 3 EECRF Adjustment.
[130] *See* WP/II-B-11 Adj 1 Customer Advances for Construction.

year-end customer deposit balances included in rate base are shown on Schedule II-B-11.

Q. HOW HAVE CUSTOMER DEPOSITS BEEN FUNCTIONALIZED?

A. Customer deposits have been directly assigned as shown on Schedule II-B-11.

M. Regulatory Assets and Liabilities

Q. PLEASE DESCRIBE THE COMPANY'S REGULATORY ASSETS AND LIABILITIES INCLUDED IN RATE BASE.

A. ASC 980, *Regulated Operations*, allows utilities with cost-based rates established by a regulator to defer or capitalize certain costs or obligations for future ratemaking treatment. The regulatory assets and liabilities requested as part of the adjusted test year rate base balance are related to costs for bad debt, Hurricane Harvey, expedited switching, SMT, TMT, protected EDIT, Medicare Part D Subsidy, Benefit Restoration Plan liability and the pension deferral liability.[131] With the exception of the protected EDIT and Benefit Restoration Plan liability, these items are described in detail above in my testimony.

Q. WHY IS IT APPROPRIATE TO INCLUDE PROTECTED EDIT IN RATE BASE?

A. As discussed in Mr. Pringle's direct testimony, protected EDIT was derived from ADFIT that was previously funded by customers. Therefore, the regulatory liability for protected EDIT should be included in rate base.

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[131] *See* WP/II-B-11 Adj 8 Pension BRP & Postretirement Adjustment, WP/II-B-11 Adj 9 Interest Rate Hedge Reclass, WP/II-B-12 Adj 10 Interest Rate Hedge Rate Base Removal, WP/II-B-12 Adj 2 Hurricane Harvey, WP/II-B-12 Adj 8 Interest Rate Hedges, WP/II-B-12 Adj 9 Interest Rate Hedge Removal, and WP/II-B-12 Adj 10 Margin Tax Adjustment.

Q. WHY IS IT APPROPRIATE TO INCLUDE THE BENEFIT RESTORATION PLAN LIABILITY IN RATE BASE?

A. For the same reasons as I discussed above for the inclusion of the prepaid pension asset in prepayments, the benefit restoration plan associated with pension should also be included in rate base. The benefit restoration plan is currently a liability of $6.9 million.[132]

Q. HAS THE COMMISSION PREVIOUSLY APPROVED THE INCLUSION AND TREATMENT OF THESE TYPES OF REGULATORY ASSETS AND LIABILITIES IN RATE BASE?

A. Yes, specifically:

- Pension deferral costs were included in the Company's rate base in Docket No. 38339.[133]
- As noted above, deferred hurricane restoration costs were included in rate base in Docket No. 32093.[134]
- Expedited Switching costs were included in the Company's rate base in Docket No. 38339.[135]
- 16 TAC § 25.231(c)(2)(C)(i) explains that EDIT, which is a component of ADIT, is a rate base item.
- In Docket No. 47364, the Commission authorized the Company to defer SMT costs.[136]
- Texas margin tax treatment was approved in Docket Nos. 29526 and 38339.[137]

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[132] *See* WP/II-B-11 Adj 8 Pension BRP & Postretirement Adjustment.
[133] Docket No. 38339, Order on Rehearing at Findings of Fact 60 for pension deferral and 66 for expedited switches (Jun. 23, 2011).
[134] Docket No. 32093, Final Order at Finding of Fact 78 (Sept. 5, 2006). *See* Section III.G.1.
[135] Docket No. 38339, Order on Rehearing at Findings of Fact 65 and 66 (Jun. 23, 2011).
[136] Docket No. 47364, Final Order at Finding of Fact 13(e) (Dec. 14, 2017).
[137] Docket No. 38339, Order on Rehearing at Findings of Fact 161-164 (Jun. 23, 2011); Docket No. 29526, Final Order at Findings of Fact 227-237 (Dec. 17, 2004).

- The Medicare Part D subsidy tax accrual and rate base treatment were approved in Docket No. 38339.[138]
- In Docket No. 46957, the Commission approved Oncor Electric Delivery Company LLC's inclusion of bad debt in rate base as a regulatory asset.[139]

Q. ARE THERE ANY REGULATORY ASSETS AND LIABILITIES ON THE COMPANY'S BOOKS AND RECORDS THAT HAVE NOT BEEN INCLUDED IN THE COMPANY'S REQUESTED RATE BASE IN THIS FILING?

A. Yes. The following assets or liabilities are either included in another docket, tariff, or are not earning a return: TCJA tax reform refund, EECRF, TCRF, AMS, AMS Opt Out,[140] ADFIT Credit, deferred rate case expenses, ARO, Hurricane Ike residual, EDIT Rider, and Tax Reg Assets.[141] Also, the Company is proposing to include unprotected EDIT in Rider UEDIT.

N. Interest Rate Hedging

Q. PLEASE DESCRIBE THE ACCOUNTING FOR THE COMPANY'S REQUEST TO INCLUDE A REGULATORY ASSET AND LIABILITY FOR INTEREST RATE HEDGE.

A. Accounting treatment for interest rate hedging is dependent on the hedge's "effectiveness." Hedge effectiveness is a reference to when the fair value or cash

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[138] Docket No. 38339, Order on Rehearing at Finding of Fact 159A (Jun. 23, 2011).
[139] *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates,* Docket No. 46957, Final Order at Finding of Fact 53 (Oct. 13, 2017).
[140] *See* WP/II-E-4.1 for Adj 6 Non-Standard Metering Amortization.
[141] *See* WP/II-B-11 for Adj 2 DCRF Tax Reform Refund, WP/II-B-11 for Adj 3 EECRF, WP/II-B-11 for Adj 4 TCRF, WP/II-B-11 for Adj 5 AMS, WP/II-B-11 for Adj 6 ADFIT Credit, WP/II-B-11 for Adj 7 Hurricane Ike Residual, WP/II-B-12 for Adj 1 AMS Reconciliation, WP/II-B-12 for Adj 3 AMS Opt Out, WP/II-B-12 for Adj 4 ADFIT Credit, WP/II-B-12 for Adj 5 RCE, WP/II-B-12 for Adj 6 EECRF, WP/II-B-12 for Adj 7 Asset Retirement Obligation, WP/II-B-12 for Adj 11 EDIT Rider, and WP/II-B-12 for Adj 12 Tax Reg Assets.

flow of the instrument offsets the changes in the fair value or cash flow of the hedged item. Hedge "ineffectiveness" is when the fair value of the instrument does not offset the hedged item.

The Company's accounting treatment under GAAP and FERC for an effective interest rate hedge is to defer the gains/losses and amortize the gains/losses through interest expense over the life of the corresponding debt. The Company is requesting to include the interest rate hedge in the weighted cost of capital. To do this, the Company is first requesting to move the effective component of the interest rate hedge from accumulated other comprehensive income ("AOCI") to a regulatory liability as shown on Schedule II-B-11. Second, the Company will include the amortization of the regulatory liability over the life of the debt in the cost of debt. The Company's accounting treatment under GAAP for ineffective interest is to expense the entire amount when incurred. The Company believes, like the effective component of the interest rate hedge, the ineffective component of interest hedging should be deferred and amortized over the life of the associated debt and therefore, included in the cost of debt calculation. While the Company did not incur an ineffective component of interest rate hedging during the test year, it is requesting the authority to defer such items in the future, if and when they are incurred with amortization similar to the effective component. In addition, the test year contains an interest rate hedge derivative recorded in AOCI for GAAP purposes. Settlement of a derivative position occurs when the associated debt is issued.[142] Please refer to the direct testimony of Mr. McRae for further discussion of interest rate hedging.

O. Unprotected Excess Deferred Income Tax

Q. DESCRIBE THE COMPANY'S PROPOSAL RELATED TO UNPROTECTED EDIT.

A. As I noted previously, the Company is proposing to return net UEDIT regulatory liabilities to customers due to the TCJA through Rider UEDIT. The balance in the Rider UEDIT will be the net UEDIT regulatory asset and liability balances at test year end, totaling $105.4 million.[143] These balances have been removed from rate base as shown on Schedules II-B-11 and II-B-12. The Company is proposing to include a return on the UEDIT net liability rate base balance as calculated on Schedule Rider UEDIT.

Then, as shown on Schedule Rider UEDIT, the Company is proposing to amortize the total amount over a three-year period. The annual amounts are then used to calculate the present value, which is then applied to each customer class as addressed by Company witness Matthew A. Troxle. Mr. Pringle addresses the UEDIT balances in his testimony.

Q. HOW WILL THE COMPANY'S RIDER UEDIT PROPOSAL ENSURE THE PROPER AMOUNT OF UNPROTECTED EDIT IS RETURNED TO CUSTOMERS?

A. The Company expects the balance of the UEDIT net liability to change over time. As noted in Mr. Pringle's testimony, the classification of EDIT as protected or

[142] See WP/II-B-12 for Adj 8 Interest Rate Hedges adjustments.
[143] *See* WP/II-E.3.18.3.

unprotected may change. Due to the potential for significant changes to the UEDIT net liability, the Company is proposing to track the balance and record an over- or under-balance of amounts collected under the Rider UEDIT compared to the actual net UEDIT liability amount and to address this balance in the next base rate proceeding.

Q. HOW HAS THE COMPANY FUNCTIONALIZED UEDIT?

A. UEDIT functionalization directly follows the associated tax item.

P. Rate of Return

Q. WHAT COST OF EQUITY DID THE COMPANY USE TO CALCULATE THE RATE OF RETURN COMPONENT OF THE REVENUE REQUIREMENT?

A. Relying on Mr. Hevert's testimony and recommendations for the cost of equity, the resulting overall required rate of return is 7.39%. The required rate of return is applied to the adjusted rate base to derive the Company's rate of return component of the revenue requirement. This calculation is shown on Schedule II-C-2.1 and Exhibit KLC-10.

Q. WHAT IS THE COMPANY'S COST OF DEBT?

A. The Company's proposed cost of debt, as a weighted average of all outstanding debt issuances, is 4.38% as explained by Mr. McRae. The calculation is shown on Schedule II-C-2.4a.

Q. WERE THERE ANY ADJUSTMENTS MADE TO DETERMINE THE COST OF DEBT?

A. Yes. The Company included interest rate hedge expenditures and gains in the cost of debt calculation, as shown on Schedule II-C-2.4 and II-C-2.4a. For additional information on interest rate hedges, see the direct testimony of Mr. McRae.

Q. ARE THERE ANY ADJUSTMENTS RELATED TO THE EQUITY COMPONENT OF THE RATE OF RETURN CALCULATION?

A. Yes. Equity is adjusted to match the proposed capital structure recommended by Mr. McRae .

Q. Return on Rate Base

Q. WHAT IS THE COMPANY'S REQUESTED RETURN ON RATE BASE FOR THE TEST YEAR?

A. Total requested return on rate base included in the cost of service for the adjusted test year is $479.1 million. Total rate base and return on rate base by function is shown on Schedule II-B and Exhibit KLC-07.

V. <u>ERCOT WHOLESALE TRANSMISSION COST OF SERVICE</u>

Q. HOW WERE THE TCOS SCHEDULES PREPARED FOR SECTION III OF THE RFP?

A. Section III represents all cost of service components that comprise the Company's Wholesale TCOS in ERCOT. Many of the Section III schedules are identical to the Section I and II schedules, except for O&M expense, which excludes the DSP incremental TCOS expense shown on Schedule II-D-1, the CWC asset on Schedule II-B-9 that reflects this same exclusion in determining the working capital, and

Federal Income Tax on Schedule II-E-3.15 and return on rate base on Schedule II-B which change as a result of TCOS expense and CWC.

VI. AFFILIATE TRANSACTIONS

Q. HAVE AFFILIATE EXPENSES BEEN INCLUDED IN THIS FILING?

A. Yes. Ms. Townsend provides an overview of the Company's affiliate expense request and addresses the reasonableness of various classes of affiliate expense. Costs for affiliate services provided by CenterPoint Energy Resources Corporation ("CERC") and Service Company are included in the adjusted test year costs and are shown on the V-K Schedules sponsored by Ms. Townsend.

Q. PLEASE DESCRIBE THE SERVICE COMPANY FUNCTION.

A. Service Company personnel carry out corporate oversight, managerial functions, and specialized support activities (i.e., Legal, Human Resources) for CNP and its business units. Costs incurred by Service Company are initially recorded on its books and are then directly billed or allocated, as appropriate, to the appropriate business units, which Ms. Townsend addresses in her direct testimony. Ms. Townsend, along with other Company witnesses, provides greater detail on the functions provided by Service Company to CenterPoint Houston.

Q. PLEASE DESCRIBE THE CERC AFFILIATE FUNCTIONS.

A. CNP's natural gas distribution organization reports under the CERC umbrella. During the test year, the Company received the following services from CERC: Line Locating, Fleet Services, Meter Reading, Gas Operations Technology Services, Broadband services, Research and Damage Prevention Compliance, and Geographic Information Services and Computer Aided Drafting. Please see the Direct Testimony of Ms. Townsend for more information on CERC services.

Q. HOW HAVE AFFILIATE EXPENSES BEEN REFLECTED IN THE FILING PACKAGE?

A. As required by the RFP General Instructions, test year affiliate transactions have been separately identified and presented in accordance with the specific schedule instructions in Section V of the RFP.

Q. DESCRIBE THE STEPS TAKEN TO FUNCTIONALIZE AFFILIATE EXPENSES.

A. Affiliate expenses were functionalized following the O&M or A&G schedules based on where the underlying transaction occurred and then following the functionalization of that FERC account. For example, affiliate costs charged to FERC Account 5600 were traced to the function assigned on Schedule II-D-1, Operations and Maintenance. Please refer to Schedules II-D-1 and II-F for more functionalization detail.

Q. DESCRIBE THE AFFILIATE ORGANIZATIONS YOUR TESTIMONY SUPPORTS.

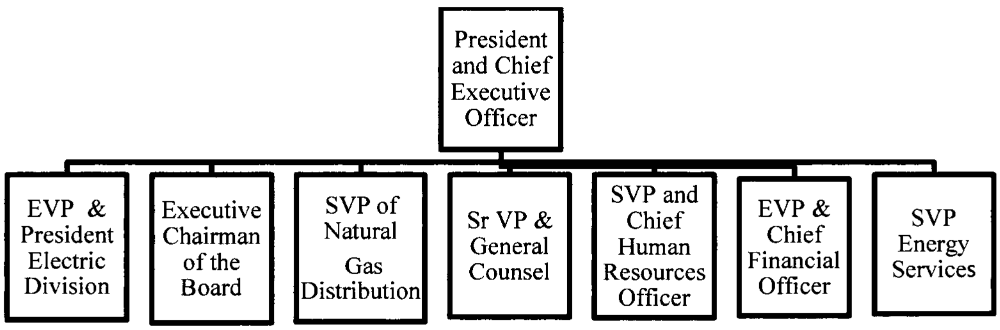
A. In my testimony below, I address certain services provided to CenterPoint Houston by Executive Management, the Finance Organization and the Chief Accounting Officer Organization.

A. Executive Management

Q. PLEASE DESCRIBE THE EXECUTIVE MANAGEMENT SERVICES PROVIDED BY SERVICE COMPANY.

A. Executive Management services include those services provided by the President and Chief Executive Officer ("CEO"); Executive Vice President & President Electric Division; Executive Chairman of the Board of Directors, which includes expenses related to the Board of Directors; the Senior Vice President of Natural Gas Distribution, which oversees the Call Center that also serves CenterPoint Houston; and the Executive Vice President and Chief Financial Officer ("CFO"). Additionally, general activities and costs incurred to support business development for CNP and the business units are also included in the Executive Management function. The organization chart below in Figure 1 – Executive Management, shows the President and CEO and his direct reports during the test year.

Figure 1. Executive Management



Q. DOES EXECUTIVE MANAGEMENT OPERATE UNDER A SERVICE LEVEL AGREEMENT ("SLA")?

A. Yes. All Service Company organizations utilize SLAs to govern their transactions with affiliates. See Ms. Townsend's Exhibit MMT-9 for the SLA governing Executive Management.

Q. WHAT TYPES OF COSTS ARE ALLOCATED TO THE VARIOUS BUSINESS UNITS FOR SERVICES PROVIDED BY EXECUTIVE MANAGEMENT?

A. In order to provide leadership, oversight and support services, Executive Management incurs labor and third-party costs that are allocated to CNP business units using allocation factors as defined in the Cost Allocation Manuals sponsored by Ms. Townsend and provided in Schedule V-K-4. Non-recoverable costs incurred by Executive Management are recorded in the appropriate non-recoverable FERC accounts on the Company's books and records.

Q. HOW DO THE STRUCTURE OF THE EXECUTIVE MANAGEMENT ORGANIZATION AND THE COMPANY'S PRACTICES WITH RESPECT TO COMPENSATION ENSURE THAT THE COSTS ASSIGNED TO THE COMPANY ARE REASONABLE?

A. The Executive Management Organization is structured to provide services that a large publicly-traded entity requires to support both its internal and external Executive Management requirements. Ms. Harkel-Rumford addresses the reasonableness of CNP's and CenterPoint Houston's employee labor market salaries and benefit plans. Because only required services are performed within the Executive Management Organization, the costs assigned to the Company are reasonable and necessary. The total cost for Executive Management services billed to the Company during the test year is addressed in Ms. Townsend's testimony.

Q. ARE EXECUTIVE MANAGEMENT SERVICES NECESSARY TO THE COMPANY?

A. Yes. The services of the CEO relate to providing support to CNP and interfacing with the CNP board of directors, stockholders, the investment community, customers and regulators. The CEO provides oversight and leadership of the overall operations of CNP including the Company. Services from this function are focused on providing a vision for the organization, leading the development of the short-term and long-term strategy of the organization, assessing risk and establishing strategic goals, reviewing the market and expansion opportunities, providing oversight of the executive leaders in the Company, and evaluating the financial and economic analysis of the Company, which are necessary functions for any publicly traded entity. The centralized structure of Service Company allows CNP to leverage executive resources across multiple business units in an efficient and cost-effective manner without duplicating those resources or functions within the Company itself.

Q. PLEASE DESCRIBE THE OTHER SERVICES PROVIDED BY EXECUTIVE MANAGEMENT THAT YOUR TESTIMONY SUPPORTS.

A. The Executive Vice President and President of the Electric Division provides oversight of the daily operations of the Company by supporting the Company's transmission and distribution delivery system. Along with the CEO, he provides guidance to ensure the Company is providing safe and reliable electric service and meeting its other goals and objectives. Mr. Pryor, Mr. Narendorf, Company witnesses Julienne P. Sugarek and Dale Bodden also discuss the structure of the distribution and transmission organizations. Similarly, the Executive Chairman of the Board oversees the CEO and CNP Board of Directors, which is a necessary part of CNP's corporate structure. The Chairman of the Board provides oversight of management and an opportunity for the Board to have more direct input in shaping the organization and strategy of the Company. The Board is also actively involved in risk oversight and strategy of the Company.

The Senior Vice President of Natural Gas Distributions provides oversight of the daily operations of the Gas Distribution companies within CERC similar to that of the Executive Vice President and President of the Electric Division. Included within his duties are oversight of the Call Center, which also serves CenterPoint Houston. Company witness Rebecca Demarr addresses the Call Center operations in more detail in her testimony.

The Executive Vice President and CFO provides oversight of the Finance Organization, which I address below, establishes control over the cash flow position for day-to-day operations taking into consideration risk and liquidity and the overall capital structure of the Company, establishes communications with external parties to support financial needs and shareholder relations, develops financial and tax strategies, develops performance measures and monitoring and reports related results to Executive Management, and ensures timely and accurate compliance reporting.

Q. IS IT REASONABLE FOR THE COMPANY TO OBTAIN THE SERVICES PROVIDED BY EXECUTIVE MANAGEMENT THROUGH A CENTRALIZED ORGANIZATION?

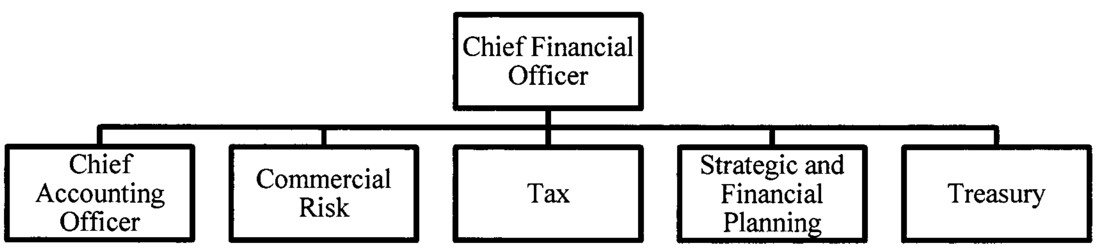
A. Yes. The Executive Management services are necessary for the operation of any business regardless of whether the service is performed centrally, as is done at CNP, or resides within the business unit. A centralized Service Company that includes Executive Management, gives the business units access to high-quality and specialized services in a cost-effective manner because the cost is shared by multiple business units. Under the centralized structure, the CEO is responsible for oversight of the Company's $7.7 billion in Net Plant in Service, which is approximately 55% of total CNP Net Property, Plant and Equipment and the Company's December 2018 reported Operating Income of $623.0 million, which is approximately 75% of CNP's Operating Income for the period ending December 2018. Under the centralized Executive Management Organization structure, the Company is assigned a portion of the costs of the CEO, Chairman of the Board, CFO, and SVP of Natural Gas Distribution rather than incurring 100% of costs as a stand-alone company.

B. Finance Organization

Q. PLEASE DESCRIBE THE STRUCTURE OF THE FINANCE ORGANIZATION.

A. The Finance Organization consists of the Office of the CFO, Chief Accounting Officer ("CAO"), Commercial Risk, Tax, Strategic and Financial Planning, and Treasury. These departments provide financial oversight and support throughout CNP. Figure 2 below shows the structure of the Finance Organization during the test year discussed in my testimony.

Figure 2. Finance Organization



Q. HOW ARE THE FUNCTIONS OF THE OFFICES WITHIN THE FINANCE ORGANIZATION SUPPORTED IN THIS FILING?

A. The CFO and CAO departments are supported in my testimony. The Chief

Accounting Officer oversees the books and records of the Company and accounting policies, processes, and reports financial results for CNP. CAO activities are further described in more detail in my testimony below. Mr. McRae discusses the services the Commercial Risk (or "Enterprise Risk Management") and Treasury Departments provide to the Company. Mr. Pringle discusses services provided by the Tax Department in his direct testimony. Finally, Ms. Townsend addresses Strategic and Financial Planning in her direct testimony.

Q. DOES THE FINANCE ORGANIZATION OPERATE UNDER AN SLA?

A. Yes. As discussed by Ms. Townsend, all Service Company organizations use SLAs to govern their transactions with affiliates. See Exhibit MMT-9 for the SLA governing the Finance organization.

Q. HOW DOES THE FINANCE ORGANIZATION SUPPORT THE COMPANY?

A. The Finance Organization provides support to ensure the Company is able to fund its operations daily, its vendors and employees are paid timely and accurately and all financial and regulatory reporting requirements are met. In this way, the Finance Organization provides services that are necessary for the day-to-day functioning of the Company both internally and externally. The activities of the Finance Organization are also critical to ensuring the Company meets monthly, quarterly and annual reporting requirements.

Q. ARE THE FINANCE ORGANIZATION COSTS INCLUDED IN THE COMPANY'S FILING REASONABLE AND NECESSARY?

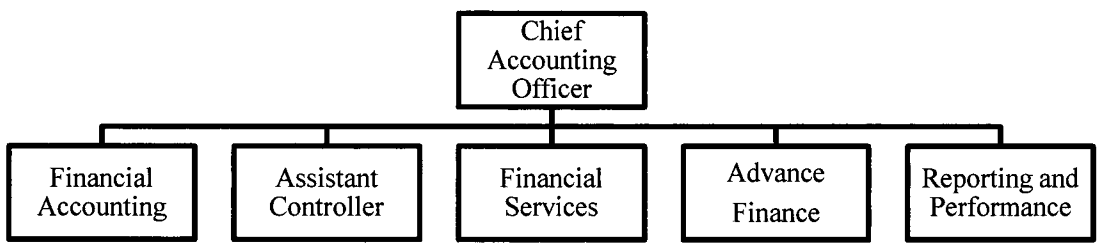
A. Yes. The Finance Organization activities noted above are corporate support activities that any utility would require on an ongoing basis. As noted for Executive Management, if those activities were not provided by Service Company, CenterPoint Houston would need its own employees to perform the functions and services provided by the Finance Organization. As Ms. Townsend testifies, the Finance Organization's costs are controlled through CNP's annual budget process and adherence to cost control processes. The Commission should authorize the Company to recover its Finance Organization costs through the rates set in this proceeding.

C. Chief Accounting Officer Organization

Q. PLEASE DESCRIBE THE RESPONSIBILITIES AND FUNCTIONS THAT REPORT TO THE CAO.

A. The CAO organization maintains the books and records of the Company and CNP, and associated accounting policies. The CAO also reports on the financial results of CNP and its affiliates. CAO services include Financial Accounting, the Assistant Controller, Financial Services, Advance Finance, and Reporting and Performance. Figure 3 below shows the structure of the CAO organization during the test year.

Figure 3. CAO Organization



Q. DESCRIBE HOW EACH OF THE CAO FUNCTIONS PROVIDE SUPPORT TO THE COMPANY.

A. **Financial Accounting.** Financial Accounting provides general accounting and financial oversight responsibilities for the business units, has a functional operating area that maintains and reports operating financial information, and includes the following areas in support of the Company:

1) **Financial Accounting Electric** compiles the accounting and financial records in accordance with GAAP and ensures that revenue recognition complies with GAAP. Financial Accounting also bills for TCOS and other services, fulfills business unit specific data reporting needs, and ensures internal controls are effective and tested regularly.

2) **Property Accounting** tracks and reports on all capitalized assets and assists the business units with CNP's capitalization policy. Given that CNP has approximately $14.0 billion in net Property, Plant and Equipment, as of December 2018, the services provided by this group are critical to CNP's and the Company's operations.

3) **Regulatory Reporting** compiles and reports information specifically required by regulators such as the Commission and confirms compliance with the FERC USOA.

Assistant Controller. The essential objectives of the Assistant Controller are as follows:

1) **Financial Controls Compliance** is a centralized function that helps the business units comply with, monitor and support SOX requirements. Both CNP and its independent auditors must provide additional certifications on CNP financial results and policies under the law. Financial Controls Compliance was established to implement and report on the design and effectiveness of CNP, CERC and the Company's financial internal controls.

2) **Financial Reporting** prepares consolidated financial data and reports for CNP, CERC and the Company's periodic financial reports as required by securities laws.

3) **Accounting Research** monitors new accounting pronouncements and their development cycles for applicability to CNP, performs accounting

research as needed for significant or unusual transactions, and develops and maintains accounting and finance policies.

4) **Benefits Accounting** is responsible for accounting for items related to payroll and employee benefits, including payroll tax accounting for employee and executive benefits plans.

Financial Services. Financial Services conducts the following activities:

1) **Electric Revenue Billing** entails daily activities to obtain data from meter reading systems, incorporate successful read data into billing calculations, execute validations and estimations from a tariff perspective, resolve and correct any subsequent billing and invoicing exceptions and create invoice and usage records. Electric Revenue Billings also performs applicable reconciliations, balancing and system controls. Additional functions include system testing for enhancements, remedying system issues or defects, and maintaining prices and factors in the billing system as required by the tariffs.

2) **Accounts Payable** is responsible for efficiently providing accurate and timely disbursement of payment to the Company's vendors consistent with CNP policies, regulatory requirements and appropriate internal controls. Accounts Payable responsibilities include: (1) indexing invoice information within SAP; (2) creating and maintaining vendor files and records; (3) reviewing payments for proper authorization; (4) responding to vendor and client inquiries; (5) tax reporting; and (6) correcting journal entries.

3) **Remittance Processing** administers customer payments for the Company and other business units and updates billing records to reflect collections. Remittance Processing also: (1) reconciles Company funds received in the bank accounts to the files transmitted to credit customer accounts; (2) monitors and reconciles cash clearings to general ledger entries and performs intercompany transfer journal entries as needed; and (3) researches and resolves payment issues such as returns and notifying the banks of changes. Remittance Processing performs significant internal controls to ensure accuracy and that payments are processed in a cost-effective way.

4) **Corporate Disbursements** prints checks for the Company and other business units in compliance with CNP policy and procedures for payroll, accounts payable to vendors, and claims and credit refunds due to customers.

5) **Payroll Administration and Compliance** provides full scale payroll services, which includes: (1) maintenance of employee master data; (2) issuing payments (direct deposit and paper checks) in semi-monthly

and bi-weekly pay frequencies; (3) administering voluntary and involuntary deductions; (4) generating year-end earnings and tax statements (Form W-2, 1099-R); (5) federal, state and local tax filings; (6) remitting taxes withheld from employees; and (7) mandatory government reporting of wages and taxes.

Advance Finance. Advance Finance is a Finance Department initiative to improve processes and increase automation of activities. Examples of improvements made to date include the use of a cloud-based tool to streamline account reconciliations, a tool for tracking and automating closing steps during the month-end process for closing the books, and implementing optical character recognition software for automating invoice processing in accounts payable. Additional initiatives in progress include automating the preparation of regulatory workpapers and schedules, implementing an integrated planning and budgeting system, and upgrading the SAP Finance system to a new version.

Reporting and Performance. Reporting and Performance is responsible for the development of the business unit annual financial plan and monthly and quarterly performance reporting. This group is the liaison between Accounting and the business unit operations, helping to ensure cost coding is accurate. The costs of the Reporting and Performance function are direct Company costs and are not an affiliate cost even though the oversight of the Reporting and Performance function is provided by the CAO.

Q. WHAT TYPES OF DIRECT-BILLED AFFILIATE SERVICES ARE PROVIDED BY THE CAO ORGANIZATION TO THE VARIOUS CNP BUSINESS UNITS, INCLUDING THE COMPANY?

A. Functions in the CAO organization for which affiliate costs are directly billed are specific to each business unit. Examples of direct charges are:

- Labor costs and expenses charged to specific business units. Employees who direct bill labor keep time records to document the activities they perform, their time records are entered into SAP, and billed to the specific business unit.
- Third-party costs that are applicable to a specific business unit, such as audit fees, consulting and professional services.

Q. WHAT TYPES OF COSTS ARE ALLOCATED TO THE VARIOUS BUSINESS UNITS BY THE CAO ORGANIZATION?

A. Labor and third-party costs in the CAO organization that are not identified as direct billed are allocated to CNP business units using allocation factors as defined in the Cost Allocation Manuals sponsored by Ms. Townsend and provided in Schedule V-K-4. Examples of allocated costs include governance costs associated with the CAO and oversight of Finance internal controls.

Q. HOW DOES THE STRUCTURE OF THE CAO ORGANIZATION ENSURE THAT THE COSTS ASSIGNED TO THE COMPANY ARE REASONABLE AND NECESSARY?

A. Similar to Executive Management as discussed above,[144] the CAO Organization is structured to provide services that a large publicly-traded entity requires to support both its internal and external financial requirements. Because only required services are performed within the CAO Organization, the costs assigned to the Company are reasonable and necessary.

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[144] *See* Section VI.A, Executive Management.

Q. IS IT REASONABLE FOR THE COMPANY TO OBTAIN THE SERVICES PROVIDED BY THE CAO ORGANIZATION THROUGH A CENTRALIZED ORGANIZATION?

A. Yes. Similar to Executive Management discussed above,[145] the CAO and Service Company services are necessary for the operation of any business regardless of whether the service is performed centrally, as is done at CNP, or resides within the business unit. A centralized Service Company gives the business units access to high-quality and specialized services in a cost-effective manner because the cost is shared by multiple business units. An example that helps illustrate the benefits to the Company of the centralized CAO Organization is the CAO itself. Under the centralized CAO Organization structure, the Company is assigned a portion of the costs of the CAO rather than incurring 100% of CAO costs as a stand-alone company.

Additionally, a centralized organization can be cost effective for processes that are repetitive in nature. For example, the accounts payable process is not unique to any specific business unit and has a high volume of transactions. The speed and cost of processing of accounts payable by the centralized Accounts Payable Department can be sustained and shared across many business units in a cost-effective way. The same principles apply to the other support services provided by the CAO Organization such as remittance processing.

[145] *Id.*

Q. ARE THE CAO ORGANIZATION COSTS INCLUDED IN THE COMPANY'S FILING REASONABLE AND NECESSARY?

A. Yes. The CAO Organization activities noted above are corporate support activities that any utility would require on an ongoing basis. If those activities were not provided by the Service Company, CenterPoint Houston would need its own employees to perform the functions and class of services provided by the CAO Organization. As Ms. Townsend testifies, the CAO Organization costs are controlled through CNP's annual budget process and adherence to cost control processes. The Commission should authorize the Company to recover its CAO Organization costs through the rates set in this proceeding.

VII. DIRECT ACCOUNTING COSTS

Q. HAVE ANY DIRECT ACCOUNTING COSTS BEEN INCLUDED IN THIS FILING?

A. Yes. In addition to the Performance and Reporting costs discussed above, I support certain accounting transactions that are incurred directly by the Company. These transactions include intercompany rent, overhead residuals, credits for bond company audits and management, credit facility fees, and other miscellaneous items. These costs have been functionalized based on the underlying transactions.

VIII. CAPITALIZATION POLICY CHANGES & ACCOUNTING MATTERS

Q. HOW DO THE COMPANY'S INTERNAL CONTROLS DETERMINE WHETHER AN EXPENDITURE SHOULD BE TREATED AS A CAPITAL ASSET OR AS AN EXPENSE?

A. CNP's capitalization policy (Exhibit KLC-11) governs whether an expenditure should be treated as a capital addition or an expense. The Capitalization Policy was developed in accordance with FERC instructions on Additions and Retirements of Electric Plant and GAAP. The policy has not changed materially since it was initially drafted in 2007. As noted in the policy itself, the purpose of the capitalization policy "is to provide the criteria for expenditure capitalization and addition to the capital base." To this end, the capitalization policy addresses the timing of work order completion (Page 1) and defines and explains the policies relevant to retirement units (Page 2), substantial minor items (Page 3), and less than substantial minor items (Page 4). Similarly, the policy explicitly lists the types of investment that may be capitalized to guide employees when they are making a determination on coding an expenditure as capital or expense (Page 5). In short, the document provides employees with rules governing the accounting treatment of capital assets.

Q. WHICH DEPARTMENT WITHIN THE COMPANY IS CHARGED WITH IMPLEMENTING THE CAPITALIZATION POLICY?

A. The Property Accounting department within Financial Accounting implements the capitalization policy.

Q. HAVE ANY CHANGES BEEN MADE TO THE COMPANY'S ACCOUNTING RULES OR CAPITALIZATION POLICY SINCE DOCKET NO. 38339?

A. Yes. Annually, the Company reviews the standards outlined in its capitalization policy to determine if a change in the accounting for certain costs is warranted. As a result of the Company's annual review, since Docket No. 38339, the Company has made changes to its capitalization policy for luminaires, microprocessor control devices, program assessment costs (underground cable life extension) and certain construction overhead costs.

Q. **HAS THE COMPANY'S ACQUISITION OF VECTREN AFFECTED ITS ACCOUNTING POLICIES?**

A. Upon the completion of the acquisition of Vectren on February 1, 2019, CNP's execution of its accounting policies remains unaffected. Please refer to Mr. Kimzey's testimony for further details on the Company's acquisition of Vectren.

A. Luminaires

Q. **HOW DOES THE COMPANY DEFINE A STREETLIGHT LUMINAIRE?**

A. A streetlight luminaire consists of a fixture attached to the pole or arm, the head, wiring, and photocell used for public street and highway lighting or traffic.

Q. **DO LUMINAIRES QUALIFY FOR CAPITALIZATION UNDER FERC ACCOUNTING REQUIREMENTS AND CNP'S CAPITALIZATION POLICY?**

A. Yes. Per FERC, expenditures for luminaires are to be captured in FERC Account 373, Street Lighting and Signal Systems, which allows for the capitalization of luminaires. The Company has always capitalized luminaires installed with the pole and bracket as one unit. Due to changes in technology and the relative replacement dollar value to the current retirement unit, CNP's capitalization policy correspondingly supports the capitalization of luminaire replacements.

Q. **WHEN AND WHY DID THE COMPANY BEGIN TO CAPITALIZE LUMINAIRE REPLACEMENTS?**

A. In accordance with the CNP Capitalization Policy, which includes the Company's Retirement Unit Catalog, luminaire replacements became a separate retirement unit on January 1, 2014. Pursuant to the CNP Capitalization Policy, additions or changes to retirement units are re-evaluated when changes in technology occur or there is a notable change in material costs. In 2013, the Company began to recognize a change in luminaire technology and related increases in material costs that no longer qualified luminaires as a minor material. Consistent with the policy, in 2013, the Company evaluated whether luminaires should be capitalized to FERC Account 373.

As shown in Exhibit KLC-12, taking into account the new technology for street light luminaires, recovery of luminaire replacement costs as a retirement unit is consistent with the intent of PURA § 36.210. Specifically, the bill analysis accompanying PURA § 36.210 makes clear that "...funding a modern and reliable electrical grid depends on a regulatory structure that both allows utilities to keep pace with evolving demands and technology, and provides for timely cost recovery." This is also consistent with the treatment of luminaires contemplated in Docket No. 42742, which addressed the Company's application to amend its lighting service tariff to add new street lighting options. As noted in the Company's application in that proceeding and in the Commission's Final Order, the Company did not seek recovery of those costs at that time, but rather agreed to allow the costs associated with this initiative to be addressed in the Company's next DCRF and base rate proceedings.[146]

[146] *Application of CenterPoint Energy Houston Electric, LLC to Amend Rate Schedule 6.1.1.1.6 Lighting Services in its Tariff for Retail Delivery Service,* Docket No. 42742, Final Order at Findings of Fact 18b and 18c (Nov. 14, 2014).

Q. HAVE PARTIES TO A CENTERPOINT HOUSTON RATE FILING HAD THE OPPORTUNITY TO ADDRESS COST RECOVERY ASSOCIATED WITH THE ACCOUNTING CHANGE FOR LUMINAIRES AFTER DOCKET NO. 42742?

A. Yes. The signatories to the Settlement Agreement in the Company's first DCRF proceeding in Docket No. 44572 agreed to capitalization of LED street light luminaire costs, as proposed by the Company in that DCRF proceeding, and agreed that those costs were eligible for recovery through the DCRF.[147]

B. Microprocessor Control Devices

Q. PLEASE DESCRIBE THE CAPITALIZATION POLICY CHANGE RELATED TO ACCOUNTING FOR A MICROPROCESSOR CONTROL DEVICE SEPARATE FROM THE CONTROL PANEL FOR SUBSTATION ASSETS.

A. The microprocessor control device is one component of the substation control panel. Prior to 2017, replacing a microprocessor control device in a substation in isolation (i.e., without also replacing the entire control panel in the substation) was expensed. Effective January 1, 2017, CNP's capitalization policy was changed to make the microprocessor control device a separate retirement unit from the control panel. Consequently, replacement of the microprocessor control device is classified as a capital activity.

[147] Docket No. 44572, Final Order at Finding of Fact 37 (Aug. 5, 2015).

Q. WHY DID THE COMPANY MAKE THE ACCOUNTING CHANGE FOR MICROPROCESSOR CONTROL DEVICES?

A. Under CNP's capitalization policy, certain items such as changing technology are to be considered when making changes to the property unit catalog. In this instance, changing technology is making the use of microprocessor control devices more prevalent across the Company's system.

Q. HAS THE COMPANY INCLUDED THE ACCOUNTING CHANGE FOR MICROPROCESSOR CONTROL DEVICES IN ANY PRIOR FILINGS?

A. In the Company's 2018 DCRF filing in Docket No. 48226, the Company began to address cost changes related to the capitalization of microprocessor control devices. The parties to Docket No. 48226 entered into a black-box settlement, which the Commission approved in a final order on August 30, 2018, and the issue was not specifically addressed in the settlement agreement or final order.

C. Overhead Construction Costs

Q. PLEASE DISCUSS THE ACCOUNTING PRACTICE CHANGE RELATED TO CERTAIN OVERHEAD CONSTRUCTION COSTS.

A. FERC USOA, Electric Plant Instructions No. 4, *Overhead Construction Costs,* authorizes a utility to include overhead costs, such as general office salaries and expenses, applicable to construction as a part of its assets. In 2013, driven by our capitalization policy and the results of an American Gas Association/Edison Electric Institute ("AGA/EEI") accounting committee survey, the Company began the analysis of establishing whether an accounting change related to certain overhead construction costs was warranted. Consistent with the FERC Instruction, in 2014, the Company began to include a portion of CNP's costs associated with

Property Accounting and Accounts Payable departments in overhead construction cost.

The AGA/EEI survey results also illustrated that other utilities capitalized Call Center costs when the calls were directly related to new construction and new meters. Again, consistent with this FERC Instruction, in 2013, the Company researched whether calls related to new construction could be separately identified. In early 2015, it was determined that CNP's Customer Vision Platform system provided the functionality to separately identify the Call Center activities related to new construction. In 2015, the Company began to include in overhead construction cost a portion of CNP's Call Center department that interfaces directly with new construction and new meter calls.

Q. IS IT REASONABLE TO INCLUDE COSTS FOR WORK PERFORMED BY CNP'S PROPERTY ACCOUNTING AND ACCOUNTS PAYABLE DEPARTMENTS IN CONSTRUCTION OVERHEAD?

A. Yes. The Property Accounting department is solely responsible for maintaining CNP's financial records for fixed assets from the point of acquisition or construction to the point of retirement or disposal. The fixed asset records are based on data contained in capital work orders provided by the Company's Electric Operations division. Due to the high transaction volume, programs have been developed that automate unitization throughout the fixed asset life cycle. Manual processing is still required for certain types of capital work and for error resolution. The time devoted to manually processing work orders by Property Accounting personnel is charged to construction overhead. Likewise, the Accounts Payable department is responsible for processing the high volume of invoices for CNP's capital work orders. Because these departments support construction activities, it is reasonable to assign the costs associated with this support to construction overhead as authorized by FERC.

Q. HOW DO THE PROPERTY ACCOUNTING AND ACCOUNTS PAYABLE DEPARTMENTS CHARGE TIME TO CONSTRUCTION OVERHEAD?

A. All Property Accounting personnel who perform manual unitization are required to track the amount of time spent analyzing and unitizing work orders. At the end of every week, each employee identifies the number of hours that were devoted to manual unitization and codes his or her time directly to the construction overhead order. The Property Accounting department directly assigns its capital activities to construction overhead according to the number of hours devoted to manual unitization.

Accounts Payable costs charged to the Company are apportioned to capital based on the Company's expected capital spending. Construction overhead charges are then applied to eligible construction work orders.

Q. IS IT REASONABLE TO INCLUDE COSTS FOR WORK PERFORMED BY CNP'S CALL CENTER IN CONSTRUCTION OVERHEAD?

A. Yes. As I explained above,[148] the AGA/EEI survey results show that other utilities capitalized Call Center costs where the calls were directly related to new construction and new meters. CNP's Call Center department is solely responsible for handling customer inquiries related to the Company's new construction and new

[148] *See* Section VII.C, Overhead Construction Costs.

meter activities via both telephone and the internet. Because the department supports the Company's new construction and new meter activities, it is reasonable to assign the costs associated with this support to construction overhead as authorized by FERC.

Q. HOW DOES THE CALL CENTER DEPARTMENT CHARGE TIME TO CONSTRUCTION OVERHEAD?

A. Specific call center personnel are responsible for handling all communications related to new construction and new meters. These personnel are required to track the amount of time spent handling customers' inquiries. At the end of the week, each employee identifies the number of hours that were devoted to handling inquiries related to new construction and new meters and codes their time directly to applicable work orders. These work orders settle to construction overhead orders based on the actual monthly permit per builder count.

Once all charges are collected in construction overhead work orders, the accounting system allocates construction overhead charges to eligible construction work orders based on a percentage of the expenditures charged to that work order in CWIP.

D. Electric Battery Storage

Q. DOES THE COMPANY CURRENTLY UTILIZE ELECTRIC BATTERY STORAGE ("EBS") IN SERVING ITS CUSTOMERS?

A. No. Please refer to Ms. Sugarek's direct testimony for further information on the use of EBS technology. As technological improvements are made, it may be possible for the Company to utilize EBS.

Q. ARE THE COSTS FOR EBS INCLUDED IN THIS FILING?

A. No EBS costs have been included in the test year.

Q. WHAT TREATMENT IS THE COMPANY REQUESTING FOR EBS COSTS IN THIS CASE?

A. The Company anticipates some costs associated with EBS will be requested for recovery through the DCRF, which means the Company needs a depreciation rate approved for EBS. Please refer to Mr. Watson's testimony for the requested depreciation rate related to EBS and to Ms. Sugarek's testimony for further discussions on the Company's request related to EBS.

E. Accounting for Leases

Q. PLEASE DISCUSS ASU NO. 2016-02, LEASES (TOPIC 842).

A. In 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASC 842"), which is guidance for the leases of property, plant, and equipment to "increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about [the] leasing arrangement" effective for the first fiscal year after December 15, 2018.[149] Under ASC 842, a lessee will recognize a right of use ("ROU") asset and lease liability on the balance sheet for obligations related to lease arrangements with terms of more than 12 months. The lessor accounting is substantially the same as it was prior to the release of ASC 842. FASB noted that operating leases, in addition to finance leases, are to be reported on the balance sheet. The footnotes to

[149] FASB ASU Leases Topic 842, page 1.

the financial statements require expanded disclosures for operating and finance leases.

Q. PLEASE DISCUSS THE FERC GUIDANCE WITH RESPECT TO ASC 842.

A. In December 2018, FERC issued guidance on accounting and financial reporting for leases in Docket No. AI19-1-000. Current FERC regulations state that capital leases are to be recognized on the balance sheet but do not require the same treatment for operating leases. The FERC guidance allows entities to choose to implement capitalization of operating leases for those leases with a lease term greater than 12 months as required by ASC 842. FERC authorized the use of existing FERC accounts to record leases under ASC 842 as existing capital lease and liability accounts. The FERC guidance requires public utilities to continue to follow current accounting guidance for capital leases and land easements.

Q. HOW HAS ASC 842 IMPACTED THE COMPANY?

A. The Company will continue accounting for leases under FERC guidance. Rental payments on all leases shall be charged as they become payable. ROU assets, amortization of the ROUs, and the corresponding lease liabilities required under ASC 842 will be tracked separately to meet the filing requirements of the FASB.

Q. IF THE COMPANY ENTERS INTO A FINANCING LEASE, HOW WILL IT BE RECORDED ON THE BOOKS AND RECORDS?

A. The criteria for a financing lease is equivalent to the criteria for a capital lease under FERC guidance. From a lessee perspective, the Company will record the lease as a capital lease as prescribed by FERC.

Q. DOES THE COMPANY PROPOSE TO INCLUDE THE ROU ASSETS IN RATE BASE IN FUTURE FILINGS?

A. No. The Company will continue accounting for leases under FERC guidance, and no ROU assets will be recorded by the Company for ratemaking purposes. Following FERC guidance in Docket No. AI19-1-000, the accounting treatment is intended to have no impact on existing ratemaking treatment or practices.

F. Other Accounting Matters

1. Protected EDIT

Q. ARE THERE ANY OTHER ITEMS THE COMPANY IS REQUESTING IN THIS DOCKET?

A. Yes. In future DCRF proceedings following this case, the Company requests the ability to adjust its protected EDIT regulatory liability balance in rate base, when calculating the DCRF rate. This treatment recognizes the benefit customers receive from the return of protected EDIT as the return of that liability occurs over time.

2. FERC Account 1060

Q. ARE THERE ANY OTHER ACCOUNTING MATTERS THAT YOU WISH TO MAKE THE COMMISSION AWARE OF?

A. Yes. I would like to make the Commission aware of the Company's systematic ability to now use FERC 1060 (Completed construction not classified or "CCNC") based on an accounting system upgrade.

Q. PLEASE DISCUSS THE FERC BALANCE SHEET ACCOUNT 1060 AND WHEN IT BEGAN TO BE USED BY THE COMPANY'S ACCOUNTING DEPARTMENT.

A. In 2013, the Company began utilizing FERC balance sheet Account 1060 to include investment plant work orders that have been placed in service and are used and useful, but that are simply awaiting final paperwork before being transferred to the final fixed asset FERC account. By moving these costs to FERC Account 1060, AFUDC charges are stopped and depreciation expense commences. Assets within FERC Account 1060 are sub-classified to the appropriate FERC electric plant accounts, and the depreciation rate applicable to that plant account is applied. For example, poles, towers, and fixtures captured in FERC Account 1060 are sub-classified to FERC 3640.

Q. IS THE USE OF FERC ACCOUNT 1060 A COMMON INDUSTRY PRACTICE?

A. Yes. Based on a review of FERC Form 1s filed under Project No. 35588, it is clear that a number of Texas utilities use FERC Account 1060. These utilities include: AEP Texas, Inc., El Paso Electric Company, Entergy Texas, Inc., Electric Transmission Texas, Sharyland Utilities, L.P., Southwestern Electric Power Company, Southwestern Public Service Company, and Texas-New Mexico Power Company.

3. Underground Cable Assessment Costs

Q. PLEASE DISCUSS FERC GUIDANCE REGARDING THE CAPITALIZATION OF PROGRAM ASSESSMENT COSTS.

A. In 1996, FERC issued guidance that permits utilities to capitalize certain pipeline assessment costs related to a one-time major rehabilitation project of the utility's system if the project would extend the useful life of the system.[150] FERC later clarified that underground cable assessment costs could also be capitalized pursuant to its previous order, if the following criteria were met:[151]

1) the cost must be in connection with a one-time major rehabilitation project of an electric cable system and involve significant replacements and modifications of facilities;
2) the project must extend the overall system's useful life and serviceability;
3) the costs are incurred subsequent to determining the need for the project;
4) the utility must have in place appropriate internal controls to distinguish between expenses incurred related to ongoing assessment and capital costs that are part of the rehabilitation project; and
5) the utility must have in place internal controls that clearly define the scope and budget of the rehabilitation project, its completion date, and how costs are assigned to construction projects.

Q. ARE CNP'S ACCOUNTING PRACTICES CONSISTENT WITH THIS GUIDANCE?

A. Yes. In 2013, CNP updated its capitalization policy to be consistent with FERC guidance.

Q. HAS THE COMPANY IMPLEMENTED ANY PROGRAMS ELIGIBLE FOR THIS CAPITALIZATION POLICY SINCE DOCKET NO. 38339?

A. Yes. Since Docket No. 38339, the Company implemented an underground cable assessment program in 2013 to determine the specific location of cables needing to be repaired or replaced. In early 2013, Electric Operations determined it was

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[150] *Northwest Pipeline Corp.*, Docket No. AC94-149-000 (FERC Apr. 30, 1996); *see* Notice of Proposed Accounting Release, 69 Fed. Reg. 67,727 (Nov. 5, 2004) (citing Northwest Pipeline as authority to capitalize assessment costs).
[151] *IMCORP's Request for Confirmation of Accounting Rule under AC09-27,* Docket No. AC09-27-000 (FERC Jan. 8, 2009).

necessary to undertake a one-time major rehabilitation project involving replacements and modifications of its facilities that would significantly enhance the useful life and serviceability of the Company's electrical system. Appropriate controls were put in place to: (1) establish a budget for this program; (2) clearly assign construction costs; and (3) distinguish and account for expenses incurred related to any ongoing assessment and capital costs related to the rehabilitation project. As explained in Mr. Pryor's direct testimony, the scope and budget of the project are also clearly defined. The underground cable assessment program is not a routine maintenance program, was implemented specifically as part of a large capital project, and it meets all FERC criteria as well as CNP's current capitalization policy. As such, the costs associated with the underground cable assessment program are properly capitalized.

Q. HAS THE COMMISSION HAD THE OPPORTUNITY TO REVIEW THIS ISSUE BEFORE?

A. The Company raised this issue in its 2015 DCRF filing in Docket No. 44572. The signatories to the Settlement Agreement in that case agreed to capitalization of the underground cable assessment program costs, as proposed by the Company in that proceeding, and agreed that those costs were eligible for recovery through the DCRF.[152]

[152] Docket No. 44572, Final Order at Finding of Fact 38 (Aug. 5, 2015).

IX. RATE CASE EXPENSES

Q. PLEASE DESCRIBE THE COMPANY'S RATE CASE EXPENSES.

A. The Company's rate case expenses include expenses that have been deferred from previous rate filings, as well as rate case expenses associated with this proceeding. The previous rate filings include rate case expenses remaining from Docket No. 38339, incurred in three of the Company's four DCRF filings, and incurred in the Company's final AMS reconciliation. Per the Commission's order in Docket No. 39127, rate case expenses incurred by the Company after November 30, 2010 related to Docket No. 38339 were deferred and are to be recovered in this rate case.[153] The Commission also authorized the deferral of DCRF and AMS-related rate case expenses incurred by the Company and municipalities for review and recovery in a future rate proceeding.[154] The total unadjusted test year balance of rate case expenses for these prior proceedings is $4.1 million. There were inadvertent charges that were booked to the Docket No. 38339 account in the amount of $0.1 million, which have been removed.[155] Further adjustments to costs from these prior proceedings have been made by Company witness Myles F.

[153] *Requests for Rate Case Expenses Severed from Docket No. 38339 (Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates),* Docket No. 39127, Final Order at Findings of Fact 26 and 27 (Jun. 6, 2011).

[154] *See Application of CenterPoint Energy Houston Electric, LLC to Amend its Distribution Cost Recovery Factor and to Reconcile Docket No. 44572 Revenues,* Docket No. 45747, Final Order at Finding of Fact 36 (Jul. 20, 2016); *Application of CenterPoint Energy Houston Electric, LLC to Amend its Distribution Cost Recovery Factor,* Docket No. 47032, Final Order at Finding of Fact 36 (Jul. 28, 2017); *Application of CenterPoint Energy Houston Electric, LLC to Amend its Distribution Cost Recovery Factor,* Docket No. 48226, Final Order at Ordering Paragraph 5 (Aug. 30, 2018); and Docket No. 47364, Final Order at Finding of Fact 13(d) (Dec. 14, 2017).

[155] *See* WP/II-E-4.1a Adj 1 for the D38339 RCE write-off adjustment, and WP/II-E-4.1a Adj 5 for the Non-recoverable adjustment.

Reynolds during his review of the reasonableness of these expenses, which he addresses in his direct testimony.

In addition, the Company's rate case expenses through the conclusion of this filing are estimated to be $9.2 million. Actual rate case expenses associated with this proceeding as of December 31, 2018, are $0.9 million. Inadvertent charges in the amount of $33,453 have been removed.[156] Further adjustments have been made by Mr. Reynolds during his review of the reasonableness of these expenses for this proceeding.

Q. HOW DOES THE COMPANY PROPOSE TO HANDLE RECOVERY OF RATE CASE EXPENSES?

A. Rate case expenses as outlined in 16 TAC § 25.245 include fees and expenses for outside attorneys and consultants, other reasonable out-of-pocket expenses incurred related to this proceeding and the Company's internal costs related to this proceeding. The Company requests that the prior proceeding and current rate case expenses be recovered through Rider RCE in this case. The total amount to be recovered will be determined and approved by the Commission. For a discussion of the Rider RCE, please see Mr. Troxle's direct testimony. For discussion on rate case expenses, please see Mr. Reynolds' direct testimony.

X. <u>CONCLUSION</u>

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[156] *See* WP/II-E-4.5 Adj 2 for the Employee OT adjustment.

STATE OF TEXAS §
COUNTY OF Harris §
§

AFFIDAVIT OF KRISTIE L. COLVIN

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

1. "My name is Kristie L. Colvin. 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.

Kristie L. Colvin
Kristie L. Colvin

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

Alice S Hart
Notary Public in and for the State of Texas

My commission expires: 07/17/2019

ALICE S HART
Notary Public, State of Texas
My Commission Expires 07-17-2019
NOTARY PUBLIC
STATE OF TEXAS

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SCHEDULES SPONSORED OR CO-SPONSORED BY KRISTIE L. COLVIN

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SCHEDULES SPONSORED OR CO-SPONSORED BY KRISTIE L. COLVIN

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SCHEDULES SPONSORED OR CO-SPONSORED BY KRISTIE L. COLVIN

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SCHEDULES SPONSORED OR CO-SPONSORED BY KRISTIE L. COLVIN

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STATE OF TEXAS §
§
COUNTY OF HARRIS §

BUSINESS RECORDS AFFIDAVIT OF KRISTIE L. COLVIN

Before me, the undersigned authority, on this day personally appeared Kristie L. Colvin, who having been placed under oath by me did depose as follows:

1. "My name is Kristie L. Colvin. I am of sound mind and capable of making this affidavit. The fact stated herein are true and correct based on my personal knowledge.

2. I am Senior Vice President and Chief Accounting Officer of CenterPoint Energy Service Company, LLC ("Service Company") and CenterPoint Energy Houston Electric, LLC (the "Company"), a wholly owned subsidiary of CenterPoint Energy, Inc. ("CNP"). I am responsible for and am the custodian of the accounting records of the Company. I am also responsible for ensuring that CNP has adequate staff, processes and systems in place to meet the Company's financial and regulatory accounting and reporting requirements as required by the Public Utility Commission of Texas ("Commission").

3. All of the summaries included in this filing are derived from the business records of the Company, which is a regularly organized business incorporated under Texas law. The Company's books, accounts and records are maintained in accordance with generally accepted accounting principles ("GAAP"), follow the Electric Uniform System of Accounts established by the Federal Energy Regulatory Commission as required by Commission rules, and are maintained under normal business practices.

4. The business records supporting all testimony in this filing are not directly being offered into evidence in this proceeding because such records are extremely voluminous, and the summaries prepared are necessary as an aid to the Commission and parties in understanding the facts in issue. These summaries are accurate summaries of the business records upon which they are based.

5. Access to the Company business records underlying these summaries is available to all parties in the case. Access to confidential information will be provided in accordance with the Protective Order entered in this docket. Access may be obtained by contacting the Company's designated representatives referenced in its application in the Statement of Intent.

6. Such business records are made in the ordinary course of business of the Company. It is part of the regular course of business for an employee of the Company with personal knowledge of the acts, events, conditions or opinions recorded therein to make such records or to transmit information thereof to be included in such records. Such records were made at or near the time of such acts, events, conditions or opinions causing a record to be created or reasonably soon thereafter.

7. Many of such business records are maintained as computer records and legible copies are produced from permanent electronic records of the Company. The computers used to keep and store such records are recognized as standard equipment, and the records kept and stored thereby are prepared, stored and retrieved by persons who are trained in and understand such equipment and its correct operation. The legible printouts made from such electronic records have been prepared by persons whose regular duty is to operate such equipment."

Further affiant sayeth not.

Kristie L. Colvin, Affiant

This instrument was acknowledged before me on March 21st, 2019, by Kristie L. Colvin.

Alice S Hart

Notary Public in and for
The State of Texas

My commission expires: 07/17/2019

ALICE S HART
Notary Public, State of Texas
My Commission Expires 07-17-2019
NOTARY PUBLIC STATE OF TEXAS

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

		Adjustments
O&M Expenses		
1	WP II-D-1 Adj 1 EECRF	$ (31,375)
2	WP II-D-1 Adj 2 Transportation Depreciation	(981)
3	WP II-D-1 Adj 3 Bad Debt	523
4	WP II-D-1 Adj 4 Affiliate Wages	1,408
5	WP II-D-1 Adj 5 Direct Wages	6,130
6	WP II-D-1 Adj 6 TCOS	(244,702)
7	WP II-D-1 Adj 7 Affiliate Other	(206)
8	WP II-D-1 Adj 8 Employee Expenses	(223)
9	WP II-D-1 Adj 9 Reclass Membership Dues	(222)
10	WP II-D-1 Adj 10 Smart Meter Texas	3,565
11	WP II-D-1 Adj 11 Not Used	-
12	WP II-D-1 Adj 12 AMS Transportation Depreciation	(9)
13	Total O&M Adjustments	(266,091)
A&G Expenses		
14	WP II-D-2 Adj 1 Energy Efficiency	(809)
15	WP II-D-2 Adj 2 Transportation Depreciation	(11)
16	WP II-D-2 Adj 3 Prior Period	(5,015)
17	WP II-D-2 Adj 4 Affiliate Wages	2,364
18	WP II-D-2 Adj 5 Direct Wages	(524)
19	WP II-D-2 Adj 6 Benefits	(8,269)
20	WP II-D-2 Adj 7 Non-Recoverable	(226)
21	WP II-D-2 Adj 8 Employee Expense	(18)
22	WP II-D-2 Adj 9 Property Self-Insurance Reserve	3,535
23	WP II-D-2 Adj 10 Workers' Compensation	(348)
24	WP II-D-2 Adj 11 Rate Case Expense	(74)
25	WP II-D-2 Adj 12 Auto & General Reserve	(2,945)
26	WP II-D-2 Adj 13 Reclass Membership Dues	222
27	WP II-D-2 Adj 14 Affiliate Employee Expense	(814)
28	WP II-D-2 Adj 15 Affiliate Other	(1)
29	WP II-D-2 Adj 16 AMS Transportation Depreciation	(8)
30	Total A&G Adjustments	(12,942)
Depreciation & Amortization, and Other Expenses		
31	WP II-E-1 Adj 1 Depreciation Study	(787)
32	WP II-E-1 Adj 2 Not Used	-
33	WP II-E-1 Adj 3 AMS Depreciation	(32,498)

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

		Adjustments
34	WP II-E-1 Adj 4 – Not Used	-
35	WP II-E-1 Adj 5 – Energy Efficiency	(31)
36	WP II-E-1 Adj 6 – Non-Utility Property	(15)
37	WP II-E-1 Adj 7 Reclass	-
38	WP II-E-4 Adj 1 – Hurricane Ike	(1,781)
39	WP II-E-4 Adj 2 – AMS	(1,865)
40	WP II-E-4 Adj 3 – DCRF	(4)
41	WP II-E-4 Adj 4 Bond Company Bank Fee	(0)
42	WP II-E-4 Adj 5 Interest Rate Hedge	210
43	WP II-E-4.1 Adj 1 – Harvey Amortization	21,469
44	WP II-E-4.1 Adj 2 – Ike Residual Amortization	(1,344)
45	WP II-E-4.1 Adj 3 – Pension PURA Amortization	(20,215)
46	WP II-E-4.1 Adj 4 – Texas Margin Tax Amortization	6,543
47	WP II-E-4.1 Adj 5 – Expedited Switches Amortization	386
48	WP II-E-4.1 Adj 6 – Non-Standard Metering Amortization	(23)
49	WP II-E-4.1 Adj 8 – Smart Meter Texas Amortization	2,313
50	Total Depreciation & Amortization, and Other Expenses Adjustments	(27,642)
Taxes Other Than Income Taxes		
51	WP II-E-2 Adj 1 Direct Wage	8
52	WP II-E-2 Adj 2 Prior Period	(175)
53	WP II-E-2 Adj 3 – Ad Valorem Tax	6,068
54	WP II-E-2 Adj 4 – Municipal Franchise Tax	2,009
55	WP II-E-2 Adj 5 – State Margin Tax – Test Year Expense	1,613
56	WP II-E-2 Adj 6 EECRF	(117)
57	Total Taxes Other Than Income Taxes Adjustments	9,408
Federal Income Tax		
58	Various	5,191
59	**Total Adjustments to Retail Revenue Requirement**	$ (292,076)

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR - EXPLANATIONS

			Witness
O&M/A&G Expenses			
1	Energy Efficiency	The Company will recover the costs of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from expense.	K. Colvin
2	Transportation Depreciation	Utilizing the proposed rates in the Depreciation Study for transportation equipment, the Company has included an adjustment to FERC accounts where this expense was recorded during the test year.	K. Colvin
3	Bad Debt	The Company has included an adjustment for REP defaults on their obligations to pay delivery charges to the Company.	K. Colvin
4	Affiliate Wages	The Company has included an adjustment for an ongoing increase in labor billings from CNP Service Company.	M. Townsend
5	Direct Wages	The Company has adjusted test year salaries and wages, competitive pay adjustment, and incentive compensation to reflect the expected costs when new rates become effective.	K. Colvin
6	TCOS	The Company is requesting a revised Wholesale TCOS rate in this filing. A revised Wholesale TCOS Matrix was utilized to determine the incremental change that the CenterPoint DSP will be charged as a result of the revised Matrix.	K. Colvin
7	Employee Expense	The Company has included an adjustment related to employee expenses reimbursed through its "One Pay" system. This adjustment removes the non-recoverable amounts from the requested expense.	K. Colvin
8	Reclass Membership Dues	The adjustment is a FERC reclass.	K. Colvin
9	Smart Meter Texas	The Company will no longer defer Smart Meter Texas costs once base rates are implemented and is adding an amount for Smart Meter Texas in base rates.	K. Colvin / J. Hudson
10	Affiliate Employee Expenses	The Company has included an adjustment related to affiliate employee expenses reimbursed through it's "OnePay" system. This adjustment removes the non-recoverable amounts from the requested expense.	M. Townsend
11	AMS Transportation Depreciation	This adjustment removes the Transportation Depreciation associated with the Advanced Meter System which is recovered through a separate rider.	K. Colvin
12	Prior Period	This adjustment removes prior period items: deferred benefits for the Company and Service Company, and another for STI expense true-up.	K. Colvin
13	Benefits	Adjustment to reflect actual annual expense as determined by the 2019 actuarial studies.	K. Colvin / L. Harkel-Rumford
14	Non-Recoverable	Removal for items identified as non-recoverable through rates under 16 Texas Administrative Code §25.231(b)(2).	K. Colvin
15	Property Insurance Reserve	The Company has included an adjustment to expense to account for the difference between test year and revised annual level of the expense.	K. Colvin / G. Wilson

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR - EXPLANATIONS

			Witness
16	Workers' Compensation	Adjustment to reflect actual annual expense as determined by the 2019 actuarial studies.	K. Colvin
17	Rate Case Expense	The Company will recover the costs of its rate case expenses through a separate rider, accordingly, these rate case costs have been removed from expense.	K. Colvin
18	Auto & General Reserve	Adjustment to reflect actual annual expense as determined by the 2019 actuarial studies.	K. Colvin
19	Affiliate Other	This adjustment removes affiliate-related amounts in the cost of service to ensure the accuracy of affiliate expense.	M. Townsend
Depreciation & Amortization, and Other Expenses			
20	WP II-E-1 Adj 1 Depreciation Study	Utilizing the proposed rates in the Depreciation Study, the Company has included an adjustment to depreciation expense.	K. Colvin / D. Watson
21	WP II-E-1 Adj 3 AMS Depreciation	The Company will recover the costs of its Advanced Metering System programs and activities through a separate rider (AMS). Accordingly, these AMS costs have been removed from expense.	K. Colvin
22	WP II-E-1 Adj 5 Energy Efficiency	The Company will recover the costs of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from expense.	K. Colvin
23	WP II-E-1 Adj 6 Non-Utility Property	This adjustment is to remove Non-Utility Property from rate base	K. Colvin
24	WP II-E-1 Adj 7 Reclass	An adjustment made to reclass expenses between asset classes.	K. Colvin
25	WP II-E-4 Adj 1 Hurricane Ike	This adjustment removes non-recoverable interest costs related to Hurricane Ike trailing charges.	K. Colvin
26	WP II-E-4 Adj 2 AMS	The Company will recover the costs of its Advanced Metering System programs and activities through a separate rider (AMS). Accordingly, these AMS costs have been removed from expense.	K. Colvin
27	WP II-E-4 Adj 3 DCRF	This adjustment is to remove non-recoverable interest costs related to the DCRF filing.	K. Colvin
28	WP II-E-4 Adj 4 Bond Company Bank Fee	The Company will recover costs related to Bond Company elsewhere. Accordingly, these bank fees have been removed from expense.	K. Colvin
29	WP II-E-4 Adj 5 Interest Rate Hedge	The Company is proposing to recover interest rate hedge amortization through cost of capital. Accordingly, these costs have been removed from expense.	K. Colvin
30	WP II-E-4.1 Adj 1 Harvey Amortization	This adjustment reflects the amortization of deferred expenses related to Hurricane Harvey.	K. Colvin
31	WP II-E-4.1 Adj 2 Ike Residual Amortization	This adjustment reflects the amortization of deferred expenses related to Hurricane Ike Residual.	K. Colvin
32	WP II-E-4.1 Adj 3 Pension PURA Amortization	This adjustment reflects the amortization of deferred expenses related to Pension PURA.	K. Colvin

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR - EXPLANATIONS

			Witness
33	WP II-E-4.1 Adj 4 Texas Margin Tax Amortization	This adjustment reflects the amortization of deferred expenses related to Texas Margin Tax.	K. Colvin
34	WP II-E-4.1 Adj 5 Expedited Switches Amortization	This adjustment reflects the amortization of deferred expenses related to Expedited Switches.	K. Colvin
34	WP II-E-4.1 Adj 6 Non-Standard Metering Amortization	This adjustment reflects the amortization of deferred expenses related to AMS Opt Out.	K. Colvin
35	WP II-E-4.1 Adj 8 Smart Meter Texas Amortization	This adjustment reflects the amortization of deferred expenses related to Smart Meter Texas.	K. Colvin
Taxes Other Than Income Taxes			
36	WP II-E-2 Adj 1 Direct Wage	The payroll tax impact related to the adjustment to payroll expenses has been included as an adjustment.	K. Colvin / L. Harkel Rumford
37	WP II-E-2 Adj 2 Prior Period	This adjustment removes non-recoverable costs related to prior period charges.	K. Colvin
38	WP II-E-2 Adj 3 Ad Valorem Tax	The Company is requesting the actual amount of Ad Valorem taxes paid related to the test year. The difference between what was actually paid and the test year expense represents the known change.	K. Colvin / J. Hyland
39	WP II-E-2 Adj 4 Municipal Franchise Tax	This adjustment is requesting the known changes to franchise fees that will be in effect in 2019.	S. Kimzey / K. Colvin
39	WP II-E-2 Adj 5 State Margin Tax Test Year Expense	The Company has adjusted Texas Margin Tax to reflect the change in recovery method.	K. Colvin / C. Pringle
40	WP II-E-2 Adj 6 EECRF	The Company will recover the costs of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from expense.	K. Colvin
Federal Income Tax			
41	Various	The Company is requesting various adjustments to Federal Income Tax expense.	C. Pringle

EXHIBIT KLC-04 WORKERS' COMPENSATION RESERVE STUDY

IS CONFIDENTIAL

A copy of this material will be provided only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

EXHIBIT KLC-05 AUTO AND GENERAL INSURANCE RESERVE STUDY

IS CONFIDENTIAL

A copy of this material will be provided only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
TOTAL SUPPORTED RETAIL AND WHOLESALE REVENUE REQUIREMENT
(Thousands of Dollars)

		Amounts
Retail Revenue Requirement	**$**	**2,282,203**
Cost of Service		
O&M and A&G	$	1,162,985
Depreciation and Amortization	$	351,230
Taxes Other than Income Taxes	$	278,298
Federal Income Tax	$	76,725
Minus: Other Revenues	$	66,092
Return	$	479,058
Total Rate Base	$	6,482,512
Rate of Return		7.39%
Wholesale Revenue Requirement	**$**	**395,797**
Cost of Service		
O&M and A&G	$	106,519
Depreciation and Amortization	$	79,657
Taxes Other than Income Taxes	$	43,928
Federal Income Tax	$	27,265
Minus: Other Revenues	$	36,316
Return	$	174,743
Total Rate Base	$	2,364,585
Rate of Return		7.39%

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
TOTAL SUPPORTED RETAIL RATE BASE
(Thousands of Dollars)

	Per Books	Adjustments	Supported
Net Plant in Service	7,699,538	17,264	7,716,802
CWIP	427,251	(427,251)	-
Plant Held for Future Use	11,382	(10,261)	1,121
Accumulated Provisions	(6,931)	(39)	(6,970)
Accumulated Deferred Federal Income Taxes	(1,022,136)	128,971	(893,165)
Materials & Supplies	109,729	-	109,729
Cash Working Capital	72,877	(46,714)	26,163
Prepayments	17,994	172,386	190,380
Customer Deposits & Advances	(17,870)	17,453	(417)
Regulatory Liabilities	(1,046,387)	260,346	(786,041)
Regulatory Assets	199,295	(74,384)	124,911
Total Retail Rate Base	$ 6,444,742	$ 37,770	$ 6,482,512
Rate of Return	7.39%	7.39%	7.39%
Return	$ 476,266	$ 2,791	$ 479,058

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

		Adjustments
Net Plant In Service (WP II-B-1, WP II-B-2, WP II-B-3)		
1	Not Used	$ -
2	Advanced Meter System (AMS)	(158,664)
3	Asset Retirement Obligation (ARO)	(22,106)
4	Not Used	-
5	Non-Utility Property	(1,035)
6	Reclass	-
7	Depreciation Study-Retirements	(11,754)
8	**Total Net Plant In Service (WP II-B-1, WP II-B-2, WP II-B-3)**	(193,559)
Construction Work in Progress		
9	CWIP excluded in total	(427,251)
Less Accumulated Depreciation		
10	WP II-B-5 Adj 1 Depreciation Study - Retirements	11,754
11	WP II-B-5 Adj 2 Depreciation Study - Reserve Reallocation	0
12	WP II-B-5 Adj 3 AMS	186,727
13	WP II-B-5 Adj 4 ARO	12,328
14	WP II-B-5 Adj 5 Not Used	-
15	WP II-B-5 Adj 6 Non-Utility Property	15
16	WP II-B-5 Adj 7 Reclass	-
17	**Total Less Accumulated Depreciation**	210,824
Plant Held for Future Use		
18	WP II-B-6 Adj 1 Land Not Used in Next 10 Years	(10,261)
Accumulated Provisions		
19	WP II-B-7 Adj 1 Non-Distribution Items	(39)
20	WP II-B-7 Adj 2 Not Used	-
21	**Total Accumulated Provisions**	(39)
Accumulated Deferred Federal Income Taxes		
22	WP II-B-7 Adj 3 ADIT	128,971

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

		Adjustments
Cash Working Capital		
23	Lead Lag Study	(46,714)
Prepayments		
24	WP II-B-10 Adj 1 Other Affiliates	(69)
25	WP II-B-10 Adj 2 Historic Executive Benefit Plans	(3,812)
26	WP II-B-10 Adj 3 Prepaid Pension Asset	176,268
27	**Total Prepayments**	172,387
Customer Deposits & Advances		
28	WP II-B-11 Adj 3 EECRF	63
29	WP II-B-11 Adj 1 Customer Advances for Construction	17,390
30	**Total Customer Deposits & Advances**	17,453
Regulatory Liabilities		
31	WP II-B-11 Adj 2 DCRF Tax Reform Refund	16,715
32	WP II-B-11 Adj 3 EECRF	5,193
33	WP II-B-11 Adj 4 TCRF	40,459
34	WP II-B-11 Adj 5 AMS	1,681
35	WP II-B-11 Adj 6 ADFIT Credit	1,852
36	WP II-B-11 Adj 7 Hurricane Ike Residual	4,031
37	WP II-B-11 Adj 8 Pension BRP & Postretirement	61,613
38	WP II-B-11 Adj 9 Interest Rate Hedge Reclass	(5,537)
39	WP II-B-11 Adj 10 Interest Rate Hedge Rate Base Removal	5,537
40	WP II-B-11 Adj 11 EDIT	128,802
41	**Total Regulatory Liabilities**	260,346
Regulatory Assets		
42	WP II-B-12 Adj 1 AMS Reconciliation	(187)
43	WP II-B-12 Adj 2 Hurricane Harvey	16
44	WP II-B-12 Adj 3 AMS Opt Out	(12)
45	WP II-B-12 Adj 4 ADFIT Credit	(1,547)

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

			Adjustments
46	WP II-B-12 Adj 5 RCE		(4,801)
47	WP II-B-12 Adj 6 EECRF		(59)
48	WP II-B-12 Adj 7 Asset Retirement Obligation		(23,705)
49	WP II-B-12 Adj 8 Interest Rate Hedges		23,467
50	WP II-B-12 Adj 9 Interest Rate Hedge Removal		(23,467)
51	WP II-B-12 Adj 10 Margin Tax		(400)
52	WP II-B-12 Adj 11 EDIT Rider		(23,298)
53	WP II-B-12 Adj 12 Tax Reg Assets		(20,391)
54	**Total Regulatory Assets**		(74,385)
Total Adjustment to Rate Base		$	37,770
55	Rate of Return		7.39%
Adjustment to Return on Rate Base		$	2,791

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS- EXPLANATIONS

			Witness
Net Plant in Service and Accumulated Depreciation			
1	Advanced Meter System (AMS)	Company's AMS activities are recovered through a separate surcharge, these items have been removed from the test year.	K. Colvin
2	Asset Retirement Obligation (ARO)	The Company has adjusted asset retirement obligations since these costs represents an estimate of future obligations related to the retirement or removal of assets.	K. Colvin
3	Non-Utility Property	The Company is removing Non-Utility Property not requested in this Docket.	K. Colvin
4	Reclass	The Company is reclassing plant to ensure it is in the correct asset class.	K. Colvin
5	Depreciation Study Retirements and Reserve Reallocation	The Company is requesting updates based on the depreciation study.	K. Colvin / D. Watson
Construction Work in Progress			
6	CWIP excluded in total	The Company is not seeking a return on CWIP amounts following Texas Administrative Code §25.231 (c)(2)(D).	K. Colvin
Plant Held for Future Use			
7	WP II-B-6 Adj 1 Land Not Used in Next 10 Years	The Company is not seeking a return on certain amounts following Texas Administrative Code §25.231(c)(2)(F)(iii) for plant held for future use.	K. Colvin
Accumulated Provisions			
8	WP II-B-7 Adj 1 Non-Distribution Items	Adjustment to remove items in Property Insurance Reserve that are not eligible for recovery through the reserve.	K. Colvin
Accumulated Deferred Federal Income Taxes			
9	WP II-B-7 Adj 3 ADIT	An adjustment has been made to remove certain ADIT balances from rate base.	C. Pringle
Cash Working Capital			
10	Lead Lag Study	A Lead lag Study was prepared for this filing. This adjustment reflects the result of the study in rate base.	K. Colvin / T. Lyons
Prepayments			
11	WP II-B-10 Adj 1 Other Affiliates	Remove affiliate billed amount for GPS devices not applicable to the Company.	K. Colvin
12	WP II-B-10 Adj 2 Historic Executive Benefit Plans	Historic executive benefit plans and associated COLI programs have been removed. The company is not including these amounts in this Docket.	K. Colvin
13	WP II-B-10 Adj 3 Prepaid Pension Asset	The Company is requesting a return on its Prepaid Pension Asset.	K. Colvin / L. Harkel Rumford

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS- EXPLANATIONS

			Witness
Customer Deposits & Advances			
14	WP II-B-11 Adj 3 EECRF	The Company will refund the over collections of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from rate base.	K. Colvin
15	WP II-B-11 Adj 1 Customer Advances for Construction	This adjustment removes the Customer Advances for Construction from Rate Base.	K. Colvin
Regulatory Liabilities			
16	WP II-B-11 Adj 2 DCRF Tax Reform Refund	The Company will refund the TCJA amounts for its Distribution Cost Recovery Factor filing through a separate rider (DCRF). Accordingly, these amounts have been removed from rate base.	K. Colvin
17	WP II-B-11 Adj 3 EECRF	The Company will refund the over collections of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from rate base.	K. Colvin
18	WP II-B-11 Adj 4 TCRF	The Company will refund the over collection of costs for its Transmission Cost Recovery Factor through a separate rider (TCRF). Accordingly, these amounts have been removed from rate base.	K. Colvin
19	WP II-B-11 Adj 5 AMS	Company's AMS activities are recorded through a separate surcharge. Accordingly, these items have been removed from the rate base.	K. Colvin
20	WP II-B-11 Adj 6 ADFIT Credit	Company ADFIT Credit are recovered through a separate surcharge, these items have been removed from the rate base.	K. Colvin
21	WP II-B-11 Adj 7 Hurricane Ike Residual	The Company is not requesting a return on the Hurricane Ike Residual.	K. Colvin
22	WP II-B-11 Adj 8 Pension BRP & Postretirement	This adjustment is to remove balances that are required under GAAP that have no impact on rate making.	K. Colvin
23	WP II-B-11 Adj 9 Interest Rate Hedge Reclass	The Company is proposing to record the interest rate hedge as a regulatory asset.	K. Colvin
24	WP II-B-11 Adj 10 Interest Rate Hedge Rate Base Removal	The Company is not requesting a return on the interest rate hedge regulatory asset.	K. Colvin
25	WP II-B-11 Adj 11 EDIT	The Company is proposing to refund unprotected EDIT outside of base rates. Accordingly, these amounts have been removed from rate base.	C. Pringle

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RETAIL RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS- EXPLANATIONS

			Witness
Regulatory Assets			
26	WP II-B-12 Adj 1 AMS Reconciliation	The Company's AMS activities are recovered through a separate surcharge. these items have been removed from the test year.	K. Colvin
27	WP II-B-12 Adj 2 Hurricane Harvey	The Hurricane Harvey adjustment amount is to remove amounts not properly charged.	K. Colvin
28	WP II-B-12 Adj 3 AMS Opt Out	Company's AMS Opt Out expenditures are recovered through a separate mechanism. These items have been removed from the test year rate base.	K. Colvin
29	WP II-B-12 Adj 4 ADFIT Credit	Company ADFIT Credit are recovered through a separate surcharge, these items have been removed from the test year rate base.	K. Colvin
30	WP II-B-12 Adj 5 RCE	The Company is proposing to recover the costs of its rate case expenses through a separate rider. Accordingly, these rate case costs have been removed from test year rate base.	K. Colvin
31	WP II-B-12 Adj 6 EECRF	The Company will recover the costs of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from test year rate base.	K. Colvin
32	WP II-B-12 Adj 7 Asset Retirement Obligation	The Company has adjusted asset retirement obligations since these costs represents an estimate of future obligations related to the retirement or removal of assets recorded for GAAP purposes.	K. Colvin
33	WP II-B-12 Adj 8 Interest Rate Hedges	The Company is proposing to record the interest rate hedge as a regulatory asset.	K. Colvin
34	WP II-B-12 Adj 9 Interest Rate Hedge Removal	The Company is not requesting a return on the interest rate hedge regulatory asset.	K. Colvin
35	Various Tax Related Regulatory Assets	The Company has adjusted rate base for various Tax related Regulatory Assets.	C. Pringle

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PREPAID PENSION ANALYSIS
(Thousands of Dollars)

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ACTUARIAL EXPENSE (INCOME)	[1]	42,859	31,134	27,128	29,778	24,761	26,420	34,770	44,105	41,372	24,190
PENSION EXPENSE AS INCLUDED IN RATES		5,881	20,255	20,255	20,255	20,255	20,255	20,255	20,255	20,255	20,255
CONTRIBUTIONS TO TRUST/PLAN	[2]	5,155	-	26,655	30,258	33,536	35,584	16,042	-	17,712	26,854
NET FUNDED (UNFUNDED) STATUS	[3]	(135,749)	(148,880)	(194,915)	(214,789)	(105,799)	(179,448)	(203,390)	(219,396)	(164,084)	(200,073)
LESS· ACCUMULATED UNRECOGNIZED GAINS/LOSSES OR ASSET AMOUNT	[4]	403,135	385,132	430,694	451,048	350,833	433,646	438,860	410,761	331,789	370,442
PREPAID (ACCRUED) PENSION COST	[5]	267,386	236,252	235,779	236,259	245,034	254,198	235,470	191,365	167,705	170,369

Notes: All amounts excluded BRP unless noted
[1] CEHE's share of total CNP pension expense per actuarial report
[2] CEHE's share of total CNP contribution per actuarial report.
[3] The difference between the fair value of plan assets and projected benefit obligation at end of year
This is CEHE's portion of CNP's net pension asset(liability) since the adoption of FAS 158 in 2006
[4] This amount has been treated as a regulatory asset since the adoption of FAS 158 in 2006. Prior to that date, this was accounted for off balance sheet
[5] The difference between the cumulative pension cost recognized and actual pension amount funded

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SUPPORTED RATE OF RETURN

	Per Books	Supported	Cost	Supported ROR
Common Equity	45.50%	50.00%	10.40%	5.20%
Long-Term Debt	54.50%	50.00%	4.38%	2.19%
				7.39%

CenterPoint Energy

Accounting and Control Policies **Policy Number: 21**
Capitalization Policy

Policy

Company expenditures for items that have a useful life greater than one year or that extend the useful life of an existing asset by more than one year, that meet the minimum dollar thresholds, and that are not intended for sale in the ordinary course of business shall be capitalized as per the guidance outlined below. Capitalization of software is covered under the Company's Capitalization of Computer Software Policy and construction overhead is covered under the Company's Construction Overhead Policy.

Purpose

The purpose of this Capitalization Policy is to provide the criteria for expenditure capitalization and addition to the capital base. Adherence to this policy is designed to:

- Ensure the integrity of the financial data by defining consistent criteria for capitalization across all Business Units
- Provide a consistent basis for determining when expenditures are recorded as capital assets
- Provide a defined expectation for assets to be added to or removed from the capital base.

Capital Additions

Timing

Capital orders are considered to be technically complete at the end of the capitalization period, i.e., when the asset is substantially complete and ready for intended use. At that time, the status of the order in SAP should be changed to technically complete (TECO). Technically completing the capital order will ensure interest or AFUDC, as applicable, is no longer capitalized and will allow the asset to be moved into Plant in Service and begin depreciation.

No later than 60 days from the end of the calendar month in which a work order is placed in a TECO status, Property Accounting will move the asset into Plant in Service. Depreciation will start the month following the asset being moved to Plant in Service.

Retirement Unit

The addition of a complete Retirement Unit (RU), a complete Substantial Minor Item (SMI), or a Betterment can increase the capital base of an Entity. In addition, certain assessment costs, excluding Pipeline Integrity, incurred in conjunction with major capital rehabilitation projects can be included in the capital base of the associated retirement unit. Only retirement of a complete RU can decrease the capital base. The treatment for each follows:

- When an identical or different RU replaces an existing RU, the old unit must always be retired and the new unit added to the capital base. A minimum threshold may also be required to capitalize a replacement of an RU of pipe, i.e., 50 feet of conduit pipe.
- The addition of an RU shall be capitalized
- For electric companies, Local Distribution Companies (LDCs), Interstate Pipeline entities and Field Services, RUs are defined in their respective retirement unit catalogs.
- The removal cost associated with an RU shall be included as capital by charging accumulated depreciation at the Business Unit level for regulatory reporting purposes. For external reporting purposes, removal cost is reclassified to the regulatory liability for rate-regulated entities that apply the guidance of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71)[1].

[1] See the CenterPoint Energy, Inc. Accounting for Rate-Regulation Policy for information on SFAS No. 71. SFAS No. 71 was codified in ASC 980 Regulated Operations.

Capital Additions continued

Substantial Minor Item (Electric Only)

- The addition of an SMI to an existing RU is defined as a "substantial addition" and is capitalized.
- When an existing SMI is replaced, the entire replacement cost is charged to maintenance expense.
- When an SMI is removed and not replaced, the SMI's installed cost remains in the capital base until the RU of which it was a part is retired. The removal costs of an SMI are charged to maintenance expense.
- When an SMI is replaced and the conditions of a "Betterment" are met, the excess cost of the new SMI over the cost of "like replacement" is capitalized and the estimated "like replacement cost" is charged to maintenance expense. An estimate of the cost of making the change without a Betterment must be submitted with the work order request. All charges are to be made to the work order. The cost of making the change without Betterment will be transferred to maintenance expense by Property Accounting Services. The excess cost of the Betterment over the estimated cost at current prices of replacing without Betterment will remain in Construction Work In Progress until the work order is cleared to Plant In Service. The RU value will then be increased by the Betterment amount. No retirement from plant is made.
- When an SMI is modified and the conditions of a Betterment are met, the cost is capitalized. After the completion of this work, the work order will be cleared to Plant In Service and the RU value increased by the Betterment amount.
- All costs associated with the removal or replacement of an SMI, without the removal or replacement of the RU, of which it is a part, are considered maintenance expense and no retirements are required. All SMI's are listed for each RU in the Electric Retirement Unit Catalog.

Capital Additions continued

Less than Substantial Minor Items (Electric Only)

Due to the relative cost of such items in relation to the cost of the RU of which they are a part, the addition of a Less than Substantial Minor Item (LSMI) is not a "substantial addition" and such costs are charged to maintenance expense.

The addition of an LSMI is normally charged to maintenance expense. The addition of an LSMI is charged to capital only when installing new facilities or when an LSMI is part of a related capital work order.

Betterment (Electric Only)

The costs incurred that meet the definition of betterment are capitalized.

Determining the treatment

The following table shall be used to determine the treatment of costs as capital or expense for a property item type.

Property Item Type	Adding Property	Removing & Replacing Property	Removing Property – No Replacement
Retirement Unit	Capitalize	Capitalize	Capitalize
Substantial Minor Item of Property	Capitalize	Expense (Capitalize a Betterment)	Expense
Less than a Substantial Minor Item of Property	Expense (Capitalize if installing new facilities or part of a capital work order)	Expense (Capitalize if installing new facilities or part of a capital work order)	Expense

Assessment Costs

Generally, costs incurred to inspect, test and report on the condition of existing assets in order to determine the need for repairs or replacements are considered expense. Additionally, costs incurred as part of an ongoing inspection, testing or maintenance programs are also recorded as expense. Pipeline Integrity is an example of ongoing maintenance costs that should be expensed.

However, assessment costs incurred when the work is being performed in conjunction with a major rehabilitation program may be capitalized if certain conditions are met:

1) The assessment costs must be incurred subsequent to determining the need for a major rehabilitation program

2) The rehabilitation project involves a significant number of capital replacements and modification of facilities

3) The rehabilitation project must extend the overall service life of the asset beyond its original useful life and serviceability

4) The scope of the rehabilitation project must be clearly defined with a projected completion date

5) The rehabilitation project must be separately budgeted as a capital item

Approval from the Director of Financial Accounting is required before any capital assessment costs are planned.

Retirement Unit Catalog/ Capitalization Guidelines

Property Accounting will maintain a property unit catalog (catalog) or capitalization guidelines for all Entities. Additions or changes to the catalog or guidelines must meet one of the following criteria for consideration.

- Relative dollar value to the current RU
- For SMI's, the frequency of replacement without removing the associated RU
- Change in technology
- Approval of a regulator

Retirement – Property Unit Catalog

Catalog Section: Distribution Plant
Retirement-Property Unit Code: FCA 364 SUB 1010-1999
Fixed Capital Account (FCA): Poles, Towers & Fixtures
Expense Account(s): 583 and 593

CenterPoint Energy

Accounting and Control Policies **Policy Number: 21**
Capitalization Policy

Example

(Electric)

Retirement-Property Unit: Poles, Wood, Length
Unit of Measure: Each

Description includes installed cost for treated wood poles, all classes, complete with framing, hardware and supports used singly or in multi-pole structures.

Minor Items Of Property:
- Crossarms*
- Anchor Rod
- Vertical Brackets
- Guy Wire
- Crossarm Braces
- Guy Hook
- Pins
- Guy Grip
- Cluster Racks*
- Secondary Rack
- Secondary Fork
- Miscellaneous Wood Pole Hardware
- Bolts, Nuts, Washers (BNW)
- Bus Support Structure
- Bracket
- Pole Bracing*
- Anchor

*Substantial Minor Items – Addition of a substantial minor item shall be charged to Account 364.1010-1999.

Costs Chargeable To Maintenance:
- Repair and/or replacement of any part of the above RU without replacement of the entire RU shall be charged to expense.
- Addition of any minor item other than a substantial minor item shall be charged to expense.

CenterPoint Energy

Retirement – Property Unit Catalog Example

(Gas)

Capital Projects

Plastic Mains

All new plastic main, including extensions

All 4" and larger replacements, any length

Replacement main of a different size, any length

Replacement main of different material, any length

Any replacements, offsets, relocations, or raise/lower where the new installed pipe is 50' or greater and same material

Steel Mains

All new and replacement, including transition fittings, that involve adding or retiring footage

Relocation or offsets that involve adding or retiring footage

Cast Iron Mains

All replacements, any length, including transition fittings

Relocation that involves adding or retiring footage

All Mains

Abandonment or removal without a replacement main installation

Reinstatement of previously abandoned pipe

Expense Items

Plastic mains

Replacements, offsets, relocations, or raise/lower where the new installed pipe size is less than 4" and less than 50' in length, same size pipe and material

Repairs to plastic mains that do not require adding or retiring pipe

Steel mains

Relocation that does not involve adding or retiring footage

Repairs to steel mains that do not require adding or retiring pipe

Cast Iron Mains

Relocation that does not involve adding or retiring footage

Repairs to steel mains that do not require adding or retiring pipe

All Mains

Replacement or addition of clamps, valves, pipe coating, couplings, and supports, unless the work is done as part of a capital project as defined in this table

Pipeline Integrity Assessment Costs

CenterPoint Energy

Accounting and Control Policies **Policy Number: 21**
Capitalization Policy

General Plant and Miscellaneous Equipment

General Plant and Miscellaneous Equipment purchases, new or replacement, must be greater than $500 and have a useful life of more than one year in order to be capitalized.

Exception: the initial outfitting and equipment of a new facility or vehicle (i.e. a new laboratory, machine shop, office building, service center, truck, etc.) shall be capitalized.

Responsibilities This table lists the responsibilities for this Policy:

Position	Responsibility
Controller	▪ Administering this Policy
Business Units	▪ Capitalizing costs incurred using the capitalization criteria ▪ Updating the TECO status of capital orders ▪ Controlling the use and security of movable and fixed assets in its possession ▪ Periodically reviewing the retirement unit catalog/capitalization guidelines and proposing catalog/capitalization guidelines changes to Property Accounting Services
Property Accounting Services	▪ Maintaining the retirement unit catalogs/capitalization guidelines ▪ Providing assistance to the Business Unit with questions on capitalization ▪ Transfer of like replacement costs to maintenance expense as needed ▪ Reviewing and approving all proposed changes to the definition of an RU within the retirement unit catalog/capitalization guidelines

Definitions This table provides definitions of terms used in this policy:

Term	Definition
Betterment	Cost incurred to replace an SMI with a nonequivalent SMI or an SMI modification without replacement AND the primary aim is to make the affected RU more efficient, of greater durability, or of a greater capacity AND (A) The total installed expenditure for the SMI is 30% or more of the total installed cost of the RU to which the SMI is related (provided such SMI expenditures exceeds $25,000), or (B) The SMI expenditure is $500,000 or more.
Business Unit	The functional operating area that maintains and reports operating financial information

CenterPoint Energy

Capital Assessment	Assessment costs incurred in conjunction with a major rehabilitation project intended to extend the life of an existing retirement unit beyond the original useful life.
Company	CenterPoint Energy, Inc.
Entity	The Company or any corporation, partnership, trust, joint venture, firm, association, unincorporated organization, legal entity, or other enterprise in which the Company holds, directly or indirectly, a greater than 50% ownership
Less Than Substantial Minor Items of Property (LSMI)	Items that are parts of an RU or SMI.
Plant in Service	General ledger and FERC account reflecting original cost of utility plant owned and used in utility operations.
Property Accounting Services	The department responsible for the accounting and reporting of capitalized Company property, including assets under construction.
Retirement Unit (RU)	The basic units to which the capital assets of the Company are identified. An RU is the smallest item of property, which, on replacement or removal from service, is removed from the capital assets records. An RU may be an item (a 35 foot wood pole), a group of items (yard lighting system), or a unit of measure associated with bulk material (pounds of copper conductor or foot of pipe). Unit costs are associated with each RU (a 35 foot wood pole @ $77.56 each installed or bare copper conductor @ $2.1136 per pound installed). Each Electric RU has an identifying code and is listed in the Electric Retirement Unit Catalog. Gas retirement units are defined within what is allowed capital under the capitalization guidelines.
Substantial Minor Items of Property	Items that are part of an RU. Examples include the following: • Crossarm • Gas monitoring equipment on main power transformers • Switch interrupters
Technically Complete (TECO)	TECO applies to assets that are substantially complete and ready for intended use. TECO is also an order status in SAP which should be updated by the business unit when appropriate. A TECO'd work order should include installed materials and any required retirement components.
Titles, Offices, and Officers	Those of the Company unless otherwise specified

Authorization The Controller will make final determination on all exception items or items under special circumstances.

CenterPoint Energy

Accounting and Control Policies | **Policy Number: 21**
Capitalization Policy

Compliance — Employees must comply with this policy. Failure to comply with this Policy may result in disciplinary action up to and including termination.

Document History

Introduction — This policy was implemented in separate components for the Business Units at various times.

Document history — Below are at least the last three revisions of this document, including all revisions within the last three months.

Date	By	Description
08/2004	Accounting Policy & Research Manager	Revised to combine existing Entity policy into one CenterPoint Energy, Inc. policy
04/2007	Director Accounting Policy & Research	Revised to address the importance of updating the work order status when technically complete, and include examples from the new retirement unit catalog for Local Distribution Companies.
05/2012	Manager Accounting Research	Changed the required timing for moving an asset from TECO to Plant in Service
12/2013	Manager, Accounting Research	Revised to address the capitalization of assessment costs per FERC (Docket No. AC09-27-000)
8/2014	Manager, Accounting Research	Removed weld-over sleeves from expensed items

CenterPoint Energy

Accounting and Control Policies

Policy Number: 20

Capitalization of Computer Software Policy

Purpose

The purpose of this document is to ensure the integrity of the financial data through appropriate capitalization of computer software costs. ASC 350-40 *Internal Use Software* is the source document for all accounting guidance included in this policy.

Policy

Costs of computer software that is developed or obtained for internal use may be capitalized only when a project is in the Application Development Stage and all of the following criteria are met:

- The costs meet the minimal cost and capitalization requirements as outlined in this policy
- The project is documented and approved in accordance with the Company Commitment Review Process guidelines and it is probable that the project will function as intended
- The project has a useful life greater than one year

Expensed costs: All costs related to software development and incurred during the Preliminary Project Planning Stage and the Post-Implementation/Operation Stage, are expensed, not capitalized, regardless to the nature of the cost.

When capitalization ceases

Capitalization of costs cease when a computer software project is substantially complete and ready for use.

Substantially complete includes "Bug-Fix" activity occurring during a reasonable time (guidance: two weeks and exceptions approved by Property Accounting Services) after the production startup of the software.

Impaired cost

If it is no longer probable that the computer software will be completed and placed in service, no further costs are to be capitalized and the costs previously charged to capital are to be expensed immediately.

Compliance

Employees must comply with this policy. Failure to comply with this Policy may result in disciplinary action up to and including termination.

Minimal cost requirement

This table lists the minimum cost requirements.
Important: Each project must meet both the dollar limit and have a useful life of 1+ year(s) to be capitalized.

Source	Dollar Limit
Purchased, including • Total licenses for LAN-based and enterprise software • Individual licenses for desktop software	$10,000 or greater
Internally developed	$100,000 or greater
Upgrades and enhancements to existing software resulting in additional specified functionality ***Source***: Requested by the end using department ***Documentation***: In a requirements document, such as the Application Development Stage - Approval Form	

Project costs that are incurred, both internal and third party, during the Preliminary Project Stage and Post-Implementation/Operation Stage of the project are expensed, not capitalized.

Preliminary Project Stage

This table lists examples of activities that must be completed prior to entering the Application Development stage. Costs incurred in this stage must be expensed and not capitalized.

Description	Example Activities
Conceptual formation of alternatives	• Make strategic decisions to allocate resources between alternative projects at a given point in time. ***Example***: Should programmers develop a new payroll system or direct their efforts toward correcting existing problems in an operating payroll system? • Determine the following for the computer software project it has proposed to undertake: o Performance requirements (what software should do) o System(s) requirements
Evaluation of alternatives	• Invite vendors to perform demonstrations of how their software will fulfill the project needs. • Explore other means for achieving specified performance requirements. ***Examples***: Should the project make or buy the software? Should the software run on a mainframe or a client server system?
Determination of existence of needed technology	Evaluate and perform activities to determine the performance and system requirements exist, as necessary.
Final selection from alternatives	• Select vendors if software is to be purchased. • Select consultants to assist in the development or installation of the software.

Application Development Stage

Costs incurred during the Application Development Stage and related to the purchase, design, development, configuration or testing of computer software may be capitalized. The project does not enter the Application Development Stage, and costs may not be capitalized, until all activities associated with the Preliminary Project Stage have been completed and documented on the Application Development Stage – Approval Form, which is retained by Information Technology.

This table lists examples of capitalizable activities when incurred during the Application Development Stage:

Description	Example Activities
External direct costs of materials and services consumed in developing or obtaining internal-use computer software	• Fees paid to third parties for services provided to develop the computer software during the Application Development Stage • Costs incurred to obtain computer software or hardware from third parties
Payroll and payroll-related costs for employees who are directly associated with and devoted time to the internal-use computer software project, to the extent of the time is spent directly on the project	• Hours spent by Information Technology employees on the development of the project • Core Team members, other than Information Technology employees, who have been substantially reassigned from their normal duties to spend time on the development of the project (for a duration of **approximately 80 hours** or more) • Travel expenses incurred by employees in their duties associated with developing software ***Important:*** Hours spent by any employee related to general and administrative tasks, such as scheduling projects, hiring personnel, meeting with vendors or performing other administrative functions should not be capitalized.
Allowance for Funds Used During Construction (AFUDC)	The project should receive an allocation for AFUDC or Capitalized Interest. ***Important***: It **should not** receive overhead allocations, general and administrative costs, maintenance costs or training costs.

Post-Implementation /Operation Stage

This table lists activities that must be expensed and not capitalized:

Support of the Go-Live	• Convert and/or clean up data. • Train end users. • Maintain application **after** a reasonable Bug-Fix time period (guidance: two weeks and exceptions must be approved by Property Accounting Services).

Allocation of third party costs

Payments to third parties, incurred during the Application Development Stage, that contain elements of both capital and expense should allocate these costs appropriately to capital or expense based on objective evidence of fair value of the elements in the contract.

Responsibilities

This table lists the responsibilities for this Policy:

Position	Responsibility
Controller	• Administering this Policy • Reviewing exceptions to this policy that fall under special circumstances ***Example***: Regulatory requirements
Property Accounting Services	• Providing assistance to the Business Units/ Departments to determine the proper treatment of computer software expenditures • Maintaining the Application Development Stage - Approval Form template • Approving exceptions to "Bug-Fix" guidance
Information Technology	• Providing adequate documentation to Property Accounting Service to support: o the stage of each computer software project and o the nature of each capitalizable costs coded to a capital software project during the Application Development Stage o extensions to "bug-fix" guidance of two weeks • Retaining documentation to support the Application Development Stage Approval Form for each project • Discussing any financing arrangements or terms with Property Accounting Services prior to executing agreements

Document History

Introduction Policy was implemented in January 2003

Below are at least the last three revisions of this document, including all revisions within the last three months.

Date	By	Description
07/2004	Manager of Accounting Policy & Research	Policy was modified to new format used within Smart Solutions.
04/2007	Director Accounting Policy & Research	Policy was clarified as to minimal cost requirements for multiple license software.
01/2013	Assistant Controller	Policy was reviewed and amended to clarify the policy including clarification as to when payroll and payroll-related costs for employees who are directly associated with and devoted time to the internal-use computer software project should be capitalized.
10/2014	Manager, Accounting Research	Policy was revised to more clearly depict the three stages of computer software development and capitalization criteria for each stage.

BILL ANALYSIS

Senate Research Center

S.B. 1693
By: Carona
Business & Commerce
8/19/2011
Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Funding a modern and reliable electrical grid depends on a regulatory structure that both allows utilities to keep pace with evolving demands and technology, and provides for timely cost recovery. The process to recover investments, revenues and expenditures associated with electric grid infrastructure can be drawn out and administratively burdensome. In fact, traditional rate recovery of distribution investment requires lengthy and expensive contested cases. Current law addresses periodic rate adjustments for transmission costs, energy efficiency costs, and fuel costs, but does not address distribution costs. To alleviate these pressures, and assist utilities with keeping up with infrastructure needs, S.B. 1693 clarifies that the Public Utility Commission (PUC), with participation from affected parties and in an expedited process, has the authority to adopt periodic rate adjustments for certain non-fuel items related to investment capital.

While current law does not address periodic rate adjustments for distribution costs; there is statutory guidance for energy efficiency, fuel costs, and timely recovery of transmission costs outside of the Electric Reliability Council of Texas region. Furthermore, nothing in statute requires municipalities or PUC to approve an electric utility tariff that periodically adjusts a non-fuel rate outside of a general rate case or prohibits them from doing so.

S.B. 1693 amends current law relating to periodic rate adjustments by electric utilities.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the Public Utility Commission of Texas in SECTION 1 (Section 36.210, Utilities Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter E, Chapter 36, Utilities Code, by adding Section 36.210, as follows:

> Sec. 36.210. PERIODIC RATE ADJUSTMENTS. (a) Authorizes the Public Utility Commission of Texas (PUC) or a regulatory authority, on the petition of an electric utility, to approve a tariff or rate schedule in which a nonfuel rate may be periodically adjusted upward or downward, based on changes in the parts of the utility's invested capital, as described by Section 36.053 (Components of Invested Capital), that are categorized as distribution plant, distribution-related intangible plant, and distribution-related communication equipment and networks in accordance with PUC rules adopted after consideration of the uniform system of accounts prescribed by the Federal Energy Regulatory Commission. Requires that a periodic rate adjustment:
>
> > (1) be approved or denied in accordance with an expedited procedure that provides for appropriate updates of information, allows for participation by the Office of Public Utility Counsel (OPUC) and affected parties, and extends for not less than 60 days;
> >
> > (2) take into account changes in the number of an electric utility's customers and the effects, on a weather-normalized basis, that energy

consumption and energy demand have on the amount of revenue recovered through the electric utility's base rates:

(3) be consistent with the manner in which costs for invested capital described by this subsection were allocated to each rate class, as approved by PUC, in an electric utility's most recent base rate statement of intent proceeding with changes to residential and commercial class rates reflected in volumetric charges to the extent that residential and commercial class rates are collected in that manner based on the electric utility's most recent base rate statement of intent proceeding;

(4) not diminish the ability of PUC or a regulatory authority, on its own motion or on complaint by an affected person as provided by Subchapter D (Prohibited Relationships and Activities), after reasonable notice and hearing, to change the existing rates of an electric utility for a service after finding that the rates are unreasonable or in violation of law;

(5) be applied by an electric utility on a system-wide basis; and

(6) be supported by the sworn statement of an appropriate employee of the electric utility that affirms that the filing is in compliance with the provisions of the tariff or rate schedule, and the filing is true and correct to the best of the employee's knowledge, information, and belief.

(b) Requires an electric utility in the ERCOT power region, or an unbundled electric utility outside the ERCOT power region in whose service area retail competition is available, that requests a periodic rate adjustment under this section, to:

(1) except as provided by Subsection (f)(3) and to the extent possible, implement simultaneously all nonfuel rates to be adjusted in a 12-month period that are charged by the utility to retail electric providers; and

(2) provide notice to retail electric providers of the approved rates not later than the 45th day before the date the rates take effect.

(c) Prohibits a periodic rate adjustment approved under this section from being used to adjust the portion of a nonfuel rate relating to the generation of electricity.

(d) Authorizes an electric utility to adjust the utility's rates under this section not more than once per year and not more than four times between comprehensive base rate proceedings.

(e) Prohibits a periodic rate adjustment approved under this section from including indirect corporate costs or capitalized operations and maintenance expenses.

(f) Provides that nothing in this section is intended to:

(1) conflict with a provision contained in a financing order issued under Subchapter I (Provisions for Certain Non-ERCOT Utilities) of this chapter or Subchapter G (Securitization) or J (Transition to Competition in Certain Non-ERCOT Areas), Chapter 39 (Restructuring of Electric Utility Industry);

(2) affect the limitation on PUC's jurisdiction under Section 32.002 (Limitation on Commission Jurisdiction);

(3) include in a periodic rate adjustment authorized by this section costs adjusted under a transmission cost-of-service adjustment approved under Section 35.004(d) (relating to price of wholesale transmission services);

(4) limit the jurisdiction of a municipality over the rates, operations, and services of an electric utility as provided by Section 33.001 (Municipal Jurisdiction);

(5) limit the ability of a municipality to obtain a reimbursement under Section 33.023 (Ratemaking Proceedings) for the reasonable cost of services of a person engaged in an activity described by that section; or

(6) prevent PUC from reviewing the investment costs included in a periodic rate adjustment or in the following comprehensive base rate proceeding to determine whether the costs were prudent, reasonable, and necessary; or refunding to customers any amount improperly recovered through the periodic rates adjustments, with appropriate carrying costs.

(g) Requires PUC to adopt rules necessary to implement this section. Requires that the rules provide for:

(1) a procedure by which a tariff or rate schedule is to be reviewed and approved;

(2) filing requirements and discovery consistent with the expedited procedure described by Subsection (a)(1);

(3) an earnings monitoring report that allows PUC or regulatory authority to reasonably determine whether a utility is earning in excess of the utility's allowed return on investment as normalized for weather;

(4) denial of the electric utility's filing if the electric utility is earning more than the utility's authorized rate of return on investment, on a weather-normalized basis, at the time the periodic rate adjustment request is filed; and

(5) a mechanism by which PUC may refund customers any amounts determined to be improperly recovered through a periodic rate adjustment, including any interest on the amounts.

(h) Requires PUC to undertake a study and conduct a report analyzing any periodic rate adjustment established under this section. Requires the study to be available for the legislature's review by January 31, 2017, so that the legislature may properly be informed as to the need to continue PUC's authority to allow periodic rate adjustments. Requires that the report contain but not be limited to:

(1) an analysis of all periodic rate adjustments approved by PUC;

(2) an analysis of the amounts in real dollars and percentages of the approved amounts by PUC and the effects on all classes of ratepayers;

(3) the costs savings, if any, realized by all parties by utilizing periodic rate adjustment as opposed to ratemaking proceedings;

(4) an analysis on distribution costs included in periodic rate adjustments, and their appropriateness for inclusion in periodic rate adjustments; and

(5) an analysis submitted by OPUC on the effects of periodic rate adjustments.

(i) Provides that this section expires January 1, 2017.

SECTION 2. Requires PUC to adopt rules as necessary to implement Section 36.210, Utilities Code, as added by this Act, not later than the 120th day after the effective date of this Act.

SECTION 3. Effective date: upon passage or September 1, 2011.

THERE ARE NO WORKPAPERS

TO

THE DIRECT TESTIMONY

OF

KRISTIE L. COLVIN

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

DIRECT TESTIMONY

OF

CHARLES W. PRINGLE

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

April 2019

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EXECUTIVE SUMMARY OF CHARLES W. PRINGLE

I present testimony, schedules and supporting workpapers on behalf of CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston" or the "Company") related to federal income taxes ("FIT") and the Texas state franchise tax (also known as the Texas margin tax) amounts for the 2018 test year. My testimony:

- supports the Company's request for CenterPoint Energy Service Company, LLC's Corporate Tax department test year affiliate expenses;
- explains certain provisions of the Tax Cuts and Jobs Act of 2017 ("TCJA") and how those provisions are reflected in this filing;
- explains the income tax schedules required to be included in this filing;
- describes the functionalization of income taxes to: Transmission, Distribution, Transmission and Distribution Utility Metering System Services, and Transmission and Distribution Utility Customer Services;
- addresses issues related to the appropriate treatment of income taxes;
- explains adjustments that were made to the FIT and Texas margin tax in this proceeding; and
- demonstrates that the FIT and Texas margin tax amounts included in this rate request are reasonable and necessary.

My testimony and supporting schedules demonstrate that CenterPoint Houston's requested tax related cost of service items are as follows:

EXPENSES:	
Federal Income Tax Expense	$76.7 million
Texas Margin Tax Expense	$20.0 million
RATE BASE:	
Accumulated Deferred Federal Income Taxes	($893.2) million
Regulatory Liability: Protected EDIT (TCJA)	($718.5) million
Regulatory Liability: Protected EDIT (Pre TCJA)	($2.0) million
Regulatory Asset: Texas Margin Tax	$19.6 million
Regulatory Asset: Medicare Part D Subsidy	$33.2 million

DIRECT TESTIMONY OF CHARLES W. PRINGLE

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Charles W. Pringle. I am Vice President Tax for CenterPoint Energy Service Company, LLC ("Service Company"). My business address is 1111 Louisiana Street, Houston, Texas 77002.

Q. WHAT ARE YOUR PRESENT RESPONSIBILITIES?

A. My responsibilities on behalf of CenterPoint Energy, Inc. ("CNP") include leading the Corporate Tax function, which is described in more detail later in my testimony. In this position, I have assisted with the preparation and review of tax testimony and schedules filed in regulatory proceedings in various jurisdictions where CNP and its subsidiaries operate.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY COMMISSIONS ON RATE AND REGULATORY MATTERS?

A. Yes. I have provided testimony before the Public Utility Commission of Texas ("Commission") in Docket No. 48226, the Minnesota Public Utilities Commission in Docket G-008/GR-17-285, the Railroad Commission of Texas in GUD No. 10669, the Arkansas Public Service Commission in Docket 17-010-FR, and the Oklahoma Corporation Commission in Docket 201800029.

Q. DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I have over sixteen years of tax experience with an emphasis on income tax accounting for financial reporting purposes, federal and state compliance, and tax research and planning for privately held and publicly traded companies. I hold a

Master of Science degree in Accounting and a Bachelor of Business Administration degree in Accounting from Texas A&M University in College Station, Texas. I am a Certified Public Accountant licensed in the State of Texas with a background in public accounting and private industry.

From 2002 through 2013, I was employed by KPMG LLP providing tax services to a wide range of clients and projects with progressive responsibilities over the course of my career and becoming Senior Tax Manager by the end of my tenure. My clients were predominately in the energy industry and were a combination of private companies and multinational publicly-traded companies. I, along with my team, provided tax services including tax compliance, income tax provision assistance and/or review, and tax consulting services on a wide range of projects such as tax research, planning and advice on potential or executed transactions. From 2013 through 2015, I was employed by Halcón Resources Corporation as a Tax Manager with primary responsibilities for the calculation of the quarterly income tax provision under Accounting Standards Codification Topic No. 740 ("ASC 740"). I managed the tax provision process for the publicly-held corporation, including the implementation of ONESOURCE provision software, along with assisting with tax research and planning related to strategic projects. In 2015, I joined Service Company as the Director of Tax and was named Vice President of Corporate Tax in February of 2019.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony supports CenterPoint Energy Houston Electric, LLC's ("CenterPoint Houston" or the "Company") request for Service Company Corporate Tax department test year affiliate expenses, addresses and explains the federal income taxes ("FIT") and the Texas margin tax amounts requested in (and the schedules that are required to be included in) the Company's rate filing package ("RFP"), and shows that the FIT and Texas margin tax amounts included in this rate request are reasonable and necessary. I also outline certain relevant provisions of the Tax Cuts and Jobs Act of 2017 ("TCJA") and explain the application of the provisions to the Company.

Q. WHERE DID YOU OBTAIN THE INFORMATION USED IN THE PREPARATION OF THE TAX SCHEDULES INCLUDED IN THE RFP?

A. All amounts included in the tax schedules of the Company's RFP were obtained from the books and records of CenterPoint Houston. The income tax amounts as of December 31, 2018 and for the year then ended are determined using appropriate accruals and estimates. In the following sections of my testimony, I describe each of the tax schedules that I am sponsoring or co-sponsoring. Where required, all of the information has been functionalized pursuant to RFP General Instruction No. 11.

Q. WHAT RFP SCHEDULES ARE YOU SPONSORING?

A. I am sponsoring Schedule II-E-3 and the associated Schedules II-E-3.1 through 3.24.

In addition, I co-sponsor certain RFP schedules with Company witness Kristie L. Colvin: Schedule II-B-7 as it relates to accumulated deferred federal income taxes ("ADFIT"), Schedule II-B-11 as it relates to federal income tax regulatory liabilities, Schedule II-B-12 as it relates to federal income tax and Texas margin tax regulatory assets, and Schedule II-E-2 as it relates to the Texas margin tax. I also co-sponsor Schedules V-K-7 and V-K-12 with Company witness Michelle M. Townsend as they relate to Service Company's Corporate Tax costs.

Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF OTHER COMPANY WITNESSES?

A. My testimony is related to the direct testimony of Ms. Townsend through her discussion of affiliate costs. The Corporate Tax organization's costs are allocated using methodologies described by Ms. Townsend. My testimony also relates to the direct testimony of Ms. Colvin who describes the cost of service and the functionalization of those costs in the RFP. Finally, my testimony describes the details of the excess deferred income taxes ("EDIT") and the EDIT regulatory liability resulting from the TCJA, while Ms. Colvin describes the calculation of the revenue requirement related to the EDIT regulatory liability, and Company witness Matthew A. Troxle describes the rate design related to the refund of the EDIT regulatory liability and supports the Company's proposed Rider UEDIT (as defined later in my testimony).

II. OVERVIEW OF CORPORATE TAX

Q. PLEASE DESCRIBE THE CORPORATE TAX FUNCTION.

A. Corporate Tax is a function of the Finance Organization as outlined in the direct testimony of Ms. Colvin. The Finance Organization is a functional area of Corporate Services within Service Company as described in the direct testimony of Ms. Townsend. Corporate Tax consists of Income Tax and Indirect Tax. Ms. Townsend discusses the role of Service Company, as well as the allocation methodologies used to assign costs to CenterPoint Houston.

Q. WHAT SERVICES WERE PROVIDED BY THE INCOME TAX FUNCTION DURING THE TEST YEAR?

A. The Income Tax group is responsible for all aspects of the Company's federal and state income taxes. There are four main areas of responsibility in the Income Tax department. The first is calculating and recording the necessary income tax accounting entries in compliance with ASC 740 supporting the Company's external financial statements and internal reporting. The next area of responsibility are compliance filings with all various state and federal taxing authorities. This includes calculating income tax obligations, making estimated income tax payments, and completing and filing the various required income tax forms. The third area of responsibility is interacting with and providing information to income tax auditors in support of the compliance filings made by the department. The fourth main area of responsibility is supporting our Regulatory department by providing income tax information to be included in the Company's extensive regulatory filings with state regulators.

Q. PLEASE DESCRIBE THE SERVICES PROVIDED BY THE INDIRECT TAX FUNCTION.

A. The Indirect Tax function covers all non-income tax related matters for CNP and the Company, primarily in the areas of ad valorem taxes (or property taxes) and sales and use taxes. The Indirect Tax function is responsible for CNP's tax compliance filings, annually filing in excess of 4,000 sales and use tax returns and 300 property tax returns along with remittance of payments related to ad valorem and sales and use tax liabilities. The Indirect Tax group advocates on behalf of the

Company on both ad valorem and sales and use tax matters through the appropriate contesting of property tax assessments, the defense of the Company's sales and use tax positions that undergo taxing authority audits or examinations, the timely filing of any indirect tax refund claims, and overall management of the indirect tax liabilities. Additionally, the Indirect Tax group supports the various regulatory filings of the Company and ensures that customer-related sales and use taxes are properly calculated and charged to customers.

Q. ARE THE SERVICES PROVIDED BY THE CORPORATE TAX FUNCTION NECESSARY TO THE COMPANY'S OPERATIONS?

A. Yes. CenterPoint Houston requires the services of trained tax professionals. The employees of the Corporate Tax function are highly skilled and specialized tax professionals. These employees provide essential services to multiple business units, including to the Company.

Q. HOW DOES CORPORATE TAX MONITOR EXPENSES TO ENSURE COSTS INCURRED ARE REASONABLE AND NECESSARY AND THAT COSTS ARE PROPERLY ASSIGNED?

A. Corporate Tax's budget is established annually as part of the CNP budget process. Each year, the department reviews the prior year budget and identifies necessary changes to the current budget. The Corporate Tax budget is reviewed and approved by the Chief Financial Officer ("CFO"), as well as CNP's Executive Management.

Corporate Tax department expenditures are reviewed monthly and compared to the annual budget by myself and my management team to report explanations on specified variances. Summary results are then reviewed with the

CFO and reported to Executive Management. Please also refer to the direct testimony of Ms. Townsend regarding CNP's financial planning activities.

Q. ARE THE COMPANY'S COSTS FOR CORPORATE TAX REASONABLE AND NECESSARY?

A. Yes. Having the Corporate Tax department's costs centralized and shared by multiple business units avoids the duplication of expertise that would be necessary if each business unit acquired these resources separately. Also, there are economies of scale that are achieved by sharing information technology and tax-specific software across multiple business units.

III. INCOME TAX REFORM

Q. PLEASE SUMMARIZE THE MAIN ELEMENTS OF TAX REFORM UNDER THE TCJA THAT AFFECT PUBLIC UTILITIES.

A. The TCJA changes many elements of the United States tax law. Several provisions are applicable to public utilities, including:

- The corporate FIT rate was reduced from 35% to 21% as of January 1, 2018.
- Certain property additions are now eligible for 100% expensing ("bonus depreciation") available as of January 1, 2018. However, property of rate-regulated utilities, including both electric and gas transmission and distribution assets, is not eligible. This effectively eliminates bonus depreciation for rate-regulated utilities.
- The TCJA provides for the normalization[1] of public utility property's EDIT similar to what was provided by Section 203(e) of the Tax Reform Act of 1986 ("TRA 1986").
- Under old law, contributions in aid of construction ("CIACs") that were for certain public improvement projects (generally relocations due to road

[1] As discussed in more detail later in my testimony, under normalization, the tax benefits associated with the depreciation of the Company's assets are effectively shared with customers over the same period that the costs of depreciation are recovered from customers. The TCJA contains similar specific requirements regarding the refunding of certain EDIT to utility customers to comply with a normalized method of accounting.

widenings) were not taxable. In the TCJA, those items are taxable after the date of enactment (December 22, 2017).

Q. HAVE CENTERPOINT HOUSTON'S CUSTOMERS BENEFITED FROM TAX REFORM UNDER THE TCJA?

A. Yes. Through reductions to the Company's income tax expense, as well as the creation and return of EDIT (which I discuss in greater detail later in the testimony), customers have already seen, and will continue to see, benefits from tax reform under the TCJA.

Q. DOES CENTERPOINT HOUSTON SUPPORT CUSTOMER RECEIPT OF TCJA BENEFITS?

A. Absolutely. In fact, through its Transmission Cost of Service ("TCOS") filing made with the Commission on February 16, 2018,[2] CenterPoint Houston was one of the first utilities in the country to begin flowing TCJA benefits back to customers through utility rates. Through that filing, the Company is refunding $6.4 million of "unprotected" EDIT (as described in more detail later in my testimony) to customers annually. Similarly, as part of the Distribution Cost Recovery Factor ("DCRF") filing made with the Commission on April 4, 2018, CenterPoint Houston began flowing TCJA benefits back to customers for the new tax expense rate of 21% and for unprotected EDIT of $19.2 million annually.[3]

Q. PLEASE DESCRIBE HOW THESE BENEFITS ARE INCORPORATED INTO THE RFP SCHEDULES.

[2] *Application of CenterPoint Energy Houston Electric, LLC to Revise its Wholesale Transmission Rates Approved in Docket No. 47610 Pursuant to 16 Tex. Admin. Code §25.192(h)* Docket No. 48065, Final Order (Apr. 27, 2018).

[3] *Application of CenterPoint Energy Houston Electric, LLC to Amend its Distribution Cost Recovery Factor*, Docket No. 48226, Final Order (Aug. 30, 2018).

A. There are two main impacts of the TCJA that are incorporated into this RFP. The first is the impact on the income tax expense calculation from the change in the federal tax rate from 35% to 21% effective January 1, 2018. The second is the required remeasurement of the Company's ADFIT due to the tax rate change. The remeasurement results in EDIT that will be refunded to customers over time. I will discuss each of these in more detail below. All of the other impacts of the TCJA on utilities, such as the change to CIAC and the loss of bonus depreciation, are also incorporated into the test year numbers but some may not substantially impact the ADFIT balances in the near term. For example, the loss of bonus depreciation for one year does not have a large impact on the cumulative ADFIT balance in the near term. However, this change will have an increasingly greater effect over time as ADFIT balances will generally not be as large as they would have been had bonus depreciation not been effectively repealed for utilities.

Q. HOW IS THE CHANGE IN FEDERAL INCOME TAX RATE FROM 35% TO 21% REFLECTED IN THE INCOME TAX CALCULATION?

A. The Company has applied the lower 21% federal rate in the Method 1 and Method 2 income tax expense calculations. Copies of the Method 1 and Method 2 tax calculations for this proceeding can be found in Schedules II-E-3 and II-E-3.15. I have also recalculated and applied the lower federal gross-up factor of 1.265823 (as discussed in detail later in my testimony) resulting from the reduced rate where applicable.

IV. ADFIT AND EDIT

Q. BEFORE DISCUSSING THE REMEASUREMENT OF ADFIT, WILL YOU PLEASE EXPLAIN ADFIT AND HOW IT ARISES FOR THE COMPANY?

A. ADFIT represents a net deferred tax liability for the estimated future tax effects attributable to temporary differences based on the provisions of the enacted tax law. The effects of possible, but not yet enacted, future changes in tax laws or rates are not contemplated as part of the calculation of ADFIT. ADFIT arises from the interaction of the Internal Revenue Code ("IRC"), the Company's accounting practices under generally accepted accounting principles ("GAAP"), and the Company's operations.

Q. WHAT IS A TEMPORARY DIFFERENCE?

A. A temporary difference is the difference between the tax basis (under the IRC) of an asset or liability and its reported amount in the financial statements (based on GAAP) that will result in taxable income or deductions upon the reversal of the difference in future periods.[4]

Q. PLEASE EXPLAIN HOW THE IRC, THE COMPANY'S ACCOUNTING PRACTICES UNDER GAAP, AND THE COMPANY'S OPERATIONS GIVE RISE TO ADFIT FOR THE COMPANY.

A. To be specific, ADFIT assets and liabilities are created because of differences between the IRC and the Company's accounting under GAAP. The Company's accounting books and records are kept under GAAP, which provides guiding principles and requirements as to when and how the Company records its financial results. Likewise, the IRC and related regulations provide the rules and requirements the Company follows when completing its tax filings.

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[4] *See* ASC 740-10-20.