There are a myriad of differences between GAAP and the IRC. Many of these differences are temporary in nature, meaning the total amount of income or expense recognized for an item ultimately is the same under GAAP and the IRC, but the time period over which it is recognized is different. It is this difference in timing between GAAP and the IRC—that is, a temporary difference—that gives rise to ADFIT. Due to the difference in timing required by the IRC, the Company has deferred recognition of certain tax liabilities or benefits to future periods (i.e., a different net income amount between book and tax return exists, creating the difference in taxes paid to the Internal Revenue Service ("IRS") and the tax expense amount recognized for accounting purposes).

Q. PLEASE PROVIDE AN EXAMPLE OF A TEMPORARY DIFFERENCE.

A. One of the most significant and common temporary differences for utilities is depreciation, given the capital-intensive nature of the industry. The basis of an asset is generally depreciated using the straight-line method (generally, pro rata over the asset's life) for financial reporting purposes and an accelerated depreciation method (generally yielding larger depreciation deductions in the earlier years of an asset's life than the straight-line method) for income tax purposes. In addition, the recovery period or life of the asset is typically shorter for income tax purposes than for financial reporting purposes. Consequently, the variance between the depreciation expense reported for financial reporting purposes and the depreciation expense reported for income tax purposes creates a temporary difference under ASC 740 because the tax basis of the asset is now different from the basis reflected in the financial statements.[5] Ultimately, the same original cost or basis of the asset will be fully recovered for both financial statement and income tax purposes. For example, an item purchased by the Company for $2,000 may be capitalized and depreciated over a 20-year period under GAAP. The IRC may permit that same item to be depreciated over a 10-year period. There is no difference in the total depreciation deductions over time in that GAAP and the IRC permit the Company a $2,000 depreciation deduction. However, that deduction is realized over different time periods.

Q. DID THE FEDERAL INCOME TAX RATE CHANGE UNDER TCJA HAVE AN IMPACT ON THE CALCULATION OF TEST YEAR ADFIT?

A. Yes. The tax law was enacted in December 2017. Per GAAP, the ADFIT must be remeasured to reflect the estimated tax owed at the new rate per the enacted law. The test year for this case is year-end December 31, 2018; therefore, the remeasured ADFIT is included in this filing.

Q. PLEASE EXPLAIN EDIT.

A. As noted earlier in my testimony, after an income tax rate change, the ADFIT balance on a company's books is remeasured to reflect the new income tax rate. EDIT is the excess of the ADFIT balance as of the day before the date of enactment of the law effecting the change in tax rate over the amount that would be the balance if the new rate was in effect for all prior periods. For regulated public utility property, ASC 980-740-25 requires that a regulatory asset or liability be recorded for the resulting remeasurement of ADFIT if it is probable that the excess will be

[5] *See* ASC 740-10-25-20, example (d).

collected from customers (if the tax rate increased) or returned to customers (if the tax rate decreased) through future rates. This EDIT is then grossed-up for the income tax effect of the increase or decrease in income. The grossed-up regulatory asset or liability is also itself a temporary tax timing difference for which a deferred tax asset or liability shall be recognized.

Q. HOW IS THE REQUIRED TAX GROSS-UP CALCULATED?

A. The EDIT balance represents the amount of previously-recorded deferred income tax expense to be returned to customers. To determine the amount of revenue to be returned to (or not collected from) customers so that the correct amount of EDIT is returned, it is necessary to gross-up the EDIT by the income tax effect of the future decrease in revenues. The formula to calculate the gross-up to the pre-tax amount is 1/(1-tax rate). With a federal tax rate of 21%, the federal gross-up factor is 1.265823. For example, if the reduction in tax rate caused the ADFIT liability balance to decrease by $1,000, there would be an EDIT regulatory liability recorded of $1,266. The new regulatory liability is also a temporary difference for which deferred taxes will be calculated.

Q. PLEASE EXPLAIN HOW RATE BASE IS IMPACTED BY THE REMEASUREMENT OF ADFIT RESULTING FROM A REDUCTION TO THE TAX RATE.

A. On day one of the remeasurement, rate base is not impacted and rate base remains the same. While the reduction in the FIT rate causes the ADFIT balance to be significantly reduced thus increasing rate base, there is an offsetting net credit balance recorded in the net regulatory liability that reduces rate base. The sum of the remeasured net ADFIT liability and the associated net regulatory liability plus the deferred taxes on the net regulatory liability is the same amount as the net ADFIT liability before remeasurement. For all components of ADFIT in rate base, the same components of the net regulatory liability are also included in rate base.

Q. WHEN WILL RATE BASE BE IMPACTED BY THE ADFIT REMEASUREMENT?

A. As the net EDIT regulatory liability is returned to customers, rate base will increase.

Q. PLEASE DESCRIBE "PROTECTED" AND "UNPROTECTED" EDIT.

A. In the implementation of the TRA 1986, the term "protected EDIT" was adopted to refer to EDIT balances related to "method/life depreciation" to which Section 203(e) of TRA 1986 applied. Method differences refer to different depreciation methods used for book versus tax depreciation (i.e., straight line for book versus accelerated depreciation for tax, as discussed earlier in my testimony). Life differences are the result of depreciating an asset over different time periods for book and tax purposes. Method/life depreciation differences are created by depreciable property such as distribution wires and poles. TRA 1986 stated that the reduction to the excess tax reserve under Section 203(e), the protected EDIT, could occur no more rapidly than under the average rate assumption method ("ARAM"). "Unprotected EDIT" refers to all other EDIT balances.

Q. DOES THE TCJA INCLUDE A SECTION COMPARABLE TO SECTION 203(E) OF TRA 1986?

A. Yes, a similar provision is included in the TCJA at Section 13001(d). To maintain a normalization method of accounting, it requires that the utility reduce its protected excess tax reserve no faster than it would be reduced under ARAM. It also allows for use of another alternative method if the utility does not have the data needed for ARAM. The Company has the data needed for ARAM, therefore, the alternative method is not applicable. For purposes of further discussion, I will refer to EDIT described under Section 13001(d) as protected EDIT.

Q. OVER WHAT PERIOD WILL THE PROTECTED EDIT AMORTIZE USING ARAM?

A. The protected EDIT amortization using ARAM will occur over the regulatory life of an asset. It will amortize no faster than the underlying book/tax timing difference reverses. The amortization of EDIT begins when book depreciation on an asset is greater than tax depreciation. The amortization amount will vary from year to year based on the depreciation reversals in each year.

Q. WHAT EDIT BALANCES ON THE COMPANY'S BOOKS ARE PROTECTED UNDER THE NORMALIZATION RULES?

A. The EDIT attributable to federal method/life depreciation differences are protected. There are other items protected in addition to federal method/life depreciation differences, however, the Company does not have any of the other categories of protected EDIT. In the Company's books and records, all other EDIT amounts are referred to as "unprotected" under the normalization rules.

Q. WHAT ARE THE CONSEQUENCES OF REFUNDING PROTECTED EDIT FASTER THAN ARAM?

A. The Company would have a normalization violation. Under the TCJA, the consequences of a normalization violation are twofold. First, and consistent with the historical rules under the TRA 86, the Company would be required to notify the IRS of such a violation, and it would permanently lose the ability to claim accelerated depreciation. The rules under the TCJA also call for a second penalty. The language in the TCJA states "If . . . the taxpayer does not use a normalized method of accounting . . . the taxpayer's tax for the taxable year shall be increased by the amount by which it reduces its excess tax reserve more rapidly than permitted under a normalized method of accounting . . . ."[6] Thus, if the normalization violation was caused by refunding the protected EDIT faster than allowed under ARAM, the Company would be required to pay an additional tax equal to the amount of the excess refunded.

Q. HAS THE COMPANY REFUNDED ANY OF THE PROTECTED EDIT FROM THE TCJA PRIOR TO THIS PROCEEDING?

A. No. In the Company's DCRF Docket No. 48226,[7] the Commission ordered that protected EDIT will be addressed in CenterPoint Houston's scheduled 2019 base rate proceeding or through a filing made by CenterPoint Houston on or before April 30, 2019, in the event a base rate case is not filed by that date. Schedule II-E-3.19 supports that no protected EDIT from the TCJA has been refunded prior to this proceeding.

Q. HOW IS THE AMORTIZATION OF THE PROTECTED FEDERAL EDIT REFLECTED IN THE CURRENT FILING?

A. The amortization of the protected EDIT is included as a reduction to income tax expense in the amount of $18.7 million as shown on Schedule II-E-3. This reflects

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[6] TCJA Section 13001(d).

[7] Docket No. 48226, Final Order at Finding of Fact 34 (Aug. 30, 2018).

the 2018 estimated ARAM for protected EDIT that has not yet been refunded to customers. Because this $18.7 million has not yet been refunded to customers and is available to be refunded, it is being included with the other unprotected EDIT balances. My testimony later explains how the Company is proposing to refund to customers all remaining unprotected EDIT.

Q. IS THE COMPANY CURRENTLY REFUNDING ANY UNPROTECTED EDIT?

A. Yes. The Company is annually returning $5.1 million of unprotected transmission plant related EDIT (grossed-up to a regulatory liability of $6.5 million).[8] In addition, the Company is returning unprotected distribution plant related EDIT of $15.7 million, which grossed up and net of return equals $19.2 million annually.[9] Through the end of 2018, the Company has refunded $8.4 million of unprotected EDIT through these mechanisms. These refunds will continue until new rates go into effect.

Q. WHAT ARE THE COMPANY'S EDIT AND ASSOCIATED REGULATORY LIABILITY BALANCES DUE TO THE TCJA?

A. The Company's TCJA-related EDIT and associated regulatory liability balances at the end of the test year are shown in the table below, and can be seen on WP/II-B-11d of the RFP.

[8] Docket No. 48065, Final Order (Apr. 27, 2018).
[9] Docket No. 48226, Final Order at Finding of Fact 33 (Aug. 30, 2018).

$ in Millions	EDIT 12/31/2018	Regulatory Asset/(Liability) 12/31/2018
Protected	$562.5	($718.5)
Unprotected PP&E	$100.8	($128.5)
Unprotected Other	($17.2)	$23.1
Total	$646.1	($823.9)

Q. ARE THE AMOUNTS OF THE EDIT REGULATORY ASSETS AND LIABILITIES RECORDED AT YEAR-END 2018 SUBJECT TO CHANGE?

A. Yes. Future events such as IRS audit adjustments to the Company's previously-filed income tax returns, future IRS rulings and/or clarifications to normalization rules could change the recorded balance. The change could be to the total EDIT balance or could result in movement of a balance between the protected and unprotected balances. If such a change occurred, it would be necessary to track the change and true-up any future refunds to the revised balances.

Q. HOW IS THE COMPANY PROPOSING TO RETURN THE REMAINING UNPROTECTED EDIT REGULATORY LIABILITY?

A. The Company is proposing to return the remaining net unprotected EDIT to ratepayers outside of base rates through a separate tariff ("Rider UEDIT").

Q. WHAT UNPROTECTED EDIT REGULATORY LIABILITY AMOUNTS ARE INCLUDED IN THE PROPOSED RIDER UEDIT?

A. As shown on WP/II-B-11d of the RFP, the unprotected EDIT regulatory liability amounts included in Rider UEDIT are as follows:

- 2018 unprotected EDIT regulatory asset and liability balances – These balances are the EDIT balances shown on Schedule II-E-3.18 grossed-up to the regulatory asset and liability balances. The net amount of the unprotected EDIT regulatory liability at December 31, 2018, is $105.4 million. This balance includes the 2018 estimated protected ARAM discussed in more detail immediately below.

- 2018 estimated protected ARAM – The 2018 estimated protected ARAM amount as of December 31, 2018, was reclassified as unprotected. Because the Company has not yet filed a 2018 federal income tax return, this amount is an estimate.

- Deferred tax assets on the net EDIT regulatory liability of $21.9 million.

- True up adjustments – Any required true-up to actual amounts will be reflected when known. Those adjustments include the following:

  - TCOS and DCRF refunds after December 31, 2018 – As discussed earlier in my testimony, the net unprotected EDIT liability will decrease as the Company returns amounts to customers through the TCOS and DCRF until new base rates are established in this proceeding.

  - Estimated protected ARAM after December 31, 2018 – As discussed earlier in my testimony, the 2018 estimated protected ARAM amount was reclassified as unprotected. Similarly, any estimated protected ARAM amount after December 31, 2018, will be reclassified as unprotected.

  - Federal Income Tax Returns – Filing of the 2018 and 2019 federal income tax returns could result in differences between estimated and actual ARAM amounts.

  - TCJA Clarifications – As the Department of the Treasury and the IRS provide more guidance related to the TCJA, adjustments to protected and unprotected EDIT balances may be required.

  - Audit Adjustments – Adjustments to prior period tax returns as the result of IRS audits could change the amount of available EDIT.

V. FEDERAL INCOME TAXES

A. Schedule II-B: Rate Base

Q. WHAT TAX RELATED ITEMS ARE INCLUDED ON SCHEDULE II-B-7 (RATE BASE ACCOUNTS - ACCUMULATED PROVISIONS)?

A. Schedule II-B-7 displays the test year ending balance for each accumulated provision account on a functionalized basis pursuant to RFP General Instruction 11. An explanation of the functionalization of each account or sub account is included in the supporting workpapers to Schedule II-E-3.5. I sponsor the amounts and explanations relating to ADFIT on this schedule, with the other items sponsored by Ms. Colvin.

Q. WHAT TAX RELATED ITEMS ARE INCLUDED ON SCHEDULES II-B-11 (RATE BASE ACCOUNTS – OTHER) AND II-B-12 (RATE BASE ACCOUNTS – REGULATORY ASSETS)?

A. Schedule II-B-11 includes the test year ending balances for FIT related regulatory liabilities and II-B-12 includes the test year ending balances for FIT and Texas margin tax related regulatory assets. The protected EDIT regulatory liability from Schedule II-B-11 and the Texas margin tax regulatory asset carries forward into rate base on Schedule II-B.

Q. YOU PREVIOUSLY EXPLAINED TEMPORARY DIFFERENCES. ARE THERE OTHER BOOK/TAX DIFFERENCES IN THE INCOME TAX CALCULATION?

A. Yes. There are also permanent differences. While most book/tax differences are "temporary" and will reverse over time, certain items of revenue and expense are permanent and are treated differently for financial statement purposes and income tax purposes and will never reverse. An example for the Company is meals expense. For financial reporting, meals are a deductible expense in the financial statements, but based on the IRC, only 50% of certain meals are deductible on the income tax return causing differences in the amount of meals expense between the financial statements and income tax returns.

Q. IS THE DISTINCTION BETWEEN PERMANENT AND TEMPORARY DIFFERENCES IMPORTANT IN THE INCOME TAX CALCULATION?

A. Yes. While there are still permanent differences between book and tax for items, such as meal expenses, there are certain book and tax differences that under the previous income tax accounting rules (before the 1993 effective date of SFAS 109) were considered permanent, but with the implementation of SFAS 109 and then ASC 740 are now considered temporary.

Relevant examples for the Company include book and tax differences related to the equity portion of allowance for funds used during construction ("AFUDC-equity") and AFUDC-net of tax debt. Deferred income tax accounting is now required for these differences.

Q. CAN YOU DESCRIBE HOW THE INCOME TAX ACCOUNTING FOR THE DIFFERENCES PREVIOUSLY CONSIDERED PERMANENT BUT NOW CONSIDERED TEMPORARY IMPACT FINANCIAL AND REGULATORY ACCOUNTING AND COST OF SERVICE?

A. Yes. Under ASC 740, ADFIT is required to be recorded for the items I previously mentioned: AFUDC-equity and AFUDC-net of tax debt. As long as the future recovery of the income tax effects of these items through the ratemaking process is probable, corresponding income tax-related regulatory assets and liabilities are recorded (both the ADFIT and the related regulatory assets and liabilities are computed at the revenue requirements level (i.e., grossed-up) as such regulatory assets and liabilities are themselves temporary differences). There is no effect on rate base as the ADFIT and income tax-related regulatory asset or regulatory liability offset one another. The deferred taxes provided on each of these amounts are set forth in the RFP at WP/II-B-12e.

B. Schedule II-E-3: Federal Income Taxes

Q. PLEASE DESCRIBE SCHEDULE II-E-3, FEDERAL INCOME TAXES.

A. Schedule II-E-3 shows the calculation of FIT, by function, for the test year using the "return" method as required by the RFP instructions. These calculations are explained in the associated supporting schedule workpapers. The functionalization factors used are set forth in Schedule II-F of the RFP and are sponsored by Ms. Colvin.

Q. PLEASE EXPLAIN THE RETURN METHOD USED TO DETERMINE INCOME TAX EXPENSE.

A. The return method begins with the Company's total return by function. The total return consists of a return on equity and a debt return (interest). The interest component of the return is deducted from the total return to produce an after-tax return on equity.

Permanent items are then deducted or added to the equity return. Permanent items include amortization of EDIT, book depreciation related to AFUDC equity and AFUDC net-of-tax debt (permanent depreciation differences), non-deductible business meals, non-deductible entertainment expenses, Medicare Part D Subsidy (as defined and described later in my testimony), and federal research and development tax credits.

The computed equity return plus or minus the above permanent items produces the taxable component of return. This return is then multiplied by the tax factor at the current 21% FIT rate to determine FIT before adjustments. From this subtotal, items which increase or reduce tax expense dollar for dollar as permanent items are added or deducted. These items include amortization of EDIT, Medicare Part D Subsidy and federal research and development tax credits. The sum of FIT plus or minus these items equals the total FIT expense, including both current and deferred taxes.

Q. HOW HAVE FEDERAL INCOME TAXES ON SCHEDULE II-E-3 BEEN COMPUTED?

A. The "stand-alone" approach was used to compute FIT on Schedule II-E-3. Under this methodology, FIT is calculated based solely on revenues and expenses of the Company included in the utility's revenue requirement as if the Company were a stand-alone taxpayer. It is my understanding that this approach appropriately allocates FIT among members of the consolidated group, of which CNP is the common parent company, using the benefits/burdens criteria outlined by Federal Energy Regulatory Commission ("FERC") Order No. 173. Under this method, FIT calculated for the Company relates to and results from only the revenues and expenses associated with providing utility service to customers. The benefits and burdens criterion refers to computing the tax consequences of transactions based on the revenue and expense transactions themselves.

Q. PLEASE FURTHER DESCRIBE THE BENEFITS/BURDENS CRITERIA OUTLINED IN FERC ORDER NO. 173.

A. FERC Order No. 173 describes the "stand-alone" method as follows:

> "... our stand-alone policy in effect looks beneath the single consolidated tax liability and analyzes each of the deductions used to reduce the group's tax liability to determine the deductions for which each service is responsible. It then allocates to the jurisdictional service those deductions which were generated by expenses incurred in providing that service. In making this allocation it is irrelevant on which member's return the deductions would be reported if the group filed separate returns. Instead, the test is whether the expenses that generate the deduction are used to determine the jurisdictional service's rates. Put more simply the test is whether the expenses are included in the relevant cost of service. If they are, the associated deductions and their tax reducing benefits will be taken into account in calculating the tax allowance for that cost of service. If the expenses are not, the deductions will not be taken into account. In this way the tax allowance will reflect the profit the ratepayers contribute to the group's consolidated taxable income."

Q. WHY WAS THE STAND-ALONE METHOD USED FOR CALCULATING FEDERAL INCOME TAXES FOR RATEMAKING PURPOSES?

A. The "stand-alone" approach includes the FIT that results only from the provision of utility service to customers in cost of service. The FIT expense requested by CenterPoint Houston in this proceeding is based on test year revenues and expenses, as appropriately adjusted for known and measurable changes, requested by CenterPoint Houston. There are no additions to or reductions from this calculated income tax expense resulting from revenues or expenses not included in CenterPoint Houston's request (such as revenues or expenses attributed to other CNP affiliates or subsidiaries). It is my understanding that it would be neither appropriate nor equitable to increase or reduce cost of service by tax costs or benefits that are not related to the rendering of utility service to customers.

Q. HAVE THE REQUIREMENTS OF THE PUBLIC UTILITY REGULATORY ACT ("PURA") § 36.059 IN THE COMPUTATION OF

FEDERAL INCOME TAXES INCLUDED ON SCHEDULE II-E-3 BEEN APPROPRIATELY CONSIDERED?

A. Yes. PURA § 36.059 specifically addresses the treatment of certain tax benefits, including ITCs. The Company's ITC balances have been fully amortized prior to the test year and are not included in this filing.

Q. HAS A CONSOLIDATED TAX SAVINGS ADJUSTMENT BEEN MADE TO THE COMPUTATION OF FEDERAL INCOME TAXES ON SCHEDULE II-E-3?

A. No. PURA § 36.060(a) was revised in 2013 and requires income taxes to be computed based solely on those items that are contained within the Company's cost of service. In addition, PURA § 36.060(a) requires that income tax expense be computed using statutory income tax rates.[10]

C. Schedules II-E-3.1 through II-E-3.24

Q. WHAT IS SCHEDULE II-E-3.1, RECONCILIATION OF TEST YEAR BOOK NET INCOME TO TAXABLE NET INCOME?

A. Schedule II-E-3.1 is a complete reconciliation of book net income and taxable net income for the test year and for the most recently filed tax returns for CenterPoint Houston ("Tax Return") and the 2017 consolidated federal income tax return of the CNP consolidated group. Schedule II-E-3.1 contains explanations of all items in the reconciliation for both the test year and the Tax Return. Schedule II-E-3.1, and the supporting workpapers will be filed as confidential, subject to a protective order

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[10] *See* Tex. S.B. 1364, 83rd Leg., R.S. (2013).

for access. All claimed tax allowances take into consideration all items appearing in the reconciliation for the Tax Return.

Q. WHAT IS SCHEDULE II-E-3.2, RECONCILIATION OF TIMING DIFFERENCES?

A. Schedule II-E-3.2 includes a reconciliation detailing those temporary/timing differences and other items that would produce FIT at a tax rate different than the statutory tax rate for the test year. Supporting calculations and explanations for each item in the reconciliation are shown on Schedules II-E-3.2 and II-E-3.15, and their associated workpapers.

Q. WHAT IS SCHEDULE II-E-3.3, PLANT ADJUSTMENTS?

A. For each new transmission and distribution asset (by function) that was purchased or constructed since CenterPoint Houston's last complete rate case in 2010, Schedule II-E-3.3 provides (1) the tax-in-service date; (2) the tax basis; (3) all applicable forms of tax depreciation method, class, life, and convention; (4) the amount of all applicable forms of tax depreciation for the test year and amounts projected for 2019 and 2020; (5) the amount of ADFIT as of the test year end; and (6) any requested adjustment to items (1)-(5) for the test year. Because the last test year was for the year ended December 31, 2009, the information reflected on this schedule includes the tax years from 2010 forward.

Q. PLEASE DESCRIBE SCHEDULE II-E-3.4, CONSOLIDATION/INTER-CORPORATE TAX ALLOCATION.

A. Schedule II-E-3.4 provides a detailed explanation of the accounting for inter-corporate tax allocations. This schedule and the supporting Schedule II-E-3.4a includes a discussion of events that give rise to inter-corporate payments and receipts, journal entries used to record the various events, and the rationale for the accounting treatment. These schedules are being filed as confidential, subject to a protective order for access. A copy of all inter-corporate tax allocation agreements in effect for the test year or anticipated changes to the test year also are filed as a confidential attachment to Schedule II-E-3.4, subject to a protective order for access.

Q. WHAT IS SCHEDULE II-E-3.5, ADFIT?

A. Schedule II-E-3.5.1 provides test year end book balances, requested adjustments to these balances, and the resulting adjusted balances by function for ADFIT. The schedule includes additions and reductions for the test year. The monthly book balances of ADFIT by function for each of the 12 months of the test year are shown on Schedule II-E-3.5.2. Each item that gives rise to ADFIT is segregated on the schedules.

The ADFIT balance included in rate base for the test year is set forth on Schedule II-E-3.5.1 and further explained in the associated workpapers to that schedule.

Q. WERE ANY CENTERPOINT HOUSTON ADFIT BALANCES EXCLUDED FROM SCHEDULE II-E-3.5?

A. Yes. ADFIT amounts associated with securitized competitive transition[11] and system restoration[12] charges have been excluded from this filing as they have already been considered in previous proceedings. Additionally, ADFIT associated with AMS has been excluded from Schedule II-E-3.5.[13]

Q. WHAT IS SCHEDULE II-E-3.6, ADFIT – DESCRIPTION OF TIMING DIFFERENCES?

A. Schedule II-E-3.6 includes a description of the nature of each timing difference listed in Schedule II-E-3.5 and, to the extent available, includes a description of the remaining life of each such timing/temporary difference.

Q. WHAT IS SCHEDULE II-E-3.7, ADJUSTMENTS TO ADFIT?

A. Schedule II-E-3.7 provides supporting explanations and detailed calculations for each adjustment to the test year end balances in Schedule II-E-3.5.

Q. WHAT IS SCHEDULE II-E-3.8, ADFIT AND ITC – PLANT ADJUSTMENTS & ALLOCATIONS?

A. Schedule II-E-3.8 provides the ADFIT balances (by timing difference) at test year end related to additions of new transmission and distribution plant in service by

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[11] *Compliance Filing of CenterPoint Energy Houston Electric, LLC for a Standard True-up of Transition Charges Under Schedule TC2*, Docket No. 48838, Notice of Approval (Nov. 20, 2018); *Compliance Filing of CenterPoint Energy Houston Electric, LLC for a Standard True-up of Transition Charges Under Schedule TC3*, Docket No. 49049, Notice of Approval (Feb. 4, 2019); *Compliance Filing of CenterPoint Energy Houston Electric, LLC for a Standard True-up of Transition Charges Under Schedule TC5*, Docket No. 48884, Notice of Approval (Dec. 12, 2018).

[12] *Compliance Tariff Filing of CenterPoint Energy Houston Electric, LLC for a Standard True-up of System Restoration Charges Under Schedule SRC*, Docket No. 48685, Notice of Approval (Oct. 16, 2018); *Compliance Filing of CenterPoint Energy Houston Electric, LLC for a Standard True-up of ADFIT Credit Charges Under Schedule ADFITC*, Docket No. 48686, Notice of Approval (Oct. 16, 2018).

[13] *Application of CenterPoint Energy Houston Electric, LLC for the Final Reconciliation of Advanced Metering Costs*, Docket No. 47364, Final Order at Finding of Fact 13(f) (Dec. 14, 2017).

function occurring since CenterPoint Houston's last rate filing and any plant adjustments to the test year end requested by CenterPoint Houston. Supporting calculations and explanations are filed in the associated II-E-3.8 workpapers. The ITC provision included in the IRC was repealed in 1986. CenterPoint Houston has not claimed any new ITC under the Energy Policy Act of 2005 or the American Recovery and Reinvestment Act of 2009, and thus, there have been no new ITCs generated since the last rate filing.

Q. WHAT IS SCHEDULE II-E-3.9, ANALYSIS OF ITC'S?

A. Schedule II-E-3.9 presents an analysis of the ITC credits adjustment. CenterPoint Houston has fully amortized the historical ITC it had previously claimed, therefore, this schedule is not applicable in the current proceeding.

Q. WHAT IS SCHEDULE II-E-3.10, ANALYSIS OF INVESTMENT TAX CREDITS UTILIZED?

A. Schedule II-E-3.10 provides an analysis of ITCs utilized for tax return purposes. Since all of the Company's ITCs have been fully amortized, this schedule is not applicable in this proceeding.

Q. WITH RESPECT TO SCHEDULE II-E-3.11 (ITC GENERATED BUT NOT UTILIZED) AND II-E-3.12 (ITC UTILIZED – STAND-ALONE BASIS), DID CENTERPOINT HOUSTON GENERATE ANY ITCs FOR TAX PURPOSES SINCE THE LAST RATE CASE?

A. No. The Company did not generate any ITCs in 2009-2018. As a result, Schedules II-E-3.11 and II-E.3.12 are not applicable in this proceeding.

Q. PLEASE EXPLAIN SCHEDULE II-E-3.13, ITC ELECTION.

A. Schedule II-E-3.13 details all elections CenterPoint Houston has made with respect to ITCs. Among other elections, Schedule II-E-3.13 sets forth CenterPoint Houston's election in certain years to claim the 10% ITC with a 50% reduction to the tax basis of the assets giving rise to ITC in lieu of an 8% ITC without a reduction to tax basis. The Company currently has no remaining ITC and has made no elections since the last rate case.

Q. WHAT IS SCHEDULE II-E-3.14, FERC ACCOUNT 255 BALANCE?

A. Schedule II-E-3.14 provides the FERC account 255 accumulated ITC balance at test year end. The Company has finished amortizing all of the previously claimed ITCs in FERC account 255 and there is no test year balance in this account.

Q. WHAT IS SCHEDULE II-E-3.15, ANALYSIS OF TEST YEAR FIT & REQUESTED FIT – TAX METHOD 2?

A. Schedule II-E-3.15 provides the test year FIT and calculates test year FIT using Tax Method 2. Supporting explanations and calculations for such methodology are filed in the associated Schedule II-E-3.15 workpapers. Tax Method 2 calculates the current and deferred components of FIT expense as compared to Tax Method 1 which computes total FIT expense without differentiating between such current and deferred components.

Q. WHAT IS SCHEDULE II-E-3.16, ANALYSIS OF DEFERRED FIT?

A. Schedule II-E-3.16 provides the support for the total deferred FIT found on Schedule II-E-3.15. This schedule provides information for each item that is deferred. Support for such items are shown on Schedule II-E-3.6 and in the workpapers for Schedule II-E-3.16.

Q. WHAT IS SCHEDULE II-E-3.17, ANALYSIS OF ADDITIONAL DEPRECIATION REQUESTED?

A. Schedule II-E-3.17 provides a detailed calculation of the requested adjustment to return for additional depreciation.

Q. WHAT IS SCHEDULE II-E-3.18, AMORTIZATION OF PROTECTED AND UNPROTECTED EXCESS DEFERRED INCOME TAXES?

A. Schedule II-E-3.18 summarizes CenterPoint Houston's requested amortization of unprotected and protected EDIT. Unprotected EDIT is being requested in Rider UEDIT and is, therefore, being adjusted out of this filing. The 2018 protected EDIT ARAM is being requested in this proceeding.

Q. WHAT IS SCHEDULE II-E-3.19, ANALYSIS OF EXCESS DEFERRED INCOME TAXES BY TIMING DIFFERENCE?

A. Schedule II-E-3.19 provides details regarding the EDIT in Schedule II-E-3.18 by timing difference, as well as the unamortized balance of EDIT at test year end by timing difference. These balances have been reported in three categories: Protected PP&E, Unprotected PP&E and Unprotected Other. The detailed calculation of the requested amortization for each category is included in the workpapers to Schedule II-E-3.18. Only protected EDIT is included as a rate base item in this schedule since the unprotected EDIT is being requested in Rider UEDIT.

Q. WITH RESPECT TO SCHEDULE II-E-3.20 (EFFECTS OF POST TEST YEAR ADJUSTMENT), DID CENTERPOINT HOUSTON'S POST TEST YEAR ADJUSTMENT TO PLANT HAVE ANY EFFECT ON FIT AND ADFIT?

A. No. Because the Company made no post-test year plant adjustments, no associated ADFIT adjustments were made on Schedule II-E-3.20.

Q. WHAT IS SCHEDULE II-E-3.21, LIST OF FIT TESTIMONY?

A. Schedule II-E-3.21 provides a listing by witness and page number of all testimony filed supporting FIT and ADFIT. Subject to a protective order, a copy of the CNP consolidated federal income tax return for 2017, the most recently filed federal income tax return of the CNP consolidated group, is available in the confidential RFP schedules.

Q. WHAT IS SCHEDULE II-E-3.22, HISTORY OF TAX NORMALIZATION?

A. Schedule II-E-3.22 describes CenterPoint Houston's history of tax normalization, which book and timing differences are normalized, when the differences first arose, when the differences were first normalized, and the method of normalization used. This schedule also gives details of all timing difference previously flowed through.

Q. ARE THERE ANY PENDING MATTERS INVOLVING NORMALIZATION VIOLATION ISSUES THAT COULD CHANGE ONE OR MORE SCHEDULES IN THIS PROCEEDING IN THE FUTURE?

A. Yes. The Company is aware of at least one other utility that has requested a private letter ruling from the IRS concerning the treatment of EDIT related to removal costs. It is currently unclear if EDIT related to removal costs are protected under the normalization rules or if the amount should be considered unprotected. Currently the Company is treating these balances as protected but may need to reclassify them as unprotected as the IRS issues additional guidance.

Q. WHAT IS SCHEDULE II-E-3.23, TAX ELECTIONS, IRS AUDIT STATUS AND PRIVATE LETTER RULINGS?

A. Schedule II-E-3.23 provides (1) a listing of all tax elections since the filing of the 2010 federal income tax return of the CNP consolidated group; (2) CenterPoint Houston's IRS audit status; (3) a list of private letter rulings received from the IRS which affect the FIT of CenterPoint Houston or CNP since CenterPoint Houston's last rate filing in 2010; (4) the status of any pending private letter ruling request of CenterPoint Houston or CNP; and (5) any FASB Interpretation No. 48 ("FIN 48") tracker information. CenterPoint Houston has filed Schedule II-E-3.23 as confidential, subject to a protective order for access. In addition, the Company's private letter rulings have been provided as part of the confidential RFP subject to a protective order. The Company has no pending private letter ruling requests or FIN 48 amounts currently recorded.

Q. WITH RESPECT TO SCHEDULE II-E-3.24 (METHOD OF ACCOUNTING FOR ADFIT RELATED TO NOL CARRYFORWARD), DID CENTERPOINT HOUSTON HAVE NET OPERATING LOSS CARRYFORWARDS AT THE END OF THE TEST YEAR?

A. No. At the end of the test year, CenterPoint Houston was not in a net operating loss carryforward position. However, generic journal entries have been provided on Schedule II-E-3.24.

VI. TEXAS MARGIN TAX

Q. WHAT IS SCHEDULE II-E-2, TAXES OTHER THAN FEDERAL INCOME TAXES?

A. Schedule II-E-2 shows the amount of other taxes, *excluding* FIT, assessed on or paid by CenterPoint Houston for the test year. Texas margin tax is functionalized based on total revenue requirement.

Q. WHICH AMOUNTS ARE YOU SPONSORING FROM SCHEDULE II-E-2?

A. My testimony addresses the Texas margin tax.

Q. PLEASE EXPLAIN THE TEXAS MARGIN TAX.

A. The Texas margin tax became effective for tax reports due on or after January 1, 2008. The Texas margin tax is computed for most taxable entities, including the Company, at 0.75% of the taxable entity's margin that has been apportioned to Texas.[14] A taxable entity's pre-apportioned taxable margin is the lowest amount computed using the following four calculation methods:

(1) Revenues less cost of goods sold;

(2) Revenues less compensation;

(3) Revenues times seventy percent (70%); or

(4) Revenues less $1 million.[15]

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[14] Tex. Tax Code §§ 171.101-106.
[15] *Id.* §§ 171.101-101.

Q. HAS THE COMPANY CALCULATED TEXAS MARGIN TAX ON A STAND-ALONE BASIS?

A. Yes. My understanding is that PURA § 36.060(a) requires that the Texas margin tax be computed based solely on those items that are contained within the Company's cost of service.

Q. WHICH MARGIN SCENARIO OF THE FOUR LISTED ABOVE WAS USED FOR THE CNP CONSOLIDATED TEXAS MARGIN TAX FILING?

A. The "Revenues less cost of goods sold" method was used for the CNP consolidated filing. This method produced the lowest margin for CNP, primarily because CNP's gas entities have significant cost of goods sold deductions for gas sold to customers. Based on my understanding of Texas law relating to this tax, CenterPoint Houston was required to use and so used the same method (revenues less cost of goods sold) in determining its stand-alone Texas margin tax.

Q. PLEASE DESCRIBE THE BASIS FOR YOUR STATEMENT THAT TEXAS LAW REQUIRES CENTERPOINT HOUSTON TO USE THE SAME METHOD AS USED BY THE CONSOLIDATED GROUP FOR DETERMINING ITS STAND-ALONE TEXAS MARGIN TAX?

A. Based on my understanding of the Texas margin tax as set forth in Texas Tax Code Section 171.1014, affiliated entities that are part of a consolidated group must use the same method as the consolidated group to compute margin. This is the statutory requirement under the law. There is no option for CNP's affiliates, including CenterPoint Houston, to choose one of the other methods to determine their individual margin subject to tax.

Because the amount of Texas margin tax paid on a CNP consolidated basis was based on the revenues less cost of goods sold method, the Company is required to utilize, and has utilized, this same method in determining its Texas margin tax for the test year. CenterPoint Houston and all CNP affiliates compute the amount they pay to CNP based on this method.

Q. HOW DOES THE COMPANY ACCOUNT FOR THE TEXAS MARGIN TAX EXPENSE?

A. A one-year lag exists between the taxable year and the payment year for the Texas margin tax. In other words, the Texas margin tax paid in 2018 is based on the 2017 Texas margin tax calculation while the 2018 Texas margin tax is not paid until 2019. In past proceedings, the Commission has allowed the Company regulatory recovery for the Texas franchise (and now Texas margin) taxes based on the cash payment of taxes during the test period even though the taxable year is the year prior to the test period.

Q. IS THE TEXAS MARGIN TAX REQUESTED IN THIS PROCEEDING BASED ON 2017 MARGIN?

A. No. The Company is requesting a change in accounting for the Texas margin tax.

Q. WHY IS THE COMPANY REQUESTING A CHANGE IN ACCOUNTING FOR THE TEXAS MARGIN TAX IN THIS PROCEEDING?

A. The Company is requesting a change in response to a desire expressed by parties and Commission Staff in the Company's DCRF proceedings to have the Company's Texas margin tax expense calculated consistent with that of other utilities. As such, the Texas margin tax expense in the RFP reflects adjustments necessary to do away with the need to continue recording a state margin tax regulatory asset. The Company is proposing to transition to include the accrual required under GAAP in base rates and to recover the balance of the state margin tax regulatory asset related to the timing difference described earlier in my testimony.

Q. WHAT ADJUSTMENTS WERE MADE IN THE RFP TO REFLECT THIS CHANGE IN ACCOUNTING FOR TEXAS MARGIN TAX?

A. As discussed in the testimony of Ms. Colvin, the transition of the Texas margin tax expense to accrual accounting under GAAP includes: (1) an adjustment to account for the difference in the state margin tax paid or expensed in the test year and the accrual; and (2) an adjustment to extinguish the regulatory asset balance related to the amount removed from the test year. The Company is proposing recovery of the regulatory asset over a three-year period consistent with its other regulatory assets and liabilities. With approval of these changes, the Company will no longer need to record a regulatory asset related to state margin tax once the asset is extinguished.

VII. FUNCTIONALIZATION OF TAXES

Q. PLEASE BRIEFLY DESCRIBE THE FUNCTIONALIZATION OF ADFIT, FEDERAL INCOME TAX EXPENSE, TEXAS MARGIN TAX, AND INCOME TAX-RELATED REGULATORY ASSETS AND LIABILITIES.

A. The RFP instructions require CenterPoint Houston to separate cost data into the following categories: (1) Transmission, (2) Distribution, (3) Transmission and Distribution Utility Metering System Services, and (4) Transmission and Distribution Utility Customer Services. Cost causative allocation approaches were chosen to allocate income taxes based on the allocation methods used to attribute the related expense or balance sheet items to the functions listed above. Property plant and equipment-related tax expense, ADFIT, and plant related income tax-related regulatory assets and liabilities were allocated based on the functionalization of electric plant in service. Non-property related items were also split based on the related expense or balance sheet amount.

VIII. MEDICARE PART D

Q. WILL YOU PLEASE GIVE US THE BACKGROUND OF THE MEDICARE PRESCRIPTION DRUG SUBSIDY?

A. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("2003 Act") granted a subsidy that was actuarially equivalent to Medicare Part D coverage (a "Medicare Part D Subsidy") to companies if they provided certain prescription drug benefits to retirees. CenterPoint Houston was one of these companies. The 2003 Act provided a 28% subsidy of the employer's cost relating to providing prescription drugs to its retirees. Under the 2003 Act, receipt of the Medicare Part D Subsidy was neither taxable nor did it reduce the deductibility of the drug benefits paid by the company.

In 2010, Congress passed comprehensive health care legislation: the Patient Protection and Affordable Care Act ("PPACA") and the Health Care and Education Reconciliation Act of 2010 (collectively with the PPACA, the "Health Care Legislation"). Under the Health Care Legislation, beginning January 1, 2013, a company's deduction for providing prescription drug coverage must be reduced by the amount of the Medicare Part D Subsidy. Thus, under the Health Care Legislation, the Medicare Part D Subsidy became effectively taxable after 2012. What this means for accounting and financial statement purposes was that assumptions as to the nontaxability of the Medicare Part D Subsidy for anticipated receipts of the Medicare Part D Subsidy after 2012 changed.

Q. HOW DID THE COMPANY ORIGINALLY ACCOUNT FOR THIS SUBSIDY AND ITS UNIQUE INCOME TAX TREATMENT BEFORE THE HEALTH CARE LEGISLATION IN 2010?

A. The Medicare Part D Subsidy was originally nontaxable and did not reduce the full deductibility of drug benefits paid. Because the Company keeps its books on the accrual basis, the Company created a customer-favorable permanent book/tax difference (a permanent difference) from 2004 through 2009 for the full amount of *all* the anticipated Medicare Part D Subsidies expected to ever be received—including amounts to be received well into this century (and not just amounts to be received from 2004-2009)—of $28.6 million.

More specifically, as required under SFAS 106 (Other Post-Employment Benefits or "OPEB"), the amount of the anticipated Medicare Part D Subsidy a company accrues and records for accounting purposes included both estimated receipts for benefits owed to current retirees and benefits promised to current employees when they retire. This calculation includes actuarially-determined anticipated payments and receipts for benefits extending for many years into the future. Prior to the Health Care Legislation, no deferred income taxes were recorded on the estimated "subsidy receivable" as it was not taxable. A deferred income tax asset was recorded on the SFAS 106 gross liability itself recognizing CenterPoint Houston's payments made to or on behalf of retirees will be deductible when paid.

Q. CAN YOU MORE SPECIFICALLY DESCRIBE THE COMPONENTS OF THE $28.6 MILLION PERMANENT DIFFERENCE?

A. Yes. Only $5.4 million of the $28.6 million permanent difference related to subsidies that were actually received by the Company from 2004 through 2009. The remaining permanent difference related to amounts that were anticipated to be received in 2010 and afterward but that were required to be accrued under SFAS 106. An estimate of $6.0 million in receipts was expected to be received in 2010-2012. The remaining $17.2 million related to anticipated receipts of the Medicare Part D Subsidy beginning only after 2012.

Q. HOW DID THE COMPANY ACCOUNT FOR THIS SUBSIDY AND ITS UNIQUE INCOME TAX TREATMENT AFTER THE HEALTH CARE LEGISLATION WAS PASSED IN 2010?

A. As a result of the Health Care Legislation in 2010, the Medicare Part D Subsidy became effectively taxable for tax years beginning after December 31, 2012. While Medicare Part D Subsidies actually received from 2004 to 2012 remained nontaxable, there was no longer a permanent item to consider in the income tax calculation for the Medicare Part D Subsidies to be received in 2013 and beyond. Effectively the $17.2 million discussed above that was previously a permanent difference became a temporary difference. Under SFAS 106 and ASC 740, the Company in 2010 was required to reduce the ADFIT asset due to the future Medicare Part D Subsidy receipts received in 2013 and thereafter now being taxable. This entry was recorded in 2010 following enactment of the Health Care Legislation. Additionally, since the Company believed that the financial impacts from this change in tax law would be recoverable in future rates, a regulatory asset was established. The regulatory asset was calculated by tax effecting the $17.2 million temporary difference—that is, multiplying the $17.2 million temporary difference by the 35% federal tax rate then in effect—to arrive at an ADFIT balance of $6.0 million. To establish the proper regulatory asset balance, a tax gross-up was required (that is, multiplying the $6.0 million by 1/(1-35%)). After gross-up, the resulting regulatory asset balance was approximately $9.3 million. These calculations are being provided in the workpapers to my testimony "WP CWP-01."

Q. WAS THE COMPANY ALLOWED TO RECOVER THIS INCOME TAX REGULATORY ASSET IN DOCKET NO. 38339?

A. No. Docket No. 38339 was the Company's most recent full rate proceeding and had a test year of 2009. While the Health Care Legislation was enacted in 2010 and was known before Docket No. 38339 was finalized, it did not change the taxability of the Medicare Part D Subsidy until after December 31, 2012. The Commission concluded this change was too far into the future to recover the regulatory asset in that case.

Q. WAS THE PREVIOUSLY RECORDED MEDICARE PART D PERMANENT DIFFERENCE USED TO REDUCE INCOME TAX EXPENSE IN THE COMPANY'S LAST RATE CASE?

A. Yes. The Company was required to include the test year Medicare Part D Subsidy permanent adjustment (benefit) of $6.5 million as a reduction to taxable income in the income tax calculation even though the permanent difference would no longer be available after 2012 and related mainly to amounts of Medicare Part D Subsidy that were anticipated to be received after 2012, as explained earlier in my testimony. The $6.5 million currently in rates was the 2009 test period actuarially-determined permanent benefit, using the with and without subsidy methodology, that the Company anticipated it would receive prior to the law change. Please see workpaper WP CWP-01 for details of the 2009 $6.5 million permanent difference. Using the 35% tax rate in effect for Docket No. 38339 and the associated tax gross-up factor of 1.53845 (computed as 1/(1-35%)), the annual revenue requirement reduction due to this permanent item is $3.5 million (computed as $6.5 million x 35% x 1.53845). This reduction to income tax expense is still in rates currently even though the Medicare Part D Subsidy has been effectively taxable since the beginning of 2013.

Q. **WHAT DID THE COMMISSION CONCLUDE WITH RESPECT TO THE MEDICARE PART D LAW CHANGE IN THE COMPANY'S LAST RATE CASE?**

A. In the final order in Docket No. 38339, Finding of Fact 159A states "It is appropriate for CenterPoint to monitor and accrue the difference between what its rates assume the Medicare Part B [sic] subsidy tax expense will be and what CenterPoint is required to pay as a regulatory asset to be addressed in CenterPoint's next rate case."

Q. HOW DID YOU DETERMINE THE AMOUNT OF THE COMPANY'S REGULATORY ASSET FOR THE MEDICARE PART D SUBSIDY THAT SHOULD BE RECOVERED FROM CUSTOMERS?

A. The starting point for the regulatory asset that should be recovered from customers is the actual permanent differences that were claimed on the Company's tax returns from 2004 through 2010 reduced for actual non-taxable Medicare Part D Subsidy receipts that were received by the Company for that same period. The permanent differences claimed on the tax return were actuarily determined estimated receipts that were treated as adjustments to income tax expense based on the assumption that they would not be taxable when collected in future periods. In both the Company's 2006 and 2009 rate cases, tax expense was reduced reflecting this treatment. To that number I added the $6.5 million permanent adjustment included in rates for the period 2011-2018 since that permanent tax benefit was included in rates in Docket No. 38339 and those rates went into effect in 2011 and are still in effect today and are expected to be in effect through 2019. The permanent adjustment from 2011-2018 was then reduced for actual Medicare Part D Subsidy cash receipts received through the end of 2012 since those receipts were prior to the effective date of the Health Care Legislation and were non-taxable. The Medicare Part D Subsidy permanent item for each year covering 2004 through 2018 was then tax effected at the rate in effect during the time the benefit was recognized. For 2004-2017 that rate was 35% and then for 2018 the rate was 21%. The resulting calculation is a regulatory asset before gross-up of $26.2 million through 2018. Since this is a tax number, it needs to be grossed-up using the current 21% tax rate (calculated as 1/(1-21%)). After gross-up the regulatory asset to be recovered from customers is $33.2 million. The details of this calculation are shown in WP CWP-01.

Q. HOW IS THE COMPANY PROPOSING TO RECOVER THE MEDICARE SUBSIDY REGULATORY ASSET?

A. The Company is proposing a three-year period consistent with the treatment of other regulatory assets and liabilities in this proceeding.

Q. HOW IS THIS AMORTIZATION REFLECTED IN THE RFP SCHEDULES?

A. One third of the regulatory asset before gross-up, or $8.7 million, is included as an adjustment to increase tax expense in the test year in Schedules II-E-3 and II-E-3.15.

Q. WILL THE COMPANY CONTINUE TO RECORD CHANGES TO THE MEDICARE PART D SUBSIDY REGULATORY ASSET BEYOND THE TEST YEAR?

A. Yes. The Commission in Docket No. 38339 authorized the Company to track and record the differences between what its rates assume the Medicare Part D Subsidy tax expense will be and what the Company is required to pay as a regulatory asset.[16] Any additional Medicare Part D Subsidy difference from the end of the test year to the implementation date of new rates will therefore be tracked, recorded and deferred for future base rate recovery.

[16] Docket No. 38339, Order on Rehearing at Finding of Fact 159A (June 23, 2011).

IX. FASB INTERPRETATION NO. 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

Q. WHAT IS FIN 48?

A. Currently codified in ASC 740-10, FIN 48 prescribes the income tax accounting and financial statement presentation for positions taken by taxpayers on income tax returns where the ultimate taxability or deductibility of amounts is uncertain. FIN 48 prescribes how a company must analyze, quantify, and report benefits and liabilities associated with uncertain tax positions. Issued in June 2006, FIN 48 applies for years beginning after December 15, 2006. CNP adopted FIN 48 in 2007.

Q. DOES THE COMPANY HAVE ANY FIN 48 POSITIONS?

A. No.

X. TEST YEAR ADJUSTMENTS

Q. HAVE ANY KNOWN AND MEASURABLE ADJUSTMENTS BEEN MADE TO THE TEST YEAR BALANCE OF ADFIT OR EDIT?

A. Yes. Known and measurable adjustments made to the ADFIT balance as of December 31, 2018 include the following: (1) adjustments to ADFIT related to adjustments to other rate base items and (2) adjustments made to ADFIT related to balances that are not related to transmission and distribution. Schedule II-E-3.7 provides the adjustments and the explanation of the adjustments made to test year ADFIT. The Company has also refined the estimate of the protected versus unprotected split of EDIT and the associated ADFIT and has included an adjustment for this change as shown in workpaper WP II-E-3.18.3a.

Q. HAVE ANY KNOWN AND MEASURABLE ADJUSTMENTS BEEN MADE TO THE TEST YEAR CALCULATION OF FEDERAL INCOME TAXES?

A. Yes. Three kinds of known and measurable adjustments have been included in the calculation of FIT expense: (1) adjustments to include the tax effects of other adjustments to cost of service, (2) adjustments to remove any income tax expense booked in the test year that was related to periods outside the test year, and (3) an adjustment to synchronize the deduction of interest for FIT purposes. Schedule II-E-3.15 provides details of the impacts of those adjustments made for the calculation of the test year FIT expense.

Q. HAVE ANY KNOWN AND MEASURABLE ADJUSTMENTS BEEN MADE TO THE TEST YEAR CALCULATION OF TEXAS MARGIN TAX?

A. Yes. Known and measurable adjustments in the calculation of Texas margin tax expense include the following related to the proposed accounting change: (1) the removal of the test year margin tax expense and (2) the addition of the accrual of margin tax based on the revenue requirement filed in this docket. Schedule II-E-2 and the associated workpapers provide the adjustments and the explanation of the adjustments made to test year Texas margin tax expense.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

STATE OF Texas §
§
COUNTY OF Harris §

AFFIDAVIT OF CHARLES W. PRINGLE

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

1. "My name is Charles W. Pringle. 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.

Charles W. Pringle
[Name]

SUBSCRIBED AND SWORN TO BEFORE ME on this 20th 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

CHARLES W. PRINGLE WORKPAPERS:

WP CWP-01 (Medicare Part D).xlsx

CenterPoint Energy Houston Electric. LLC
Medicare Part D Receivable
(Thousands Rounded)

	2004	2005	2006	2007	2008
FAS 106 Expense (without Subsidy)	$ 16,154	$ 15,991	$ 19,509	$ 17,204	$ 20,816
FAS 106 Expense (with Subsidy)	15,640	13,246	12,484	12,933	13,176
Medicare Part D Permanent Item	$ 514	$ 2,745	$ 7,025	$ 4,271	$ 7,640
Less: Part D Cash Receipts	-	-	(1,413)	(1,171)	(2,012)
Other Activity					
Medicare Part D Receivable as of December 31, 2018					
Temporary Difference for Medicare Part D Subsidy (previously treated as a permanent difference) which is no longer deductible for tax					
Tax Rate at 35% from 2004-2017	180	961	1,964	1,085	1,970
Tax Rate at 21% in 2018					
Regulatory asset prior to Gross-Up (2004-2018)					
Grossed Up Regulatory Asset at 21% (2004-2018)					
Proposed Recovery Period					
Proposed annual recovery as tax expense item (grossed up in tax calculation)					
Proposed annual recovery as a regulatory asset					

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CenterPoint Energy Houston Electric. LLC
Medicare Part D Receivable
(Thousands Rounded)

	2009	2010	2011	2012	2013
FAS 106 Expense (without Subsidy)	$ 22,781	$ 20,290	$ 22,781	$ 22,781	$ 22,781
FAS 106 Expense (with Subsidy)	16,261	13,458	16,261	16,261	16,261
Medicare Part D Permanent Item	$ 6,520	$ 6,832	$ 6,520	$ 6,520	$ 6,520
Less: Part D Cash Receipts	(755)	(1,362)	(1,723)	(1,717)	
Other Activity					
Medicare Part D Receivable as of December 31, 2018					
Temporary Difference for Medicare Part D Subsidy (previously treated as a permanent difference) which is no longer deductible for tax					
Tax Rate at 35% from 2004-2017	2,018	1,914	1,679	1,681	2,282
Tax Rate at 21% in 2018					
Regulatory asset prior to Gross-Up (2004-2018)					
Grossed Up Regulatory Asset at 21% (2004-2018)					
Proposed Recovery Period					
Proposed annual recovery as tax expense item (grossed up in tax calculation)					
Proposed annual recovery as a regulatory asset					

CenterPoint Energy Houston Electric. LLC
Medicare Part D Receivable
(Thousands Rounded)

	2014	2015	2016	2017	2018
FAS 106 Expense (without Subsidy)	$ 22,781	$ 22,781	$ 22,781	$ 22,781	$ 22,781
FAS 106 Expense (with Subsidy)	16,261	16,261	16,261	16,261	16,261
Medicare Part D Permanent Item	$ 6,520	$ 6,520	$ 6,520	$ 6,520	$ 6,520
Less: Part D Cash Receipts					
Other Activity					
Medicare Part D Receivable as of December 31, 2018					
Temporary Difference for Medicare Part D Subsidy (previously treated as a permanent difference) which is no longer deductible for tax					
Tax Rate at 35% from 2004-2017	2,282	2,282	2,282	2,282	
Tax Rate at 21% in 2018					1,369
Regulatory asset prior to Gross-Up (2004-2018)					
Grossed Up Regulatory Asset at 21% (2004-2018)					
Proposed Recovery Period					
Proposed annual recovery as tax expense item (grossed up in tax calculation)					
Proposed annual recovery as a regulatory asset					

CenterPoint Energy Houston Electric. LLC
Medicare Part D Receivable
(Thousands Rounded)

	Cumulative
FAS 106 Expense (without Subsidy)	$ 314,993
FAS 106 Expense (with Subsidy)	227,286
Medicare Part D Permanent Item	$ 87,707
Less: Part D Cash Receipts	(10,153)
Other Activity	(150)
Medicare Part D Receivable as of December 31, 2018	77,404
Temporary Difference for Medicare Part D Subsidy (previously treated as a permanent difference) which is no longer deductible for tax	$ 77,404
Tax Rate at 35% from 2004-2017	24,862
Tax Rate at 21% in 2018	1,369
Regulatory asset prior to Gross-Up (2004-2018)	26,231
Grossed Up Regulatory Asset at 21% (2004-2018)	33,204
Proposed Recovery Period	3
Proposed annual recovery as tax expense item (grossed up in tax calculation)	$ 8,744
Proposed annual recovery as a regulatory asset	$ 11,068

CenterPoint Energy Houston Electric
Medicare Part D Receivable

Company Code	G/L Account	Document Number	Document Type	Reference	Year/month	Cost Center	Assignment	Document Header Text	Text	Amount in local currency	Year
0003	259042	100950825	SA	1210	2010/02		Medicare Subsidy	RDS		$ (256,501.68)	2010
0003	259042	101019787	SA	1210	2010/12		Medicare Subsidy	RDS		$ (220,384 29)	2010
0003	259042	101007704	SA	1210	2010/12		Medicare Subsidy	RDS		$ (225,833.07)	2010
0003	259042	100998112	SA	1210	2010/10		Medicare Subsidy	RDS		$ (251,077.87)	2010
0003	259042	100986487	SA	1210	2010/08		Medicare Subsidy	RDS		$ (253,905.21)	2010
0003	259042	100976817	SA	1210	2010/06		Medicare Subsidy	RDS		$ (255,364.88)	2010
0003	259042	100956250	SA	1210	2010/03		Medicare Subsidy	RDS		$ 255,160 05	2010
0003	259042	100961324	SA	1210	2010/04		Medicare Subsidy	RDS		$ (153,871.81)	2010
0003	259042	100961032	SA	1210	2010/04		Medicare Subsidy	RDS		$ (608.22)	2010
0003	259042	101090809	SA	1210 RDS	2011/12		20111231	RDS		$ (1,882,702.70)	2011
0003	259042	101090800	SA	1210	2011/12		Medicare Subsidy	RDS		$ 1,973,745.34	2011
0003	259042	101090799	SA	1210 RDS	2011/12		Jul-11	RDS		$ (10,098.62)	2011
0003	259042	101090798	SA	1210 RDS	2011/12		Apr-11	RDS		$ (10,518.88)	2011
0003	259042	101090797	SA	1210 RDS	2011/12		Jan-11	RDS		$ (7,304.55)	2011
0003	259042	101090796	SA	1210 RDS	2011/12		Nov-10	RDS		$ (6,217.51)	2011
0003	259042	101090795	SA	1210 RDS	2011/12		Jan-09	RDS		$ (24,430.05)	2011
0003	259042	101090765	SA	1210 RDS	2011/12		Jan-09	RDS		$ (1,762.57)	2011
0003	259042	101085273	SA	1210	2011/11		Medicare Subsidy	RDS		$ (362,488 92)	2011
0003	259042	101070421	SA	1210	2011/09		Medicare Subsidy	RDS		$ (1,611,256 42)	2011
0003	259042	101019788	SA	1210	2011/01		Medicare Subsidy	RDS		$ 220,384 29	2011
0003	259042	101175284	SA	1210	2012/12		Medicare Subsidy	RDS		$ (532,559 68)	2012
0003	259042	101157625	SA	1210 RDS	2012/10		20121002	RDS		$ (450,742.40)	2012
0003	259042	101150182	SA	1210 RDS	2012/09		Apr-12	RDS		$ (13,075.72)	2012
0003	259042	101142743	SA	1210 RDS	2012/08		20120807	RDS		$ (700,031.61)	2012
0003	259042	101123098	SA	1210 RDS	2012/05		Jan-12	RDS		$ (8,049.97)	2012
0003	259042	101115259	SA	1210 RDS	2012/04		Jan-10	RDS		$ (3,758.52)	2012
0003	259042	101110107	SA	1210 RDS	2012/03		Oct-11	RDS		$ (8,608.75)	2012
										$ (4,801,864.22)	**Total**

Source SAP RDS Receipts, Account 259042

$	(1,362,386.98)	2010
$	(1,722,650 59)	2011
$	(1,716,826 65)	2012
$	(4,801,864.22)	
$	-	s/b zero

CenterPoint Energy Houston Electric
Medicare Part D Accrual

Company Code	Reference	G/L Account	Posting Period	Fiscal Year	Document Number	Doc Type	CC	Profit Center	Text	Document Header Text	Posting Date	Amount in doc. curr.
0003	1220	179105	3	2010	100960305	SA		1100500	Adjustments to RDS Tax Accr-Postretirement	RDS Adjustments - 2010 PP	3/31/2010	11,246,846 00
0003	1224	179105	9	2010	100996411	SA		1100500	Adjustments to RDS Tax Accr-Postretirement	RDS Adjustments - 2010 PP	9/30/2010	-808,231 00
0003	1224	179105	6	2011	101052597	SA		1101078	Docket 38339 Cumulative Catch-up	Medicare Part D Rg Asset	6/29/2011	3,678,769 00
0003	1224	179105	6	2011	101052598	SA		1101078	Docket 38339 2010 Q2 Addition	Medicare Part D Rg Asset	6/29/2011	919,692 00
0003	1224	179105	9	2011	101078365	SA		1101078	Docket 38339 2010 Q3 Addition	Q3 Provision	9/30/2011	877,692 00
0003	1224	179105	12	2011	101098472	SA		1101078	Docket 38339 2010 Q4 Addition	Q4 Provision	12/31/2011	877,692 00
0003	1224	179105	3	2012	101115415	SA		1101078	Docket 38339 Q1 Addition	Provision	3/31/2012	877,692 00
0003	1224	179105	6	2012	101135661	SA		1101078	Docket 38339 Q2 Addition	Provision	6/30/2012	877,692 00
0003	1224	179105	9	2012	101158100	SA		1101078	Docket 38339 Q3 Addition	Provision	9/30/2012	877,692 00
0003	1224	179105	12	2012	101180021	SA		1101078	Docket 38339 Q4 Addition	Provision	12/31/2012	877,692 00
0003	1224	179105	3	2013	101193866	SA		1101078	Docket 38339 Q1 Addition	Provision	3/31/2013	877,692 00
0003	1224	179105	6	2013	101219947	SA		1101078	Docket 38339 Q2 Addition	Provision	6/30/2013	877,692 00
0003	1224	179105	9	2013	101244666	SA		1101078	Docket 38339 Q3 Addition	Provision	9/30/2013	877,692 00
0003	1224	179105	12	2013	101267030	SA		1101078	Docket 38339 Q4 Addition	Provision	12/31/2013	877,692 00
0003	1224	179105	3	2014	101290669	SA		1101078	Docket 38339 Q1 Addition	Provision	3/31/2014	877,692 00
0003	1224	179105	6	2014	101335605	SA		1101078	Docket 38339 Q2 Addition	Provision	6/30/2014	877,692 00
0003	1224	179105	9	2014	101398390	SA		1101078	Docket 38339 Q3 Addition	Provision	9/30/2014	877,692 00
0003	1224	179105	12	2014	101475168	SA		1101078	Docket 38339 Q4 Addition	Provision	12/31/2014	877,692 00
0003	1224	179105	3	2015	102739485	SA		1101078	Docket 38339 Q1 Addition	Provision	3/31/2015	877,692 00
0003	1224	179105	6	2015	103972306	SA		1101078	Docket 38339 Q2 Addition	Provision	6/30/2015	877,692 00
0003	1224	179105	9	2015	104083210	SA		1101078	Docket 38339 Q3 Addition	Provision	9/30/2015	877,692 00
0003	1224	179105	12	2015	104237997	SA		1101078	Docket 38339 Q4 Addition	Provision	12/31/2015	877,692 00
0003	1224	179105	3	2016	104364335	SA		1101078	Docket 38339 Q1 Addition	Provision	3/31/2016	877,692 00
0003	1224	179105	6	2016	104451239	SA		1101078	Docket 38339 Q2 Addition	Provision	6/30/2016	877,692 00
0003	1224	179105	9	2016	104617034	SA		1101078	Docket 38339 Q3 Addition	Provision	9/30/2016	877,692 00
0003	1224	179105	12	2016	104758917	SA		1101078	Docket 38339 Q4 Addition	Provision	12/31/2016	877,692 00
0003	1224	179105	3	2017	104880326	SA		1101078	Docket 38339 Q1 Addition	Provision	3/31/2017	877,692 00
0003	1224	179105	6	2017	105022698	SA		1101078	Docket 38339 Q2 Addition	Provision	6/30/2017	877,692 00
0003	1224	179105	9	2017	105140358	SA		1101078	Docket 38339 Q3 Addition	Provision	9/30/2017	877,692 00
0003	1224	179105	12	2017	105251505	SA		1101078	Docket 38339 Q4 Addition	Provision	12/31/2017	877,692 00
0003	1224	179105	12	2017	105260980	SA		1101078	Docket 38339 Tax Reform Re-measurement	Provision	12/31/2017	-6,708,847 49
0003	1224	179105	3	2018	105382018	SA		1101078	Docket 38339 Addition	Provision	3/31/2018	433,291.00
0003	1224	179105	6	2018	105511528	SA		1101078	Docket 38339 Addition	Provision	6/30/2018	433,291 00
0003	1224	179105	9	2018	105642230	SA		1101078	Docket 38339 Addition	Provision	9/30/2018	433,291 00
0003	1224	179105	12	2018	105780075	SA		1101078	Docket 38339 Addition	Provision	12/31/2018	433,291.00
0003		179105	12		105780076	SA		1101078	Docket 38339 Cash Receipt Adjustment	Provision	12/31/2018	322,528 49
												33,203,913 00

Source SAP RDS Accrual, Account 179105

from WP CWP-01 (Summary) $ 33,203,913
$ (0)

CenterPoint Energy Houston Electric

CenterPoint Energy, Incorporated
Medicare Prescription Drug Act Subsidy
2010 Estimate, per Actuarial Report

Division	Company	Cost Center	Cost without MPDA Subsidy	Cost with MPDA Subsidy (Book Expense)	Difference
Other CNP Companies	various	various	$ 21,913,000	$ 12,665,000	$ 9,248,000
CE Houston Electric	0003	101452	$ 20,290,000	$ 13,458,000	$ 6,832,000
Totals			$ 42,203,000	$ 26,123,000	$ 16,080,000

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CenterPoint Energy Houston Electric
Docket No. 38339, Medicare Part D Subsidy

Docket No. 38339 Numbering Running Schedules

CENTERPOINT ENERGY HOUSTON ELECTRIC
P.U.C. DOCKET NO. 38339
FOR THE TEST YEAR ENDED 12/31/2009
FUNCTIONAL MODEL ($000)
II-E-3 FEDERAL INCOME TAXES

Attachment Comm.-2

Account Number	Description	Reference Schedule	1 Test Year Total Company	2 Non-Regulated or Non-Electric	2 Company Adjustments To Test Year	3 Company Request	4 TX Retail Allocation Factor	5 Allocation to Texas	6 Commission Adjustments	7 Comm. Adjusted Total Company	8 FF #	9 Functionalization Factor Name
Federal Income Taxes		II-E-3										
	Return on Rate Base		343,768		(13,042)	330,726	100%	330,726	(45,448)	285,278		
	Deductions:											
	Synchronized Interest		(128,722)		4,884	(123,838)	100%	(123,838)	(4,971)	(128,809)	1	DA
	Amortization of ITC		(6,971)	-	1,990	(4,981)	100%	(4,981)	-	(4,981)	63	EPIS-Gross
	Amortization of Protected Excess DFIT		(1,382)		104	(1,278)	100%	(1,278)	-	(1,278)	63	EPIS Gross
	Amortization of Non Protected Excess DFIT		107		(2)	105	100%	105		105	63	EPIS Gross
	Research and Development Credit		(1,279)	-		(1,279)	100%	(1,279)	-	(1,279)	63	EPIS Gross
→	Medicare Drug Act Subsidy		(6,520)	-	6,520	-	200%	-	(6,520)	(6,520)	64	Payroll
	Consolidated Tax Savings Adjustment					-	100%	-		-	63	EPIS-Gross
	Subtotal		(144,767)	-	13,496	(131,271)		(131,271)	(11,491)	(142,762)		
	Additions:											
	Depreciation adjustment		2,864		751	3,615	100%	3,615		3,615	63	EPIS Gross
→	Recovery of Medicare Part D				5,747	5,747	100%	5,747	(5,747)		64	Payroll
	Meals and Entertainment		460		-	460	100%	460		460	64	Payroll
	Subtotal		3,324	-	6,498	9,822		9,822	(5,747)	4,075		
	Taxable Component of Return		202,325		6,952	209,277		209,276	(62,686)	146,591		-
	Tax Factor		53.85%	53.85%	53.85%	53.85%		53.85%	53.85%	53.85%		
	Federal Income Taxes Before Adjust.		108,944	-	3,743	112,688		112,687	(33,754)	78,933		
	Tax Credits											
	ITC Amortization		(6,971)	-	1,990	(4,981)	100%	(4,981)		(4,981)	63	EPIS Gross
	Amort of Protected Excess DFIT		(1,382)		104	(1,278)	100%	(1,278)		(1,278)	63	EPIS Gross
	Amort of Non Protected Excess DFIT		107		(2)	105	100%	105		105	64	Payroll
	Consolidated Tax Savings Adjustment						100%		(9,759)	(9,759)	63	EPIS Gross
	Subtotal		(8,246)		2,092	(6,154)		(6,154)	(9,759)	(15,913)		
TOTAL FEDERAL INCOME TAXES		II-E-3	100,698	-	5,835	106,534	-	106,533	(43,513)	63,020		

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Docket No. 38339, Direct Testimony of Alan D. Felsenthal, Bates page number 2135

Q. HOW IS THE RECOVERY OF THE MEDICARE PART D REGULATORY ASSET REFLECTED ON THE INCOME TAX EXPENSE SCHEDULE II-E-3 FIT?

A. The recovery of the Medicare Part D regulatory asset is reflected on Line 14 of Schedule II-E-3 which is labeled "Recovery of Medicare Part D Permanent Difference". Because I am proposing a three year recovery period, one-third of the gross subsidy receivable temporary difference is reflected on this line in the amount of $5.7 million ($17.2 million divided by three year amortization period). This amount is then multiplied by the income tax rate (35%) and the income tax gross-up factor to arrive at the Medicare Part D revenue requirement amount of $3.1 million. Three years of this revenue requirement amount will recover the full value of the $9.3 million regulatory asset.

CenterPoint Energy Houston Electric
Docket No 38339, WP/II-E-3.2 1.xlsx

History of OPEB Expense, Medicare Part D Subsidy - Revised
Medicare Part D Receivable
(Dollars in thousands)
As of December 31, 2009

	2004	2005	2006	2007	2008	2009	Cumulative	
FAS 106 Expense (without Subsidy)	$ 16,154	$ 15,991	$ 19,509	$ 17,204	$ 20,816	$ 22,781	$ 112,455	
FAS 106 Expense (with Subsidy)	15,640	13,246	12,484	12,933	13,176	16,261	83,740	
Medicare Part D Permanent Item	$ 514	$ 2,745	$ 7,025	$ 4,271	$ 7,640	$ 6,520	$ 28,715	*Docket No. 38339 Number Run, II-E-3, Line No. 11*
Less: Part D Cash Receipts	-	-	(1,413)	(1,171)	(2,012)	(755)	(5,351)	
Other Activity							(150)	
Medicare Part D Receivable as of December 31, 2009							23,214	
Less Estimated Receipts 2010 - 2012								
2010							(1,806)	
2011							(1,971)	
2012							(2,169)	
Temporary Difference for Medicare Part D Subsidy (previously treated as a permanent difference) which is no longer deductible for tax							$ 17,268	
Proposed Recovery Period in Years							3	
Annual amount							5,756	
Per Schedule						To WP/II-E-3.2	5,747	*Docket No. 38339 Number Run, II-E-3, Line No. 16*
Difference - immaterial							$ 9	
Tax Rate							35%	
Regulatory asset prior to Gross-Up							6,044	
Grossed Up Regulatory Asset							9,298	
Proposed Recovery Period							3	
Proposed annual recovery as tax expense item (grossed up in tax calculation)							2,015	
Proposed annual recovery as a regulatory asset							3,099	

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

DIRECT TESTIMONY

OF

JUSTIN J. HYLAND

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

April 2019

TABLE OF CONTENTS

EXECUTIVE SUMMARY OF JUSTIN J. HYLAND

I explain the computation of CenterPoint Energy Houston Electric, LLC's ("CenterPoint Houston") 2018 property taxes and the process through which CenterPoint Houston divided its 2018 property taxes into the four functions included in this case: Transmission, Distribution, Transmission and Distribution Metering, and Transmission and Distribution Customer Service.

More specifically, my testimony:

- addresses how electric utility property, including CenterPoint Houston's electric utility property, is valued for tax purposes in Texas;
- describes the proactive position CenterPoint Energy Service Company, LLC's Property Tax Department takes with respect to the valuation of CenterPoint Houston's property, which ensures that CenterPoint Houston and its customers pay no more than their fair share of the property tax burden;
- explains how the 2018 property taxes were computed;
- explains that property taxes have been functionalized in the same manner that the assets, upon which the taxes are assessed, have been functionalized; and
- confirms that the process used to functionalize property tax expenses is the same process that was used and approved in Docket Nos. 22355, 32093, and 38339.

My testimony and supporting materials will show that \$88.4 million in property taxes that was assessed to CenterPoint Houston during 2018 and that \$94.2 million in property taxes that are expected to be assessed to CenterPoint Houston during 2019 with respect to 2018 property additions are reasonable and necessary for the provision of electric utility service and should be included in CenterPoint Houston's cost of service.

DIRECT TESTIMONY OF JUSTIN J. HYLAND

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Justin J. Hyland, and I am the Director of Indirect Taxes (Ad Valorem & Sales Taxes) for CenterPoint Energy Service Company, LLC ("Service Company").

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

A. I am testifying on behalf of CenterPoint Houston Electric, LLC ("CenterPoint Houston" or the "Company").

Q. PLEASE GIVE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS, AND COMPANY EXPERIENCE.

A. I received a Bachelor of Arts Degree, with a double major in Economics and Managerial Studies, from Rice University in 1995. From 1995 until 2004, I was employed with KPMG LLP in a variety of state and local tax roles, including as Senior Manager. From 2004 until 2007, I was primarily partner in a state & local tax consulting firm in Houston. Subsequent to that I served as Director of Property & Transaction Taxes with Calpine Corporation from 2007 thru 2013. Since January 2014, I have served as Director of Indirect Taxes for CenterPoint Energy, Inc. ("CNP") and, subsequently, the Service Company. I hold a Senior Property Tax Consulting license in the State of Texas.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I support the recovery of CenterPoint Houston's reasonable and necessary (1) 2018 property taxes assessed in the amount of $88.4 million and (2) 2019 property taxes expected to be assessed with respect to 2018 property additions in the amount of

$94.2 million. I also briefly summarize the process by which electric utility property is valued in the State of Texas and the process the ad valorem tax department used to functionalize these property taxes for this CenterPoint Houston filing.

Q. WHAT SCHEDULES ARE YOU SPONSORING IN THIS RATE FILING PACKAGE?

A. I sponsor Schedule II-E-2.1 and II-E-2.1.4, and co-sponsor Schedule II-E-2 with Company witnesses Charles W. Pringle and Kristie L. Colvin.

II. PROPERTY TAX VALUATION OF ELECTRIC UTILITY PROPERTY IN TEXAS

Q. WHAT IS THE PURPOSE OF THE SERVICE COMPANY'S AD VALOREM TAX DEPARTMENT?

A. The purpose of this department is to report the property owned by CNP and its affiliates to the various county appraisal districts in the State of Texas and to taxing authorities in other states where the property is located, to appropriately negotiate the taxable value of that property, and to ensure that the ad valorem taxes are appropriately and timely paid. A major aspect of this department's function is its responsibility for the negotiations concerning the valuation of the taxable property of CNP and affiliated entities. The department performs its own valuation analysis of this property and vigorously argues for this valuation in discussions with the appraisal entities in the various states. By taking a pro-active position with respect to the valuation of this property, the property tax department is able to ensure that CenterPoint Houston and its customers pay no more than their fair share of the property tax burden.

Q. CAN YOU DESCRIBE HOW ELECTRIC UTILITY PROPERTY, INCLUDING CENTERPOINT HOUSTON'S ELECTRIC UTILITY PROPERTY, IS VALUED IN TEXAS FOR PROPERTY TAX PURPOSES?

A. In Texas, as in most states, most electric utility property is valued under what is called the "unit value" concept. That is, the electric utility system of CenterPoint Houston is valued, by the various central appraisal districts, as an entire operating unit rather than valuing each asset, or groups of assets, individually. The unit value concept is used because an electric utility system is considered to be a single operating unit, and individual assets have value only because they are all interconnected as part of that single operating unit.

Q. HOW IS A VALUE ASSIGNED TO INDIVIDUAL ASSETS OF CENTERPOINT HOUSTON'S ELECTRIC UTILITY SYSTEM FOR PROPERTY TAX PURPOSES?

A. Once the unit value for the entire utility system is determined by the appraisal districts, that value is then allocated to the various taxable assets. This is done by first removing from the unit value certain non-taxable components of the unit prior to any allocations of value. In the case of CenterPoint Houston, the appraisers for the various appraisal districts in Texas allocate the remaining taxable value to individual assets, or classes of assets, based on an original cost method. Under this method, the taxable value of an asset is determined by multiplying the original cost of that asset by the ratio of the total taxable value of the unit divided by the total original cost of the unit. This is a common method of taxable value determination used in many states and is the method used by every appraisal district in Texas in which CenterPoint Houston has taxable property.

Q. ARE ALL OF CENTERPOINT HOUSTON'S ELECTRIC UTILITY ASSETS VALUED UNDER THIS UNIT VALUE CONCEPT?

A. No. Although the majority of CenterPoint Houston's assets are assigned a value under the unit value concept, some types of utility assets, such as land, are similar to those owned by non-utility owners. Because of that fact, these assets are usually not valued under the unit value concept but are instead valued in the same manner as non-utility assets are valued when owned by non-utilities in order to ensure that they are valued equitably with similar assets owned by non-utility owners.

Q. WHAT WAS THE TOTAL AMOUNT OF AD VALOREM TAXES ASSESSED AGAINST CENTERPOINT HOUSTON FOR 2018?

A. During 2018, CenterPoint Houston was assessed approximately $88.4 million in ad valorem taxes.

Q. WHAT IS THE AMOUNT OF AD VALOREM TAXES EXPECTED FOR 2019?

A. The amount of ad valorem taxes expected for 2019 equals the ad valorem taxes assessed during 2018 plus an additional amount for capital additions placed into service in 2018 that form the base of the ad valorem taxes that will be assessed during 2019. To calculate this amount, the property tax department multiplies the total 2018 property taxes assessed by a factor that captures the change in taxable plant in service ("PIS") during 2018:

Ad Valorem Tax Additions Factor = (2018 ending taxable PIS - 2018 beginning PIS) / 2018 beginning PIS

The resulting amount of ad valorem taxes expected for 2019 is $94.2 million.

Q. IS THE PROPERTY TAX BASE FOR THE 2019 PROPERTY TAXES A KNOWN AMOUNT?

A. Yes. All of the assets comprising the property tax base for 2019 were placed in service in 2018.

Q. IS CENTERPOINT HOUSTON USING A DIFFERENT TAX RATE FOR THE 2019 AD VALOREM TAXES THAN FOR 2018?

A. No. This is a reasonable assumption. Over the last three years, the overall effective property tax rate has been in a narrow band between 2.60% and 2.63%.

III. FUNCTIONALIZATION OF THE PROPERTY TAX EXPENSES

Q. CAN YOU EXPLAIN HOW THE PROPERTY TAX DEPARTMENT APPROACHED DETERMINING THE PROPERTY TAX EXPENSES FOR EACH OF THE FOUR FUNCTIONS REQUIRED FOR THIS FILING?

A. Property taxes in Texas are assessed on a calendar year basis and are based upon the value of property existing on January 1 of each year. The test year for this proceeding was calendar year 2018. Therefore, for purposes of this analysis, the property tax department functionalized the property taxes assessed against CenterPoint Houston for the 2018 calendar year.

Q. WHAT PROCESS DID THE PROPERTY TAX DEPARTMENT USE TO SEPARATE THE PROPERTY TAX EXPENSES INTO THE FUNCTIONS?

A. The process described below is precisely the same process that was used to functionalize the property tax expenses in Docket Nos. 22355, 32093, and 38339. CenterPoint Houston has approximately 3,400 different property tax accounts in the State of Texas. In order to facilitate the normal processing of these accounts, the Service Company's property tax department has previously divided them into eight separate categories with descriptions assigned to each that are intended to identify the predominant type of property included in that category. Because of the manner in which appraisal districts have grouped assets into accounts, these category descriptions are not exclusive, and some categories include property of various types. These eight categories are as follows:

- Substations
- Transmission
- Distribution
- Service Centers
- Land
- Business Personal Property (includes materials & supplies, office furniture & fixtures, communications equipment, vehicles)
- Royalties
- Industrial District Assessments

As the starting point, the property tax department used information from the asset functionalization documentation that allocated the system assets into the four functions of: (1) Function 1- Transmission, (2) Function 2- Distribution, (3) Function 3- T&D Metering and (4) Function 4- T&D Customer Service. Please see the direct testimony of Ms. Colvin for a description of the functionalization of these assets into the above mentioned functions. The property tax department allocated the property tax value and the tax associated with a particular asset in the same manner that the asset itself was allocated.

Unlike the other six categories of property listed above, the Transmission and Distribution categories included property that did not constitute individually-identifiable assets, but rather, groups of assets contained within particular Federal Energy Regulatory Commission ("FERC") accounts that were valued together and allocated based upon a unit of measurement, such as miles of transmission line for the Transmission category, or numbers of customer meters for the Distribution category.

Q. HOW DID THE PROPERTY TAX DEPARTMENT FUNCTIONALIZE THE AD VALOREM TAXES FOR THE TRANSMISSION CATEGORY OF PROPERTY?

A. The property in this category consisted of all the assets in FERC accounts 354 through 358 as well as assets in CCNC[1] accounts 352 and 353. Since all of the assets in these accounts were allocated to Function 1- Transmission, all of the property taxes on accounts in this category were also allocated to Function 1- Transmission.

Q. HOW DID THE PROPERTY TAX DEPARTMENT FUNCTIONALIZE THE AD VALOREM TAXES FOR THE DISTRIBUTION CATEGORY OF PROPERTY?

A. The property in this category consisted of all assets in FERC accounts 364 through 37401 plus certain other identified distribution-related assets in general plant categories (such as assets related to the advanced metering system) and CCNC

[1] The completed construction not classified ("CCNC") account per the FERC Uniform System of Accounts represents "the total of the balances of work orders for electric plant which has been completed and placed in service but which work orders have not been classified for transfer to the detailed electric plant accounts."

assets in the Distribution portion of the FERC balance sheet. The original cost of the property in these FERC accounts was allocated approximately 1.4% to Function 1- Transmission, 92.6% to Function 2- Distribution, 5.8% to Function 3- T&D Metering, and 0.2% to Function 4- T&D Customer Service. The total taxes on the accounts in these categories were, therefore, allocated to the four functions based upon these percentages.

Q. **HOW DID THE PROPERTY TAX DEPARTMENT FUNCTIONALIZE THE AD VALOREM TAXES FOR THE ROYALTIES CATEGORY OF PROPERTY?**

A. The property included in this category consisted exclusively of royalty payments from land upon which CenterPoint Houston's transmission lines are located. Therefore, the taxes on this property type were allocated to Function 1- Transmission.

Q. **HOW DID THE PROPERTY TAX DEPARTMENT FUNCTIONALIZE THE AD VALOREM TAXES FOR THE LAND CATEGORY OF PROPERTY?**

A. This category has the largest number of accounts, containing approximately 2,680 of the 3,400 total accounts. The land and land improvements in this category includes property in FERC Accounts 350, 359, 360, and 389. The original cost of the property in these FERC accounts was allocated as follows:

Function 1- Transmission	83.22%
Function 2- Distribution	16.67%
Function 3- T&D Metering	0.07%
Function 4- T&D Customer Service	0.04%

The total tax amount for the land parcels in this category was allocated based upon these percentages.

Q. HOW DID THE PROPERTY TAX DEPARTMENT FUNCTIONALIZE THE AD VALOREM TAXES FOR THE REMAINING CATEGORIES OF PROPERTY?

A. The remaining property categories consist of substations, service centers, business personal property (transportation equipment, materials and supplies, office furniture and fixtures, communication equipment, buildings), and industrial district assessments. The property tax department analyzed each individual property tax account in these categories, identified the individual assets in each account, located those assets in the plant allocation documents, and allocated the tax on each individual asset in the same manner that the individual asset itself was allocated.

In addition to the property taxes administered within CenterPoint Houston's property tax system, CenterPoint Houston received assessments from six industrial districts in the Houston area for the 2018 calendar year. These taxes are administered outside of CenterPoint Houston's basic property tax system but are based on the current ad valorem appraised values for CenterPoint Houston's assets. For purposes of this analysis, the taxes on the properties included in the various industrial districts were analyzed and allocated based on the function of the property that comprised each industrial district's assessment and tax amount.

Q. ONCE THE PROPERTY TAX DEPARTMENT COMPLETED THE FUNCTIONALIZATION OF ALL OF THESE PROPERTY TAX ACCOUNTS, HOW DID THE PROPERTY TAX DEPARTMENT DETERMINE THE TAX AMOUNTS BY FUNCTION?

A. Once the analysis and functionalization of the tax amounts for each of the property types was completed, the property tax department totaled the tax amounts for each function to arrive at the total 2018 property tax amount by function. The tax amounts by function, as determined through this process, are as follows:

FIGURE 1 - PROPERTY TAX BY FUNCTION

Property Type	TRAN FUNCT. #1	DIST FUNCT. #2	MET FUNCT. #3	TDCS FUNCT. #4	TOTAL TAX
Substations	$8.643.709	$4.847.048	$47.946	$59.254	$13,597,957
Transmission	$11.094.743	$0	$0	$0	$11.094.743
Distribution	$630.038	$42.200.504	$2,638.341	$108,569	$45,577,452
Service Center	$1.406,659	$3.656.883	$334.896	$253,506	$5,651,944
Land	$8,838,962	$1.770,058	$7.303	$4.310	$10,620,633
Business Personal Property	$627.900	$715,689	$67.515	$125,013	$1.536.117
Royalties	$1.510	$0	$0	$0	$1,510
Industrial Dist.	$175.724	$127,777	$27	$16	$303.544
	$31,419,245	**$53,317,959**	**$3,096,028**	**$550,668**	**$88,383,900**
	35.55%	**60.33%**	**3.50%**	**0.62%**	**100.00%**

The percentages above were then used to functionalize the 2019 expected assessment of $94.2 million.

Q. IS THIS METHOD OF FUNCTIONALIZING PROPERTY TAXES REASONABLE?

A. Yes. In my opinion this is the most reasonable and logical way to functionalize the property taxes. As explained above, the property taxes have been functionalized in the same manner that the assets, upon which the taxes are assessed, have been functionalized. Also as indicated above, this is the same method used to functionalize the property taxes in Docket Nos. 22355, 32093 and 38339.

IV. CONCLUSION

Q. WHAT CONCLUSION HAVE YOU REACHED IN YOUR ANALYSIS?

A. I have determined that CenterPoint Houston appropriately and vigorously defends its property valuation methods before appraisal districts, that the property taxes assessed on CenterPoint Houston during 2018 in the amount of $88.4 million and that are expected to be assessed on CenterPoint Houston for 2018 additions in the amount of $94.2 million are reasonable and necessary for the provision of electric transmission and distribution utility service, and that such taxes have been functionalized in the most reasonable and logical way and consistent with prior rate cases.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

STATE OF TEXAS §
§
COUNTY OF HARRIS §

AFFIDAVIT OF JUSTIN J. HYLAND

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

1. "My name is Justin J. Hyland. 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.

____
Justin J. Hyland

SUBSCRIBED AND SWORN TO BEFORE ME on this 5TH day of March, 2019.

LAURA M. HERNANDEZ
Notary Public, State of Texas
Comm. Expires 02-05-2020
Notary ID 2811657

____
Notary Public in and for the State of Texas

My commission expires: 2/5/2020

THERE ARE NO WORKPAPERS

TO

THE DIRECT TESTIMONY

OF

JUSTIN J. HYLAND

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

DIRECT TESTIMONY

OF

MICHELLE M. TOWNSEND

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

April 2019

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EXECUTIVE SUMMARY OF MICHELLE M. TOWNSEND

CenterPoint Energy, Inc. centralizes integral corporate service business functions into a single entity, CenterPoint Energy Service Company, LLC ("Service Company"), which then provides those support necessary services to individual business units. The Service Company is comprised of four main groups: Corporate Services, Business and Operations Support, Technology Operations, and Regulated Operations Management. These four groups, together with operational support provided by CenterPoint Energy Resources Corp. ("CERC") subsidiaries, provide vital services, benefits and value to business units such as CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston" or the "Company").

My testimony:

- describes the services provided by Service Company and CERC to CenterPoint Houston;
- explains how Service Company and CERC control costs through Service Level Agreements and the budget-setting process;
- describes the Service Company and CERC methodology for assigning affiliate costs to CenterPoint Houston and why it is reasonable, objective and accurate;
- addresses the total adjusted 2018 billings from Service Company and CERC to CenterPoint Houston in the amount of $293.4 million;
- demonstrates that the nature of the assigned costs and methodologies by which costs are assigned from Service Company and CERC have remained consistent since the Public Utility Commission of Texas ("Commission") approved them for CenterPoint Houston in Docket No. 38339;[1] and
- confirms that Service Company and CERC affiliate costs are reasonable and necessary, CenterPoint Houston is not charged a higher price than those charged to other affiliates or non-affiliates, such costs are billed at cost, and

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

services are not duplicative of any services provided by CenterPoint Houston.

My testimony and that of other supporting witnesses in this case demonstrates that the affiliate costs for which CenterPoint Houston seeks recovery meet the Commission's affiliate cost recovery standard and should be recovered in full through rates.

DIRECT TESTIMONY OF MICHELLE M. TOWNSEND

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND POSITION.

A. My name is Michelle M. Townsend. I am the Manager of Business Services Planning and Performance Management for CenterPoint Energy, Inc. ("CNP").

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

A. I am testifying on behalf of CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston" or the "Company").

Q. WHAT ARE YOUR RESPONSIBILITIES IN RELATION TO CENTERPOINT HOUSTON?

A. I am responsible for ensuring that certain costs incurred by CenterPoint Energy Service Company, LLC ("Service Company") are properly billed to each of the CNP business units, including CenterPoint Houston. I am also responsible for providing Service Company information to the Regulatory Reporting Department to support regulatory filing requirements.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I hold a Bachelor of Science degree with a major in Accounting from Texas A&M University and a Master of Science degree in Accounting Information Systems from the University of Houston. I began my career at CNP as an Accountant in Financial Accounting & Reporting Electric in 1999, served as Manager in Financial Accounting Systems & Processes from 2003-2012, and Manager of Gas Operations Planning & Performance Management from 2012-2016. I became Manager of Business Services Planning and Performance Management in December 2016.

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

A. My testimony describes the structure of CNP, Service Company and CenterPoint Energy Resources Corp. ("CERC"). I describe the Service Level Agreements ("SLAs") between Service Company and its affiliates. My testimony also discusses the annual budgeting process and other controls in place that help Service Company and CERC ensure that costs are reasonable and necessary, controlled and billed properly. I also discuss the services that CenterPoint Houston receives from Service Company and CERC, the cost assignment methodology used by Service Company and CERC, and the costs and billings for those services for the test year ending December 2018.

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

A. My testimony provides an overview of the affiliate support services provided to CenterPoint Houston by Service Company and CERC and demonstrates that prices charged to CenterPoint Houston for those services are not higher than the prices charged by Service Company and CERC for the same class of items to the Company's other affiliates or divisions. In addition to my testimony, the following Company witnesses demonstrate how each class of affiliate support services provided by Service Company and CERC are reasonable and necessary: Kristie L. Colvin, Robert B. McRae, M. Shane Kimzey, Kelly C. Gauger, Charles W. Pringle, John E. Slanina, Shachella D. James, Rebecca Demarr, Lynne Harkel-Rumford and Diane M. Englet.

Q. WHICH SCHEDULES IN THE RATE FILING PACKAGE DO YOU SPONSOR OR CO-SPONSOR?

A. I sponsor or co-sponsor schedules V-K-1 through V-K-14.

Q. WHAT EXHIBITS ARE YOU SPONSORING?

A. I sponsor Exhibits MMT-1 through MMT-10.

Q. WERE THESE SCHEDULES AND EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes.

II. AFFILIATE TRANSACTIONS

Q. PLEASE DESCRIBE THE STATUTORY STANDARD GOVERNING THE RECOVERY OF AFFILIATE EXPENSES.

A. Public Utility Regulatory Act ("PURA") § 36.058 requires that, to be included in rates, affiliate expenses related to electric utility service must meet the following criteria: (1) affiliate expenses are reasonable and necessary; and (2) the price charged to the electric utility is no higher than the prices charged by the supplying affiliate for the same item or class of items to its other affiliates or divisions, or a non-affiliated person.

Q. ARE AFFILIATE COSTS INCLUDED IN CENTERPOINT HOUSTON'S TEST YEAR OPERATIONS AND MAINTENANCE EXPENSE?

A. Yes. During the test year, services were provided to CenterPoint Houston by Service Company and CERC. Services provided by Service Company include Corporate Services, Business and Operations Support ("BOS"), Technology Operations ("TO" or "T.O."), and Regulated Operations Management ("ROM"). CERC provided operational support in the form of periodic IDR meter reading, GIS and CAD services, fleet services, broadband services, Damage Prevention Compliance reporting, and line locating.

Q. HAS THE PUBLIC UTILITY COMMISSION OF TEXAS ("COMMISSION") PREVIOUSLY REVIEWED CENTERPOINT HOUSTON'S RELIANCE ON SERVICE COMPANY AND CERC FOR CORPORATE AND OPERATIONAL SUPPORT SERVICES?

A. Yes. In the Company's last electric base rate proceeding, Docket No. 38339, the Commission last reviewed the reasonableness of the corporate and operational support services provided by Service Company and CERC to CenterPoint Houston. Also, since Docket No. 38339, the Company also files an annual affiliate report pursuant to 16 Texas Administrative Code ("TAC") § 25.84, to notify the Commission of ongoing affiliate expense levels and updates to any SLAs, and has supported Service Company costs in its Energy Efficiency Cost Recovery Factor proceedings.

Q. IS IT NECESSARY FOR SERVICE COMPANY AND CERC TO BILL CORPORATE SUPPORT AND OPERATIONAL SUPPORT COSTS TO CNP AFFILIATES?

A. Yes. In order to reflect the true costs of an affiliate's operations, including the costs of services performed on their behalf by Service Company and CERC, Service Company and CERC bill actual costs incurred to support CNP affiliates. Knowing the full cost of service is important in managing and understanding the true cost-effectiveness of CNP's business units, providing for better cost control and, in the case of a rate-regulated business, enabling recovery of all reasonable costs incurred in support of that business.

III. SERVICE COMPANY

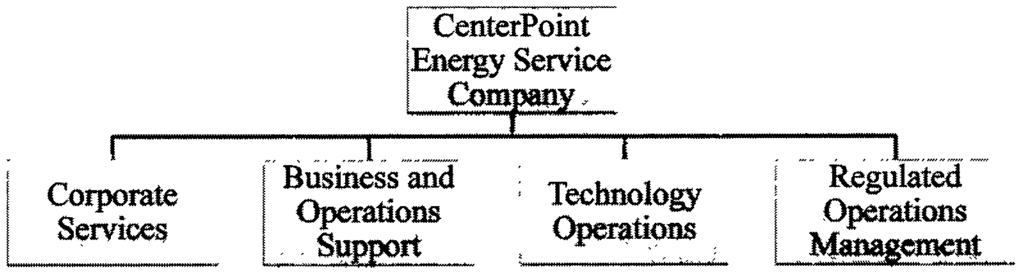
Q. HOW IS CNP ORGANIZED?

A. Exhibit MMT-1 presents an organizational chart showing the CNP business unit structure. CNP's corporate structure utilizes a centralized business model, including a full complement of functions necessary to support individual business units, executive management, and the Board of Directors. CenterPoint Houston and the Gas Operations regions, within CERC, are the actual operating business units within CNP, while the Service Company provides a number of services to the various business units.

Q. PLEASE DESCRIBE THE SERVICE COMPANY.

A. As shown in Exhibit MMT-1, Service Company, established as of January 1, 2004, pursuant to the Public Utility Holding Company Act of 1935 ("PUHCA"), as amended, is a subsidiary of CNP. Service Company personnel perform various tasks for CNP and its business units such as corporate oversight, managerial functions, and specialized support activities (i.e., legal, benefits). Costs incurred by Service Company are initially recorded on Service Company's books and are then directly billed or allocated, as appropriate, to the business units. These activities are the same as those necessary for the overall management and administration of any large publicly-held enterprise. Service Company maintains cost center assignment manuals for each of these service areas. These manuals are attached as Exhibit MMT-2 through MMT-5 and discussed in more detail later in my testimony. The Service Company's functional areas are organized into four main service groups: Corporate Services, Business and Operations Support, Technology Operations, and Regulated Operations Management as shown in Figure 1:

Figure 1. Service Company



Q. WHAT BENEFITS ARE PROVIDED THROUGH A CENTRALIZED CORPORATE SUPPORT SERVICES STRUCTURE?

A. A centralized corporate support services structure allows CNP to leverage resources across multiple business units, thereby giving the business units access to specialized skills and resources in an efficient and cost-effective manner. For example, accounting for employee benefits requires skilled and experienced individuals who must be able to analyze accounting standards related to employee benefits, understand the components of the benefit programs and have the ability to discuss the benefit programs with actuaries. Similarly, lawyers in the legal department with particular areas of expertise (e.g., employee benefits, litigation, contracts, and regulatory) must be able to advise their clients in the various business units on matters related to those specific areas. Having a centralized function eliminates the need for each of the business units to have that expertise separately, thus eliminating expense and duplication work effort.

Q. WITH RESPECT TO INDIVIDUAL CLASSES OF AFFILIATE SUPPORT SERVICES PROVIDED BY CORPORATE SERVICES, BOS, T.O., ROM AND CERC, WHICH COMPANY WITNESS SUPPORTS THE REASONABLENESS AND NECESSITY OF EACH CLASS OF SERVICE?

A. The reasonableness and necessity of each class of affiliate service is supported by witness as follows:

Figure 2. Service Company and CERC Billings, Unadjusted

Witness	Class	Affiliate	Unadjusted Test Year Amount (000's)
Kristie L. Colvin	Accounting	Service Company	$ 11,083
	Executive Management	Service Company	4,217
	Chief Financial Officer	Service Company	1,301
Charles W. Pringle	Tax	Service Company	4,190
Robert B. McRae	Treasury and Investor Relations	Service Company	6,356
M. Shane Kimzey	Legal	Service Company	12,107
	Regulatory	Service Company	5,875
	Government Affairs	Service Company	126
Kelly C. Gauger	Audit Services	Service Company	2,142
Lynne Harkel-Rumford	Human Resources	Service Company	21,039
Diane M. Englet	Corporate Communications	Service Company	2,012
	Community Relations	Service Company	3,057
John E. Slanina	Business & Operations Support	Service Company	18,551
Shachella D. James	Technology Operations	Service Company	95,349
Rebecca Demarr	Regulated Operations Management	Service Company	20,214
Michelle M. Townsend	Environmental Safety & Training	Service Company	932
	Strategic and Financial Planning	Service Company	6,814
	Distribution Support	CERC	6,164
	Distribution Support-General	CERC	1
	Meter Reading	CERC	31
	Transportation	CERC	3
	Total		$ 221,564

Q. WHAT SUPPORT SERVICES DOES THE FUNCTIONAL AREA OF CORPORATE SERVICES PROVIDE TO CENTERPOINT HOUSTON?

A. Corporate Services, which accounts for the bulk of affiliate services provided to CenterPoint Houston, includes the following departments: (1) Finance; (2) Legal and Regulatory; (3) Government Affairs; (4) Regulatory Affairs; (5) Human Resources; (6) Audit Services; (7) Corporate Compliance; (8) Records Management; (9) Executive Management; (10) Corporate Communications; and (11) Community Relations. These classes are described in greater detail in the individual testimonies of the witnesses noted above, however, generally speaking:

- The Finance organization provides important governance and other services such as accounting (e.g., accounts payable, remittance processing, etc.), financial and strategic planning, financial systems and processes, investor relations, risk management, tax, and treasury.

- The Legal and Regulatory department provides legal services and regulatory oversight to CNP and its subsidiaries in connection with litigation and claims; regulatory proceedings; contracts and transactions; financing; corporate governance, including corporate secretary functions; and Securities and Exchange Commission ("SEC") reporting and compliance. Services are provided by the attorneys and other employees of the Legal department and by outside counsel retained and supervised by the staff of the Legal department.

    - Government Affairs interacts with the various regulatory commissions and other state and local government agencies on behalf of CNP and its affiliates.

    - Regulatory Affairs provides support for regulatory strategy, regulatory rulemaking policy dockets, rate proceedings and other technical or compliance filings.

- Human Resources services include compensation management and planning; benefit management and planning; leadership development, employee and organizational development; labor and employee relations; recruiting and placement; disability management and employee services; and Human Resources policy compliance and management.

- Audit Services provides internal audit services to all of CNP and its affiliates necessary to comply with laws, regulations and rules addressing corporate governance. Audit Services reports to the Audit Committee of the Board of Directors regarding the adequacy and effectiveness of internal controls and processes, as well as compliance with all applicable policies, procedures and regulations.

  - Corporate Compliance is responsible for developing, maintaining and training employees and the Board of Directors on CNP's ethics and compliance program and reviewing and reporting results to the Audit Committee of the Board of Directors.

  - Records Management is responsible for the policies and processes related to the retention and control of CNP's physical and electronic information, which includes development, maintenance, training and compliance with respect to the Records Management Policy and Records Retention Schedule.

- Executive Management provides executive oversight of the Company and includes the office of the Chief Executive Officer ("CEO") and certain non-allocated costs.

- Corporate Communications provides media relations support and internal communications to employees including video production, town hall meetings, CNP's intranet, corporate emails and other communications, such as digital signs in certain Company facilities.

- Community Relations has primary responsibility for developing, implementing and overseeing community, consumer support, and education relations programs throughout the service territories of CNP's various affiliates.

The Corporate Services cost center assignment manual maintained by Service Company is attached as Exhibit MMT-2.

Q. WHAT SERVICES DOES BOS PROVIDE TO CENTERPOINT HOUSTON?

A. BOS provides the following centralized services to CNP and its subsidiaries, including CenterPoint Houston: facilities management, office support services, corporate travel, purchasing and logistics, corporate security, land and field services and fleet management. The BOS cost center assignment manual maintained by Service Company is attached as Exhibit MMT-3. BOS executes SLAs, with its business unit clients, itemizing the services provided, the billing determinants, and the amounts to be charged for such services depending on the type of service provided. For example, purchasing services are billed based on the number of purchase order lines processed. Additional information on BOS services and activities are described in greater detail in the testimony of Mr. Slanina.

Q. WHAT SERVICES DOES T.O. PROVIDE TO CENTERPOINT HOUSTON?

A. TO provides the following services for each CNP affiliate: desktop data device services; mainframe CPU utilization; data management; distributed systems; enterprise applications development and support; applications development and support; telephony services; telecommunications move/add/change; and data and cyber security management. The TO cost center assignment manual maintained by Service Company is attached as Exhibit MMT-4. Similar to BOS, TO also uses SLAs to govern transactions with affiliates and various billing determinants depending on the type of service provided. For instance, desktop data device services are billed based on the number of login IDs. Additional information on TO services and activities are described in greater detail in the testimony of Ms. James.

Q. PLEASE EXPLAIN THE PURPOSE OF THE ROM ORGANIZATION AND DESCRIBE THE SERVICES PROVIDED BY THIS DEPARTMENT.

A. In 2006, CNP created the ROM organization to centralize customer service, marketing, and claims functions of CNP's regulated electric and gas businesses. The Customer Operations division within ROM now performs all of ROM's services to CNP affiliates. This consolidation was fully achieved in 2015, when CNP implemented a virtual call center strategy allowing the Company's call centers in Houston and Minnesota to take customer calls from each of the Company's jurisdictions. The ROM organization allows Service Company to provide centralized services for customer service, customer operations planning and analytics, energy solutions, marketing communications, marketing strategy and support, and corporate claims and third-party damages. The Customer Operations department is also responsible for providing support services to Competitive Retailers and end-use retail electric customers. To deliver positive customer experiences, while maintaining operational efficiency, this department aligns training, performance management, contact center operations, customer account support, quality assurance, credit, claims, marketing communications, marketing strategy, energy solutions and vendor management activities under one centralized leadership ensuring these responsibilities are consistently meeting the needs of customers and retailers in an affordable and efficient manner.

The ROM cost center assignment manual maintained by Service Company is attached as Exhibit MMT-5. ROM also uses SLAs to govern transactions with affiliates. The billing determinants in the SLA are based on the service provided.

For instance, customer service representative costs are billed based on call minutes. Additional, greater detail information on ROM services and activities are described in greater detail in the testimony of Ms. Demarr.

Q. HAVE THERE BEEN ANY CHANGES IN THE ORGANIZATIONAL STRUCTURE OF THE SERVICE COMPANY SINCE DOCKET NO. 38339?

A. Yes, though the types and classes of services provided by the Service Company have not changed, certain changes have been implemented in the organizational structure of the Service Company, including:

- Telecom, Project Management Office, and Gas Operations Technology moved into the TO organization (formerly "Information Technology");
- Corporate Communications moved in two parts: (a) the marketing segment from the Corporate Services group to Marketing Communications in the ROM organization and (b) remaining Corporate Communications and Community Relations in the Corporate Services group have been realigned to report through the Human Resources organization;
- Regulatory has been aligned to the Corporate Services group from ROM;
- Human Resources has centralized with all of its resources into the Service Company, which now includes Business Unit support;
- Business Support Services is now called Business and Operations Support;
- Land and Field Services and Fleet have been realigned from Electric Operations and ROM respectively to the BOS organization;
- Bill Print, Customer Print Services and Environmental Services have moved from BOS to the ROM;
- Credit & Collections and Customer Billings were moved from Gas Operations into ROM organization;
- Minnesota Call Center has been centralized into Service Company; and
- Safety and Training oversight moved from Gas Operations to Service Company.

These changes were a result of Service Company's continued review of its operations.

Q. HAVE ANY OF THE ORGANIZATIONAL CHANGES DESCRIBED ABOVE CHANGED THE ESSENTIAL NATURE OF THE SUPPORT SERVICES PROVIDED?

A. No. The Service Company organizational changes described above were organizational in nature and an effort to centralize functions and execute efficiencies on how company resources are being utilized.

Q. DOES SERVICE COMPANY HAVE ANY WRITTEN PROCEDURES THAT GOVERN THE MANNER IN WHICH IT CONDUCTS BUSINESS?

A. Yes. Service Company has a Procedures Manual which is attached as Exhibit MMT-8. The Procedures Manual: (1) requires that SLAs be used to define and govern transactions between Service Company and affiliates; (2) provides accounting procedures to be used by Service Company; (3) directs how and when to establish new cost objects to track costs; (4) details cost object monitoring and control; (5) sets forth allocation factors, including updates and revisions; (6) requires time reporting; (7) establishes billing and review; (8) provides direction on dispute resolution; (9) discusses internal audit control; (10) details budgeting and the interaction between Service Company and affiliates; and (11) requires the evaluation of costs for competitiveness.

Q. ARE THERE ANY OTHER SUPPORT SERVICES REFLECTED IN THE RATE FILING PACKAGE?

A. Yes. Costs for facilities rent and maintenance for the two buildings, CenterPoint Energy Tower and Energy Control & Data Center, have been included in the rate filing package. The total annual lease costs for both facilities was $11 million during the test year and is discussed in detail in Mr. Slanina's direct testimony.

Q. DO ANY OF THE ORGANIZATIONS WITHIN CENTERPOINT HOUSTON PERFORM THE SAME SERVICES PROVIDED BY SERVICE COMPANY?

A. No. There is no overlap in the services or charges provided by Service Company and those provided by the other business units, including CenterPoint Houston.

IV. ENVIRONMENTAL SAFETY AND STRATEGIC FINANCIAL PLANNING

Q. PLEASE DESCRIBE THE ROLE AND FUNCTION OF THE ENVIRONMENTAL SAFETY DEPARTMENT WITHIN SERVICE COMPANY.

A. This Environment Safety department's responsibilities include maintaining and enforcing environmental standards while consulting with various state and local government prevention agencies, aligning CNP internal procedures with government policies. The group also oversees a Safety program, including vehicle driving guidelines and monitoring that all CNP employees, including employees driving utility vehicles on behalf of CenterPoint Houston, are abiding by CNP Safety policies and procedures.

Q. PLEASE DESCRIBE THE ROLE AND FUNCTION OF THE STRATEGIC AND FINANCIAL PLANNING DEPARTMENT WITHIN SERVICE COMPANY.

A. The Strategic and Financial Planning department provides oversight of CNP's strategic planning process and provides the CNP Executive Management team with a clear set of data to aid in the decision-making process. The strategic planning process supports the entire organization in defining, directing, guiding and formulating strategic policy and goals to accomplish the company's initiatives and objectives. Another service included in this section is the Financial Accounting systems and processes. Like the strategic planning departments, these services are beneficial to the entire organization. Financial Accounting systems help ensure that CNP financial statements are accurately prepared and presented in a timely manner to the CNP Executive Management team, the Board of Directors and regulatory agencies, like the SEC.

Q. WHAT ARE SERVICE COMPANY CROSS CHARGES?

A. As described in Exhibit MMT-2 Corporate Cost Center Manual, cross charge activity occurs when one Service Company function ("provider") provides a service to another Service Company function ("receiver"). When this activity occurs, the provider function directly bills or allocates all incurred labor, time and expenses to the receiver function. An example of a Service Company cross charge is TO charging Finance for desktop support for the computers, printers and technology equipment owned and held by the Finance organization.

Q. **WHAT WAS THE TOTAL TEST YEAR AMOUNT BILLED TO CENTERPOINT HOUSTON FOR ENVIRONMENTAL SAFETY AND STRATEGIC AND FINANCIAL PLANNING, INCLUSIVE OF ANY RELATED SERVICE COMPANY CROSS CHARGES?**

A. The total unadjusted test year amount billed to CenterPoint Houston for the Environmental Safety and Strategic and Financial Planning departments was $7.7 million.

Q. **ARE THE COMPANY'S TEST YEAR COSTS FOR ENVIRONMENTAL SAFETY AND STRATEGIC AND FINANCIAL PLANNING REASONABLE AND NECESSARY?**

A. Yes. The strategic and financial planning, Service Company cross-function activities and environmental and safety services provided by Service Company are necessary for the operations of CenterPoint Houston and would be required if CenterPoint Houston were a stand-alone entity. As stated previously in my testimony, Service Company's centralized design allows Service Company to add efficiencies and build competencies within the organization, leveraging corporate resources allowing the costs to be-lower than they would have been on a stand-alone basis. The actual costs billed, including the methodology used to allocate cost, are consistently applied to all business units, including CenterPoint Houston. This combination of efforts, allows Service Company to comply with the Commission's rules requiring that affiliate costs be fully allocated. To recover affiliate costs in accordance with PURA, Service Company confirms that costs are reasonable, necessary and not priced higher to the utility than the prices charged for the same services to other affiliates or to non-affiliates within the same market or having the same market conditions.

Q. DID CENTERPOINT HOUSTON BENEFIT FROM THE CENTRALIZED SERVICES PROVIDED BY ENVIRONMENTAL SAFETY AND STRATEGIC AND FINANCIAL PLANNING DURING THE TEST YEAR?

A. These services are part of Service Company. All services provided by Service Company are dedicated and well-defined services established to benefit the entire CNP organization. These services are provided by CNP employees, trained with the knowledge of CNP processes and CNP procedures. These services allow CenterPoint Houston and other business units the ability to quickly access and utilize Service Company employees to perform necessary operational services without having to hire costly external consultants to assist with the needed service. The sharing of services benefits CenterPoint Houston operational matters allowing the business unit to align with their budget constraints while completing their projects timely without having to wait for a new resource to be hired and trained on company procedures.

V. CENTERPOINT ENERGY RESOURCES CORP.

Q. HOW IS CERC ORGANIZED?

A. CERC is a wholly owned subsidiary of CenterPoint Energy, Inc. CNP's natural gas distribution business falls within CERC and engages in natural gas sales to, and transportation for, approximately 3.4 million residential, commercial, and industrial customers in the states of Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma, and Texas.

Q. DOES CERC PROVIDE SERVICES TO CENTERPOINT HOUSTON?

A. Yes, during the test year, CenterPoint Houston received operational support services from CERC. The use of CERC's operational support for specialized services allows CenterPoint Houston to leverage CERC expertise to expedite and complete certain projects.

Q. WHAT SERVICES DID CERC PROVIDE TO CENTERPOINT HOUSTON DURING THE TEST YEAR?

A. CERC personnel performed line locating, fleet services, meter reading, broadband, and mapping services for CenterPoint Houston during the test year. A description of each service is provided below:

- Line Locating – CERC personnel perform any necessary line locating services for CenterPoint Houston. When CERC is asked to locate and/or mark an electric line on behalf of CenterPoint Houston, CERC will bill the cost of that line locate to CenterPoint Houston, including labor.

- Fleet Services – CERC's Fleet Services department is responsible for the management of all vehicles and motorized equipment in the Houston Electric and Houston Metro Gas and Gas outlying areas. When CenterPoint Houston uses gas pumps at CERC pump stations, CERC directly bills the fuel usage to CenterPoint Houston.

- Meter Reading – CNP's Automated Metering Ready system uses radio transmitting devices, attached to meters of existing CNP customers, enabling remote reading of the meter. At times, an employee from the AMS/ERT department, is assigned to help CenterPoint Houston with overload meter reading tickets. The CERC employee's time is billed to CenterPoint Houston.

- Gas Operations Technology Services ("GOTS") Broadband Services – GOTS maintains broadband services for CenterPoint Houston. Mobile broadband scanners allow technicians to use computers, scanners, and copiers at a job site, for information to flow to back to the Company's office faster and more efficiently with some work orders completed directly at the job site. Occasionally, CenterPoint Houston uses these broadband services to help expedite their orders. The cost of these services is directly billed and/or allocated back to CenterPoint Houston.

- Research and Damage Prevention Compliance – This department, in the CERC Division, coordinates compliance reporting with the Texas Railroad Commission regarding line locates. The department receives requests for reporting from CenterPoint Houston from time to time. The Compliance department bills CenterPoint Houston based on the number of line locate tickets researched for CenterPoint Houston.

- Texas Gas Engineering GIS and CAD – Facility maps are created by CERC that display gas and electric facilities. When the CenterPoint Houston business unit uses this service, the costs are directly billed back to CenterPoint Houston by the amount of time/labor it takes to complete map request.

Q. WHAT WAS THE TOTAL COST OF CERC SERVICES BILLED TO CENTERPOINT HOUSTON DURING THE TEST YEAR?

A. After adjustments, the total cost CERC services billed to CenterPoint Houston during the test year was $6.2 million.

Q. ARE THE SERVICES PROVIDED BY CERC NECESSARY?

A. Yes. Using the well-established services provided by another business unit within CNP allows CenterPoint Houston to be efficient and cost effective. For example, the CERC Line Locating department handles line locating tickets for both CERC and CenterPoint Houston. During the test year, over 1.5 million gas and electric line locating tickets were received, of which approximately 49% of the tickets were for CenterPoint Houston. All time and labor working on the electric line locating tickets are directly billed to CenterPoint Houston. Another example of this efficiency is the use of CERC fueling stations by CenterPoint Houston. Rather than driving out of the way to find an electric fueling station, a CenterPoint Houston vehicle can be fueled at a CERC facility allowing the employee to quickly complete the project without losing time driving to another fueling station. Similar to the line locating activities, all fuel used by a CenterPoint Houston vehicle will be directly charged to CenterPoint Houston. These services are reasonable and necessary to the Company's daily operations and allow CenterPoint Houston to add efficiencies and increase productivity by sharing services with other CNP business units. For additional allocation information, please see the CERC Cost Center Assignment Manual provided as Exhibit MMT-7.

Q. WHAT BENEFITS ARE PROVIDED THROUGH CENTERPOINT HOUSTON'S USE OF CERC SERVICES?

A. Similar to the Company's use of Service Company, the ability to utilize CERC assets and employees to perform necessary operational services allows CenterPoint Houston to leverage resources across multiple business units, thereby giving the business units access to specialized skills and resources in an efficient and cost-effective manner. CenterPoint Houston needs the services provided by CERC. This internal process of sharing resources between the two business units avoids incurring additional cost of hiring additional headcount or a third party to perform these services.

Q. DO ANY OF THE ORGANIZATIONS WITHIN CENTERPOINT HOUSTON PERFORM THE SAME SERVICES PROVIDED BY CERC?

A. No. There is no overlap in the services or charges provided by CERC and those provided by CenterPoint Houston.

VI. CENTERPOINT ENERGY HOUSTON ELECTRIC TO OTHER AFFILIATES

Q. DOES CENTERPOINT HOUSTON PROVIDE AFFILIATE SERVICES TO ANY OF ITS AFFILIATED COMPANIES?

A. Yes, CenterPoint Houston provides affiliate services such as Land & Field Services, GIS Data Management and Administration and Fleet, Shop Services and Radio Communications. When this occurs, CenterPoint Houston employees directly bill their time (employee's fully loaded labor rate plus related overhead) and related expenses to a work order assigned to the Affiliate requesting the service. Please refer to Exhibit MMT-6 for a copy of CenterPoint Houston's Cost Center Assignment Manual for a more detailed description of the services provided by the Company.

Q. WAS CENTERPOINT HOUSTON REIMBURSED FOR SERVICES PROVIDED TO OTHER AFFILIATED COMPANY'S DURING THE TEST YEAR?

A. Yes, the chart below shows the amounts each affiliate reimbursed CenterPoint Houston for the services they received during the test year:

Figure 3. Other Affiliate Billings, as Adjusted

Affiliate Company	Total Test Year Amount in 000s
CenterPoint Energy Service Company, LLC	$1,913
CenterPoint Energy, Inc.	$1,222
CERC Subsidiaries	
CenterPoint Energy Arkla	$3,199
CNP Minnesota Gas	$1,614
CenterPoint Energy Entex	$20,938
Other	$618
Total	**$29,504**

Q. HOW HAS CENTERPOINT HOUSTON REFLECTED REIMBURSEMENT FOR SERVICES PROVIDED TO OTHER AFFILIATES IN ITS FILING?

A. These costs are credited against the Company's total rate request and are reflected in Schedule V-K-8.

VII. SERVICE LEVEL AGREEMENTS, BUDGETING AND OTHER COST CONTROLS

Q. WHAT IS A SERVICE LEVEL AGREEMENT?

A. An SLA is an agreement between Service Company and an affiliated client that documents the services to be provided to the client, the billing rates for services that are assigned based on a billing rate and the allocation factors used to assign costs that are allocated. The terms of the SLA clarify and require that services be provided on a "fair, nondiscriminatory basis." The SLA requires, among other things, that (1) the price charged for each service will be the same as that charged to every other CNP business unit for like services for a given period; (2) amounts charged for items not allowed for recovery in regulated rates must be separately identified and billed separately so that the amounts can be reported as required; (3) amounts charged must be reasonable and necessary in order to provide that service; and (4) any allocation should reasonably approximate the actual costs incurred in providing that service. The SLAs are executed annually between the Service Company, CERC and CNP affiliates.

Q. **HOW DOES SERVICE COMPANY DETERMINE APPROPRIATE SERVICE LEVELS AND OBTAIN AGREEMENT FOR SERVICES PROVIDED?**

A. The Service Company uses the SLA to document services and, where appropriate, service levels to be provided to individual clients. As part of the SLA development process, on an annual basis, representatives of Service Company and each affiliate meet and discuss the levels of services required, the costs of the services provided and any business changes from the prior year. Once an agreement is reached, the discussions are documented, incorporated into the SLA and the SLA is forwarded to the client for signature. Service Company will keep the signed original and forward a signed copy to the client.

Q. **WERE SLAs USED BEFORE THE TEST YEAR?**

A. Yes. All Functions within Service Company have been using SLAs since the formation of Service Company in 2004. Legacy service providers, such as BOS and TO, relied on SLAs prior to the formation of Service Company.

Q. **ARE SLAs FILED WITH THE COMMISSION?**

A. Yes. SLAs are made available each June to the Commission in accordance with 16 TAC § 25.84 "Annual Reporting of Affiliate Transactions for Electric Utilities," which requires a prior calendar year annual report of affiliate activities. Service Company Functions are required, by CNP policy, to comply with the SLAs executed with CenterPoint Houston and other business units. A copy of the 2018 SLA between Service Company and CenterPoint Houston is attached as Exhibit MMT-9.

Q. ARE THERE ANY SERVICES OCCASIONALLY PROVIDED BY SERVICE COMPANY THAT ARE NOT COVERED BY THE SLA PROCESS?

A. Yes. In addition to services provided to business units such as CenterPoint Houston, the various Service Company functions provide services to other functions within the Service Company known as an intra-company service. Although intra-company services are not covered by the SLA process, the service is still provided in a manner consistent with the SLAs. For example, TO could be asked to create a report query for Finance. This TO service, provided within the Service Company, might not be covered by an SLA but is billed at the same rate as TO services provided to business units under the SLAs. Service Company and other affiliates will also occasionally initiate services to a new affiliate before a formal SLA is documented and in place. In both instances, Service Company directly bills costs for the new service to the appropriate affiliate and includes any changes in service as part of the next annual SLA process. Similar to charges to business units, these intra-company services are priced no higher than Service Company charges other affiliates for the same service.

Q. WHICH CLIENTS RECEIVE SERVICES FROM SERVICE COMPANY THROUGH SLAs?

A. Four clients receive services from Service Company through SLAs: (1) CenterPoint Houston; (2) CenterPoint Energy Services; (3) CenterPoint Energy Gas Operations; and (4) CenterPoint Energy Properties, Inc.

Q. HOW IS THE BUDGETING PROCESS DISCUSSED IN YOUR TESTIMONY?

A. While other witnesses discuss the budgeting process as it relates to their specific activities, I discuss the overall budget process for Service Company.

Q. PLEASE DESCRIBE THE ANNUAL BUDGETING PROCESS FOR SERVICE COMPANY.

A. Each year, all Service Company functions, are required to prepare one- and five-year budgets. The Financial Planning and Performance Management department, which is part of the Finance Organization, is responsible for establishing the timeline, providing high-level requirements for the budgets and communicating the requirements to each CNP Business Unit Finance Director and each Service Company function leader. Exhibit MMT-10 provides Service Company budgeting guidelines that were distributed to Service Company functions in 2017 for the 2018 budget.

Using these guidelines, each function establishes a detailed budget in the SAP system by general ledger account and cost center and incorporates input regarding service needs from each business unit. During this time, budgeted expenditures are identified as to whether they are billable or non-billable. Non-billable costs are set up in a separate cost object established for that purpose. Billable costs are identified as either directly billed or allocated. Each function then provides these billable costs to the business unit for validation. Once validated, the billable costs are included in the business units' budgets.

In accordance with a scheduled timeline, each business unit and function presents its one- and five-year budgets to the Executive Committee for review. As a result of the Executive Committee review, business units or functions may revise and refine their budgets before being compiled and presented to the Executive Committee and ultimately, the Board of Directors for final approval.

Q. HOW DOES SERVICE COMPANY USE ITS BUDGETS TO CONTROL COSTS AFTER THEY ARE PREPARED AND APPROVED?

A. Service Company uses the budgets for monitoring and controlling costs, financial planning at the corporate and business unit levels and providing the business units with information as to what Service Company estimates its costs will be for the year.

Q. HOW DOES THE BUDGETING PROCESS HELP SERVICE COMPANY CONTROL BILLINGS TO CENTERPOINT HOUSTON?

A. The rigorous budgeting preparation and review process, prior to approval, encourages the Service Company functions to be disciplined and careful in establishing their budgets. Prior to the start of the annual budget process and on a monthly basis, functions leaders are monitoring actual costs to the budgeted amounts. The constant budgeting and monitoring processes ensures that costs incurred by Service Company and billed to CenterPoint Houston are controlled, reasonable, and necessary.

Each function is held accountable to its budgets through goals and monitors their budget at service or lower levels. This process helps ensure the functions are providing services in a cost-effective manner, monitoring incurred expenditures as budgeted, and identifying, analyzing and resolving variances. Business units also use a rigorous process to monitor and evaluate the adequacy and cost of services provided.

To reinforce the budgeting process, monthly performance review meetings are held with senior CNP leadership, including the CEO and Chief Financial Officer allowing function leaders the opportunity to review function performances against their respective budgets. This control helps ensure compliance with the requirements of the Sarbanes Oxley Act of 2002. For additional information regarding CenterPoint Houston's budgeting process, please see Schedule V-K-10.

Q. DOES CENTERPOINT HOUSTON USE THE BUDGETED COSTS FROM SERVICE COMPANY TO CONTROL AND MONITOR COSTS?

A. Yes. As an additional cost control measure, and on a monthly basis, CenterPoint Houston also monitors the costs it receives from Service Company.

Q. WHAT CONTROLS, OTHER THAN ITS BUDGETING PROCESS, DOES SERVICE COMPANY HAVE IN PLACE TO ENSURE THAT AFFILIATE COSTS ARE CONTROLLED AND BILLED PROPERLY?

A. The Service Company also uses financial system and accounting controls to ensure that costs are controlled and billed to affiliates properly. The oversight activities of the Executive Committee, Risk Oversight Committee ("ROC") and the Commitment Review Team ("CRT") provide additional controls as discussed below. These controls, ensure that affiliate expenses are reasonable and necessary, properly billed and charged to CenterPoint Houston at a rate no higher than charges for the same services rendered to other affiliates. These controls also aid in identifying charges that must be excluded from rates under 16 TAC § 25.231.

Q. ARE THERE ANY OVERSIGHT CONTROLS IN PLACE TO ENSURE THAT SERVICE COMPANY COSTS ARE REASONABLE AND NECESSARY?

A. Yes. As stated above, Service Company provides various oversight services, at the corporate level, to the Executive Committee, CRT and ROC. Before expenses are processed, these three committees provide a thorough corporate review, oversight and control of significant expenditures for all business units and Service Company.

CRT is a committee, comprised of representatives from Accounting, Legal, Risk Control, Strategic Planning, Tax, and Treasury, tasked with reviewing all significant investments before the expenditures can be made. CRT uses a thorough review process of each significant investment proposed by a Function, such as TO, to ensure that the proposed financial commitment is appropriately justified and evaluated. Proposed investments reviewed by CRT are presented to the Executive Committee for final approval.

ROC is a committee established and authorized by the CEO to ensure that all business units and Service Company functions comply with CNP risk-related policies, risk tolerance and objectives. All activities involving commercial risk not authorized under the CNP Risk Control Policy require ROC approval.

Q. HOW DO FINANCIAL SYSTEM CONTROLS ENSURE THAT AFFILIATE COSTS ARE CONTROLLED AND BILLED PROPERLY?

A. Financial system controls assure that formulaic affiliate billings are accurate and timely. By calculating and billing affiliates through the automated processes in SAP, Service Company reduces the risk of error. SAP automation also ensures timely and complete billings. Additionally, SAP security controls include those associated with opening and closing the accounting period, creating cost objects and cost elements, and posting journal entries. These controls ensure that costs incurred and billed are appropriate and accurate.

Q. HOW DO ACCOUNTING CONTROLS ENSURE THAT AFFILIATE COSTS ARE CONTROLLED AND BILLED PROPERLY?

A. Each month, the Accounting department reviews the inter-company accounts to ensure that billings to affiliates are accurate, appropriate and remain in balance between companies. Prior to closing the books, Accounting managers and Finance Directors are required to perform cost reviews, analyzing actual costs compared to budgeted amounts. In addition to the detail review by both groups, CNP also has systems and policies in place, for all companies including Service Company, to ensure approval of transactions are applied before costs can be incurred and paid. For example, CNP has an Authorization policy, reviewed by the Authorization Policy Committee, comprised of Legal, Finance and Operations organizations, to safeguard the spending levels of Company employees. These preventative and detective controls ensure that costs are reasonable, accurate and appropriately billed.

Q. HOW DOES SERVICE COMPANY ENSURE THAT LABOR COSTS ARE REASONABLE?

A. CNP maintains a formal process for evaluating and "pricing" each job, including those within Service Company. Annually, Human Resources, using a third party studies and reviews salaries to ensure that employee compensation is within established market rates. This review helps ensure that Service Company employees are fairly compensated within ranges reflected in the local marketplace. Please see the testimony of Ms. Harkel-Rumford for information on CNP's compensation philosophy.

Q. DOES SERVICE COMPANY USE SAP TO CONTROL COSTS BILLED TO CENTERPOINT HOUSTON?

A. Yes. Service Company uses SAP to review, research and analyze the incurred and billed costs to the business units, including CenterPoint Houston. This use of SAP helps to ensure that costs are reasonable, necessary and properly billed and recorded.

Q. CAN YOU SUMMARIZE THE PROCESS FOLLOWED BY SERVICE COMPANY FOR BILLING CENTERPOINT HOUSTON?

A. Yes. Service Company costs are billed to affiliates, including CenterPoint Houston, through either direct billings or by allocation.

Direct billings represent costs for services incurred directly on behalf of a business unit and can be internal, external or billed directly. Internal cost, can be labor costs associated with Service Company employees performing specific work for the business unit or costs that are derived based on established units of measure.

External cost may be billings from third-party vendors and contractors. Costs that are directly billed can be billed directly to the business unit automatically through the SAP accounting system.

The Service Company costs that cannot be directly billed are allocated to affiliates, including CenterPoint Houston, using allocation factors. The allocation factors are input into the SAP System, allowing the allocation to be performed through an automated process. A description of the allocation factors is included on Schedule V-K-11. Schedules V-K-9.1 (confidential) through V-K-9.3 show the calculations of the allocation factors used during 2018.

Q. ARE THE AMOUNTS ASSIGNED TO CENTERPOINT HOUSTON AND OTHER AFFILIATES COST-BASED?

A. Yes. Service Company bills its expenses at cost.

Q. ARE THE METHODS USED BY SERVICE COMPANY TO BILL ALL AFFILIATES, INCLUDING CENTERPOINT HOUSTON CONSISTENT?

A. Yes. All costs for a given service that are directly related to affiliates, including CenterPoint Houston, are directly billed. If allocated, the cost are not higher than the prices charged by Service Company and CERC for the same class of items to the Company's affiliates or divisions. A description of the allocation factors is included on Schedule V-K-11.