

VIII. AFFILIATE BILLINGS

1
2 **Q. WHAT ARE THE TOTAL AFFILIATE EXPENSES FOR THE 2018 TEST**
3 **YEAR?**

4 A. For the 2018 test year, the total amount of affiliate O&M costs to CenterPoint
5 Houston, including adjustments, was \$293.4 million. This information is provided
6 by affiliate, class of service, and by FERC account in Schedule V-K-12.3.

7 **Q. HOW WERE THESE AFFILIATE COSTS IDENTIFIED?**

8 A. First, the Finance Organization, using the CNP general ledger, examined and
9 captured all test year transactions recorded to inter-company receivable and payable
10 accounts. The total of these individual test year transactions was reconciled to the
11 net change in the inter-company receivable and payable accounts. Second, they
12 analyzed the individual transactions to determine the type of billing:
13 capital/deferred, or revenue/expense. The billing type determined whether each
14 transaction was included as part of affiliate expenses during the test year. In
15 general, billings included on the income statement, excluding costs not allowed for
16 ratemaking purposes, were included as affiliate expenses. Likewise, billings
17 included on the balance sheet were excluded as affiliate expenses. Exceptions to
18 this general rule included capitalized and deferred costs, which have been included
19 as affiliate expenses, even though they are reflected on the balance sheet.

20 **Q. HAVE AFFILIATES BILLED CENTERPOINT HOUSTON FOR WORK**
21 **ON CAPITAL PROJECTS?**

22 A. Yes. In accordance with the Company's Capitalization Policy, the Service
23 Company billed CenterPoint Houston for work on capital projects. Schedule V-K-5
24 contains a list of all Service Company capital charges (with project descriptions)

1 billed to CenterPoint Houston from 2010 to 2018 that are included in CenterPoint
2 Houston's rate base. Ms. Colvin discusses and supports the Company's
3 Capitalization Policy.

4 **IX. SERVICE COMPANY COSTS BILLED TO AFFILIATES**

5 **Q. DO CORPORATE SERVICES, BOS, T.O., AND ROM USE THE SAME**
6 **BILLING METHODS?**

7 A. Yes. Service Company bills-out cost depending on the nature of the service, either
8 by Direct-bill or Allocated cost:

9 (1) **Direct-bill** costs are incurred by the Service Company for the direct
10 benefit of a particular business unit and tracked and directly billed to
11 the specific business unit.

12 (2) **Allocated costs** are activities and costs that are incurred in support of
13 multiple business units and allocated to those business units based on
14 an allocation factor.

15 **Q. ARE SERVICE COMPANY COSTS BILLED CONSISTENTLY ACROSS**
16 **THE VARIOUS BUSINESS UNITS?**

17 A. Yes. For a given service, including CenterPoint Houston, Service Company costs
18 are priced exactly the same as those provided to other affiliates. Such equal
19 treatment is necessary to ensure that all affiliates bear their appropriate costs and
20 no business unit is unfairly advantaged or disadvantaged. If this process did not
21 occur, some affiliates might not bear their appropriate share of costs, causing a
22 disproportionate bearing of cost to the business units. This would be an
23 unacceptable practice, especially with the affiliates operating in regulated
24 jurisdictions

25 For services billed on the basis of time spent, each business unit is charged
26 the same rate per billable hour for the same service. To ensure that all costs are

1 billed each month, after service or billable hour units are billed, any residual
2 unassigned amounts are allocated to the business units based on planned activities.

3 **Q. CAN YOU DESCRIBE DIRECT-BILL COSTS IN GREATER DETAIL?**

4 A. Yes. Direct-bill costs are charges that are brokered, administered, secured or
5 incurred by the Service Company for a particular business unit. At times, Service
6 Company functions, like TO or BOS, perform tasks at the request of a business
7 unit. An example of this type of cost is legal fees related to CenterPoint Houston's
8 transmission and distribution support. These legal fees are paid by the Service
9 Company and then directly billed to CenterPoint Houston. Another example is
10 when TO is asked to create a financial dashboard for Finance. This TO service,
11 provided within the Service Company, is billed at an established unit of measure.

12 **Q. HOW MUCH WAS DIRECT BILLED FROM THE SERVICE COMPANY**
13 **TO CENTERPOINT HOUSTON DURING THE TEST YEAR?**

14 A. \$115.2 million was direct billed from the Service Company to CenterPoint Houston
15 during the test year.

16 **Q. PLEASE EXPLAIN ALLOCATED COSTS IN GREATER DETAIL.**

17 A. Allocated costs are those expenses incurred in Service Company to support multiple
18 business units and are allocated across the applicable business units based on
19 allocation factors. Examples of allocated costs include accounting, finance,
20 strategic planning, executive management, investor relations, treasury, human
21 resources, and certain legal services. The allocation methodology is discussed in
22 more detail later in my testimony.

1 **Q. WHAT WAS THE TOTAL AMOUNT OF COSTS ALLOCATED TO**
2 **CENTERPOINT HOUSTON FOR THE 2018 TEST YEAR?**

3 A. \$178.2 million in allocated costs were billed to CenterPoint Houston in 2018.

4 **Q. CAN MORE THAN ONE ALLOCATION FACTOR BE USED IN A**
5 **FUNCTIONAL AREA?**

6 A. Yes. For example, most Human Resources costs are incurred in support of
7 activities directly related to employees, such as recruiting, hiring, learning and
8 organizational development. Costs for these activities are allocated to the affiliates
9 based on headcount within each affiliate. However, Human Resources activities
10 also include development and execution of human resources strategy, policy and
11 processes. These activities are allocated to affiliates using the composite ratio
12 method discussed later in my testimony.

13 **Q. HOW HAVE SERVICE COMPANY BILLINGS TO CENTERPOINT**
14 **HOUSTON CHANGED SINCE 2010?**

15 A. Billings for services provided by Service Company have increased at a 5.1%
16 compound annual growth rate from 2010 to 2018.

17 **Q. WHY DID SERVICE COMPANY BILLINGS TO CENTERPOINT**
18 **HOUSTON INCREASE FROM 2010 TO 2018?**

19 A. As noted in the direct testimony of Company witness Kenny M. Mercado,
20 CenterPoint Houston added approximately 400,000 customers between 2010 and
21 2018 – a growth rate of almost 20% over the period. With that growth, the
22 Company experienced a natural increase in demand for Service Company services.
23 In addition to growth and inflation, as detailed in the direct testimony of Ms. James,

1 technology-related TO costs have been a primary item causing Service Company
2 billings to CenterPoint Houston to increase from 2010 to 2018. Protecting the
3 Company's system and customer data from cyber attacks, managing ever
4 increasing customer data in real-time market conditions, operating new Advanced
5 Metering System and intelligent grid systems, and providing better customer
6 interface technologies have all been part of a necessary transformation at
7 CenterPoint Houston to make the provision of service safer and more reliable in
8 today's more technologically-advanced world.

9 **Q. EXCLUDING THE INCREASE IN T.O. BILLINGS, WHAT IS THE**
10 **INCREASE IN SERVICE COMPANY BILLINGS TO CENTERPOINT**
11 **HOUSTON FROM 2010 TO 2018?**

12 A. Adjusting for this item, the increase in Service Company billings to CenterPoint
13 Houston from 2010 to 2018 is a 3.7% compound annual growth rate.

14 **Q. WOULD CENTERPOINT HOUSTON REQUIRE THE SERVICES**
15 **PROVIDED BY SERVICE COMPANY AND CERC IF IT WERE A STAND-**
16 **ALONE BUSINESS ENTITY?**

17 A. Absolutely. There is nothing unnecessary or duplicative about any of Service
18 Company services being provided to affiliates such as CenterPoint Houston. These
19 services are necessary for the operation of any business regardless of whether the
20 service is performed centrally, as is done at CNP, or decentralized and residing at
21 the business unit level. This work is performed more effectively at the corporate
22 level due to its emphasis on the consolidated results and operations of CNP.

1 **Q. WHY IS IT NECESSARY TO BILL SERVICE COMPANY AND CERC**
2 **COSTS TO THE BUSINESS UNITS?**

3 A. Service Company bills actual costs incurred to the business units in order to better
4 reflect the results of those operations as if they were stand-alone entities. This
5 practice is important to managing, controlling and understanding the true costs of
6 business unit operations, and in the case of regulated businesses, allowing for
7 recovery of reasonable and necessary costs incurred in support of that business.

8 **Q. ARE ANY SERVICE COMPANY COSTS NOT BILLED TO THE**
9 **BUSINESS UNITS?**

10 A. Yes. Certain costs incurred at the corporate level, such as interest expense and
11 corporate business development expenses, are not distributed to the business units.

12 **Q. DOES SERVICE COMPANY EVER PROVIDE SERVICES TO**
13 **CENTERPOINT HOUSTON OR OTHER AFFILIATES THAT ARE NOT**
14 **RECOVERABLE IN RATES?**

15 A. Yes. Service Company may at times provide services to business units that are not
16 recoverable in their rates. For example, contributions to political organizations or
17 causes, legislative advocacy expenses, and expenditures intended to increase
18 electric consumption, are identified in 16 TAC § 25.231(b)(2) as costs that are not
19 recoverable in rates. Nevertheless, the cost of these services are billed to business
20 units using the billing methodologies assigned, regardless of whether the business
21 units are able to recover those cost.

1 **Q. HOW ARE COSTS, WHICH ARE NOT RECOVERABLE IN RATES,**
2 **TRACKED?**

3 A. Service Company bills these costs through separate accounts specifically
4 established for tracking these expenditures. CenterPoint Houston can then identify
5 and exclude these amounts from its regulatory filings. Please see Ms. Colvin's
6 direct testimony for a discussion of the excluded costs.

7 **X. SERVICE COMPANY AND CERC ALLOCATION METHODOLOGIES**

8 **Q. HOW ARE ALLOCATED COSTS BILLED?**

9 A. Allocated costs are billed to the business units and in some cases, to other Service
10 Company cost centers based on allocation factors discussed below.

11 **Q. PLEASE DESCRIBE THE ALLOCATION FACTORS USED BY SERVICE**
12 **COMPANY.**

13 A. The four main categories of allocation factors used by Service Company are the
14 composite ratio, assets, operating expenses, and number of employees. Within each
15 of these general categories of allocation factors, specific factors are used to allocate
16 costs to specific business units. Schedule V-K-11 provides a complete list of the
17 allocation factors, with a detailed description, usage, and the procedures for
18 calculating each allocation factor.

19 **Q. PLEASE DESCRIBE THE COMPOSITE RATIO.**

20 A. The composite ratio formula allocates governance costs, incurred by the Service
21 Company, on behalf to its affiliates. This three-part formula, consisting of assets,
22 gross margin, and number of employees applied at 40%, 40%, and 20% ratio,
23 respectively, attempts to fairly distribute and allocate the overhead cost to each
24 affiliate member. As required by Section 13(b) of PUHCA, the composite ratio

1 formulas was develop to allocate corporate governance costs among business units,
2 including Service Company. The structure was intended to address that allocation
3 formulas should ensure that an appropriate share of governance costs are allocated
4 to the corporate parent.

5 **Q. WHAT IS AN EXAMPLE IN WHICH THE COMPOSITE RATIO IS USED**
6 **AS A METHOD OF ASSIGNING COSTS?**

7 A. A good example is Chief Accounting Officer (“CAO”). The CAO focuses on the
8 daily aspect of business costs and company records, ensuring that all ledger
9 accounts, financial statements, and cost control policies are in place. Therefore, the
10 CAO costs, excluding costs directly incurred for affiliates, are assigned to the
11 affiliates using the composite ratio.

12 **Q. HOW WERE THE ALLOCATION FACTORS DETERMINED?**

13 A. Prior to the repeal of PUHCA, the SEC provided oversight of Service Company.
14 In preparation for the formation of Service Company and its regulation by the SEC,
15 CNP commissioned an outside consultant, Maximus, Inc. (“Maximus”), a firm that
16 specializes in assignment studies, to review the bases of allocations of Service
17 Company costs. Maximus opined that the methodology being used was, for the
18 most part, sound, fair and equitable. Maximus proposed some enhancements to the
19 assignment methods which were incorporated into the Corporate Cost Center
20 Assignment Manual for 2004 and thereafter. The Maximus study confirmed five
21 criteria for a reasonable cost assignment methodology: (i) cost causative,
22 (ii) measurable, (iii) objective, (iv) stable/predictable, and (v) consistently
23 applicable. The criteria have been followed in establishing the assignment

1 methodologies used by Service Company. The assignment methodology has been
2 reviewed by the Commission and is a reasonable, objective, and accurate basis for
3 distributing affiliate operating costs.

4 **Q. HOW ARE ALLOCATION FACTORS ESTABLISHED?**

5 A. During the budgeting cycle, allocation factors used to allocate the annual budget
6 are established reflecting the business unit plans. These allocation factors are then
7 used to charge actual costs to the business units during the first quarter of the year.
8 Allocation factors are updated quarterly to reflect the most current activity through
9 that point in time. For example, allocation factors based on headcount are updated
10 after the first quarter reflecting changes in headcount during the first quarter. These
11 new factors are used in the second quarter. This process is repeated at the end of
12 the second and third quarters.

13 **Q. HOW ARE THE ALLOCATION FACTORS CALCULATED?**

14 A. Each allocation factor is calculated internally using the methodology listed in
15 V-K-11. Please see Schedule V-K-9.1 (confidential) through V-K-9.3 for the
16 calculations of the allocation factors used each quarter in 2018.

17 **Q. DOES SERVICE COMPANY HAVE WRITTEN GUIDELINES FOR HOW**
18 **COSTS ARE DISTRIBUTED AMONG AFFILIATES?**

19 A. Yes. Attached as Exhibit MMT-2 through MMT-5, are the following 2018 cost
20 center assignment manuals:

- 21 (1) Corporate Cost Center Assignment Manual;
- 22 (2) Business and Operations Support Cost Center Assignment;
- 23 (3) Technology Operations Cost Center Assignment Manual; and

1 (4) Regulated Operations Management Cost Center Assignment Manual.
 2 The manuals include the allocation factors used for all applicable Service Company
 3 cost centers and are updated annually. The basic methodologies described in the
 4 manuals have been used for several years. As CNP has acquired other businesses,
 5 including those with state regulatory oversight, it has continued to apply the same
 6 consistent methodology to the distribution of these costs.

7 **Q. WHAT TYPES OF INFORMATION ARE FOUND IN THE COST CENTER**
 8 **ASSIGNMENT MANUALS?**

9 A. The assignment manuals document the billing methodology used by each Service
 10 Company cost center and detail the following information for each cost center:
 11 (1) the major activities performed by the cost center; (2) the cost assignment
 12 method for the cost center; and (3) the basis or rationale supporting the
 13 reasonableness of that assignment method.

14 For example, page 20 of the Corporate Cost Center Assignment Manual
 15 shows the following for President and CEO (cost center 125001):

- 16 • Major activities: General activities and costs to support the office
 17 of the CEO such as salaries of the CEO and an executive assistant.
 18 Oversees operations and strategic direction of the company.
- 19 • Assignment method: Direct charges are tracked and charged
 20 directly to the applicable business unit. All other costs are assigned
 21 based on Composite Ratio Formula.
- 22 • Basis of assignment: Activities of this cost center primarily relate
 23 to providing support and interfacing with the board of directors and
 24 external entities such as stockholders, the investment community,
 25 customers and regulators. The costs incurred are by Service
 26 Company on behalf of its affiliates. Therefore, the costs are
 27 assigned based on Composite Ratio Formula.

1 **Q. IS AN ASSIGNMENT METHOD IDENTIFIED FOR EACH SERVICE**
 2 **COMPANY FUNCTION?**

3 A. Yes. Each function is reviewed following guidelines outlined in the cost center
 4 assignment manuals to determine the proper method to assign costs to the cost
 5 centers within the function. The manuals outline the allocation method for each
 6 Service Company cost center.

7 For example, page 27 of the Corporate Cost Center Assignment Manual
 8 shows that the major activities for Financial Planning & Performance Management
 9 (cost center 125007) are planning and business unit performance reviews, financial
 10 forecasting, and development of plans and goals; it is assigned based on the
 11 Composite Ratio Formula; and the rationale for that assignment method is that costs
 12 are incurred on behalf of the business units.

13 **Q. HOW ARE THE APPROPRIATE ALLOCATION FACTORS IDENTIFIED**
 14 **FOR EACH COST CENTER?**

15 A. First, each cost center's activities are analyzed to determine the nature of the
 16 incurred cost and how the activities are performed. Second, the business units, that
 17 are served by each cost center, are identified. Finally, based on the statistics,
 18 determine the appropriate allocation factors and method of distributing expenses
 19 for each business unit are derived. For example, employee headcount is a
 20 commonly used allocation factor to allocate this type of cost. The Payroll
 21 Department, within Finance, processes payroll transactions for all CNP employees.
 22 As a result, each business unit is allocated a portion of the cost of the Payroll
 23 Department based on the business unit's employee headcount.

XI. 2018 TEST YEAR AFFILIATE ADJUSTMENTS

Q. HAVE ANY AMOUNTS INCURRED BY SERVICE COMPANY BEEN EXCLUDED FROM THE TEST YEAR?

A. Yes, please see the testimony of Ms. Colvin for Service Company adjustments related to employee expenses and Government Affairs.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO THE TEST YEAR SERVICE COMPANY COSTS BILLED TO CENTERPOINT HOUSTON?

A. Yes, the Company made an adjustment for 2018 and 2019 Service Company pay increases. Service Company salaries and short-term incentive compensation (“STI”) have been annualized and calculated to show the impact of these costs. Please reference Schedule V-K-6 Adjustments to the Test Year Expenses for additional details. Adjustments associated with the normalization of STI and 2019 Service Company pay were made consistent with the same adjustments for CenterPoint Houston labor expense, which is discussed in Ms. Colvin’s testimony.

Figure 4. Service Company Salary and STI Adjustment

Amounts in 000s	Non Union	Union
Salaries	\$5,415	\$508
STI	\$260	\$2
Total	\$5,675	\$510

Q. PLEASE DESCRIBE SERVICE COMPANY’S ADJUSTMENT TO NORMALIZE INTEGRATION PLANNING BILLINGS.

A. Schedule V-K-6 represents adjustments from Service Company to CenterPoint Houston. As discussed in my testimony, all Service Company employees, who work on services on behalf of CenterPoint Houston, direct charge their labor and

1 time to CenterPoint Houston. During the latter part of 2018, several Service
2 Company employees worked on the Vectren merger. Therefore, instead of working
3 on normal daily activities for CenterPoint Houston and other business units, their
4 assignments were to work on Vectren merger activities. For example, a Human
5 Resources Service Company employee who supported CenterPoint Houston on
6 compensation and recruiting tasks was reassigned, during this time, to work on
7 Vectren activities. Therefore, the \$1.6 million adjustment represents Service
8 Company's employee labor that would have been billed to CenterPoint Houston
9 during this time if the integration planning for the Vectren merger had not
10 occurred. All labor and time spent on integration activities in 2018 were
11 specifically tracked in SAP to the individual orders solely created for Vectren
12 merger transactions. This adjustment identified the time billed to integration
13 activities by Service Company employees and calculated an estimate of the portion
14 that would have billed to CenterPoint Houston using 2018 planned billings. Had
15 normal activities occurred during this period of the test year, CenterPoint Houston
16 would have received an additional \$1.6 million of labor billings from Service
17 Company.

18 **Q. PLEASE DESCRIBE THE TEST YEAR STI ADJUSTMENT FOR**
19 **SERVICE COMPANY.**

20 A. Each March, if Corporate goals and targets approved by the Board of Directors are
21 met, the Company may pay short-term incentives to both union and non-union
22 employees. The STI amounts paid are based on prior-year salary earned. Monthly,
23 Accounting books an accrual estimating the annual STI pay-out. However, if a

1 difference between awarded and accrual amounts occurs, primarily caused by
2 variability of the incentive pay out and movement of employees, a true-up entry is
3 processed the following year. To reflect the correct Service Company test year STI
4 amount, the 2017 prior period true-up entry of \$135,695.00 was removed from the
5 2018 test year amount. The Service Company STI Adjustment shown on
6 Schedule V-K-6 is calculated based on annualized labor cost and 3% competitive
7 pay adjustment. Please see the testimony of Ms. Harkel-Rumford for information
8 on the CNP STI program details.

9 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO NORMALIZE SERVICE**
10 **COMPANY LABOR.**

11 A. To meet market conditions, CNP salaries, union and nonunion, are adjusted on an
12 annual basis. Following the test year, CNP salaries increased by an estimated 3.0%
13 for all business units, including Service Company and CenterPoint Houston.
14 Distributing competitive pay adjustments to employees helps CNP stay
15 competitive with the industry while retaining talented and experienced staff. As
16 shown on Schedule V-K-2, and detailed on Schedule V-K-6 Adjustments to Test
17 Year Expenses, the adjustments proposed to the 2018 test year Service Company
18 billings to CenterPoint Houston is a 3% Competitive Pay Adjustment which has a
19 \$4.4 million impact on total Service Company billings to CenterPoint Houston.
20 Please see the testimony of Ms. Harkel-Rumford for information on CNP's
21 compensation philosophy.

1 **Q. WERE ANY ADJUSTMENTS MADE TO CERC COSTS BILLED TO**
2 **CENTERPOINT HOUSTON DURING THE TEST YEAR?**

3 A. No. All CERC costs billed to CenterPoint Houston during the test year were direct-
4 billed at cost and no adjustments have been made.

5 **Q. ARE 2018 SERVICE COMPANY COSTS BILLED TO CENTERPOINT**
6 **HOUSTON REASONABLE AND NECESSARY?**

7 A. Yes. The services provided by Service Company are necessary for the operations
8 of CenterPoint Houston and not discretionary. The Company's centralized design
9 allows Service Company to leverage corporate resources allowing the costs to be
10 lower than they would have been on a stand-alone basis. The actual costs billed are
11 consistently applied to all business units including the methodology used to allocate
12 cost.

13 Furthermore, Service Company complies with Commission rules requiring
14 that affiliate costs be fully allocated. In order to recover affiliate costs in
15 accordance with PURA, Service Company ensures that costs are reasonable,
16 necessary and not priced higher to the utility than the prices charged for the same
17 services to other affiliates or to non-affiliates within the same market or having the
18 same market conditions. Service Company ensures expenses are billed at cost and
19 services provided to CenterPoint Houston are not duplicative of any of the services
20 received by CenterPoint Houston.

XII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY ON THE AFFILIATE COSTS REQUESTED BY CENTERPOINT HOUSTON IN THIS CASE.

A. The affiliate costs charged to CenterPoint Houston are of the type enumerated in the definition of 16 TAC § 25.272(c)(4) of “corporate support services.” These costs are fully assigned and otherwise conform with the applicable requirements of 16 TAC § 25.272 and PURA § 36.058. As discussed, not only in my testimony but in the direct testimony of the other witnesses as well, the affiliate costs charged to CenterPoint Houston are reasonable and necessary and have been priced no higher than Service Company or CERC charges other affiliates for the same service. There is no preferential treatment among, or cross-subsidization of, affiliates. For example, in the Pricing Methodology section of each SLA, the billing rates for each service are listed, indicating that the rates are consistent for each affiliate. Finally, each June, Service Company completes the SLAs. SLAs are then accessible to the Commission in accordance with 16 TAC § 25.84 “Annual Reporting of Affiliate Transactions for Electric Utilities.”

Q. HOW WOULD YOU CHARACTERIZE THE COSTS ASSIGNED TO CENTERPOINT HOUSTON BY SERVICE COMPANY AND CERC?

A. The costs assigned to CenterPoint Houston by Service Company and CERC are reasonable and necessary for the support of CenterPoint Houston operations. This is borne out through: (1) Service Company and CERC compliance with variance PURA rules outlined in my testimony; (2) the consistent use of SLAs to govern relationships and transactions with affiliates; (3) the consistent use of cost center

1 assignment manuals which specify allocation factors and are updated annually as
2 warranted; and (4) the application of budgeting and other cost controls as discussed
3 in my testimony.

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

5 **A. Yes.**

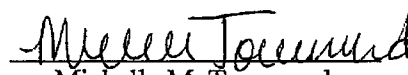
STATE OF TEXAS §
 §
COUNTY OF HARRIS §

AFFIDAVIT OF MICHELLE M. TOWNSEND

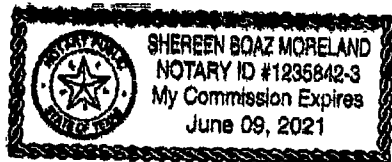
BEFORE ME, the undersigned authority, on this day personally appeared Michelle M. Townsend who having been placed under oath by me did depose as follows:

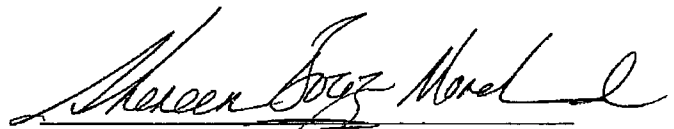
1. “My name is Michelle M. Townsend. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best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

Further affiant sayeth not.


Michelle M. Townsend

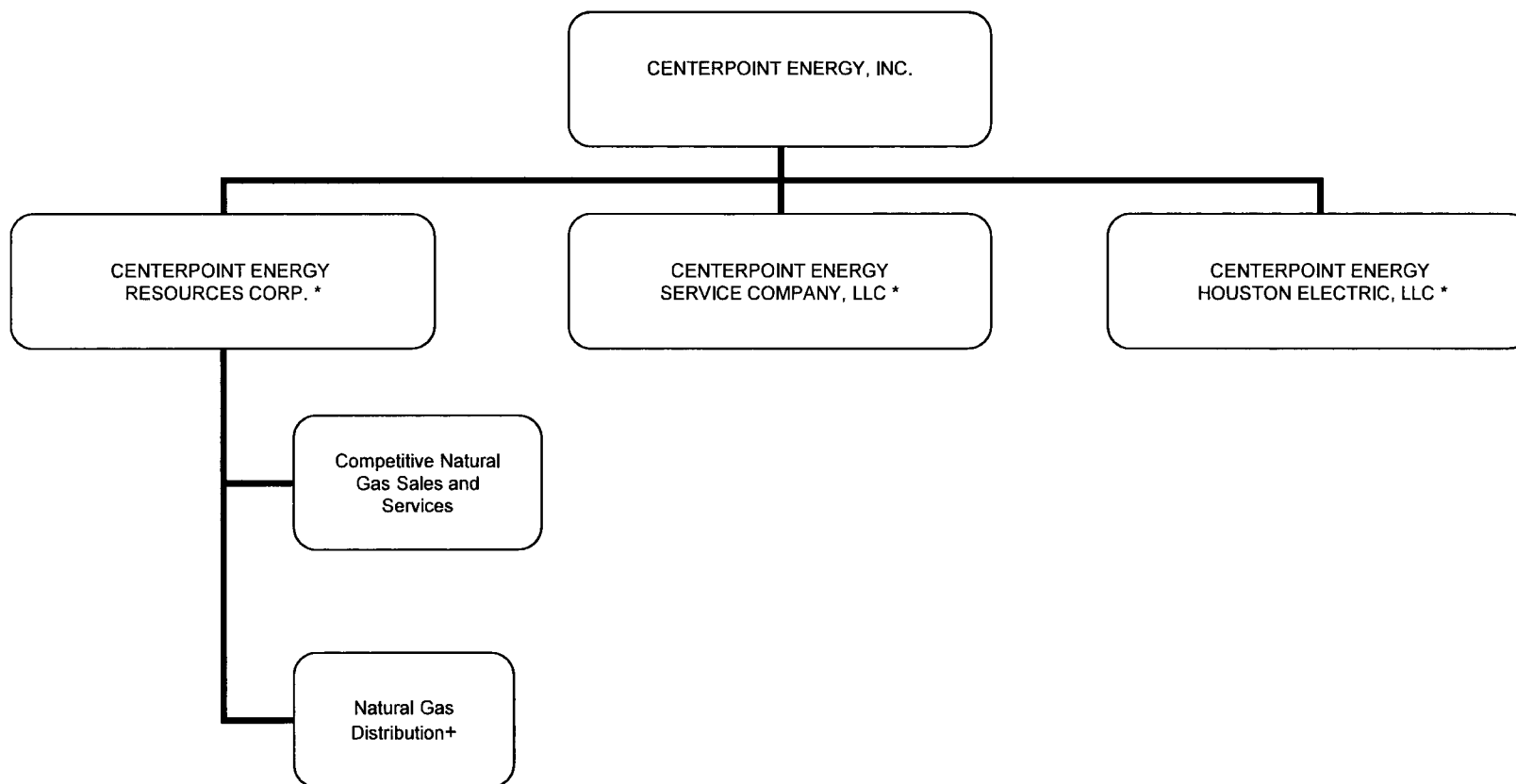
SUBSCRIBED AND SWORN TO BEFORE ME on this 19 day of March,
2019.




Notary Public in and for the State of Texas

My commission expires: 06/09/2021

CenterPoint Energy, Inc. Affiliate and Division Relationships



**This diagram only depicts affiliate relationships in the test year.

+ The Gas Division includes operations in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas.

* Legal Entities and Affiliates of CenterPoint Energy, Inc.

CenterPoint Energy Service
Company, LLC
&
CenterPoint Energy Resources
Corporation

**Corporate Cost Center
Assignment Manual
2018**

Introduction

Company operations

CenterPoint Energy (CNP) is a large, diversified energy services company. Its operations include regulated electric utility services, regulated natural gas distribution, natural gas gathering, competitive natural gas sales and services, and regulated interstate pipelines. These operations are carried out through business units which may be individual or groups of subsidiaries of CNP. The business units maintain their own accounting records, including general ledgers. In addition, CNP maintains a corporate general ledger where the costs of certain centralized corporate oversight activities are recorded and accounted for. These activities include those necessary for the overall governance of any large, publicly-held enterprise such as executive oversight, finance, corporate planning, corporate development, legal, corporate communications, human resources, regulatory and government affairs. It is the activities performed through these corporate “centers”, which are maintained on the corporate general ledger, that are subject to cost assignment using the methodology set forth in this manual.

In addition, there may be other services provided by one or more business units on behalf of another business unit. Those services are not covered by this manual.

Regulation

Some of CNP’s business units which will receive the assignment of costs set forth in this manual are regulated utilities. CNP has regulated utility operations in six states. Therefore, it is important that the cost assignment methods used be acceptable in all regulatory jurisdictions. It would be unworkable if one jurisdiction required a certain cost be assigned using a different method than another jurisdiction. To help ensure that the cost assignment methods would be acceptable in all jurisdictions, CNP engaged the firm of Maximus Inc., a firm that specializes in assignment studies, to assist in the preparation of the cost study. Many of Maximus’ clients are regulated utilities and government agencies. Maximus recommends the assignment method and the CNP staff actually calculates cost assignments.

Introduction

Regulation continued

On January 1, 2004, the Corporate areas of CNP were established as a Service Company under the Public Utility Act of 1935. In order to meet the requirements for a Service Company, CNP had to meet the reporting requirements of the Security and Exchange Commission along with the Generally Accepted Billing Practices by the PUCs within the regions of CenterPoint Energy's operations. In the fall of 2005, the Public Utility Act of 1935 was repealed with the establishment of the Energy Act of 2005. CNP continues to support the various requirements of the PUCs within the regions of CenterPoint Energy's operations.

Because CNP operates in multiple state regulated jurisdictions, the approach used in the allocation of Corporate support costs follows the cost allocation principles of the National Association of Regulatory Utility Commissioners (NARUC) "Guidelines for Cost Allocations and Affiliate Transactions". Pursuant to those guidelines, to the maximum extent practicable, administrative costs are collected, classified, and charged on a direct basis for services rendered. Maximus assisted CNP in identifying the primary cost driver (or a relevant proxy) for common costs, and the relevant cost allocators for the indirect costs of each business unit.

In choosing the assignment methods, Maximus selected cost drivers which meet the five criteria set forth on page six of the manual: (1) cost causative, (2) measurable, (3) objective, (4) stable or predictable and (5) consistently applicable. These criteria are critical because CNP is an organization in transition. It is CNP's intention to continue to pursue acquisitions to grow its existing operations. Because the portfolio of businesses will continue to change, CNP selected cost assignment methods which would continue to be meaningful and appropriate in a changing environment.

Anticipated changes

Although the methodology is flexible, the way in which it is applied across the corporate center will likely be different as CNP transitions through time. Corporate cost centers will be added and deleted and the activities within a cost center may change, so as to necessitate use of a new assignment formula.

As changes occur, CNP will update the manual and processes with the necessary changes. It is important to understand that process changes will not affect the cost assignment methodology, but merely how it is applied.

The remainder of the manual discusses the assignment method, the criteria for selections, and the calculation process.

Purpose of Assignment of Corporate Overhead Costs

The purpose of assigning corporate overhead costs to individual segments and business units is to reflect all costs of doing business in each segment and business unit including corporate overhead costs thereby reflecting the financial results of operations as though the segment or business unit had operated independently of all others.

This is consistent with the cost allocation principles outlined in NARUC's "Guidelines for Cost Allocations and Affiliate Transactions" in that the general method for charging affiliates should be on a fully allocated cost basis. In addition, in order to recognize that the registered holding company should be allocated a fair and equitable amount of service corporation charges, any statistical measures used in allocating costs from "corporate governance" departments also include the holding company's statistics.

Definition of Corporate Costs to Be Assigned

The combined CNP company is staffed with certain centralized functions operating in support of more than one of its business units. These functions are required to comply with external government and regulatory requirements or driven by valid business needs. Through centralization, duplication of staff and resources is minimized. It is these common centralized functions, which are not otherwise supporting a single business unit, that are considered "corporate costs."

Assigned corporate costs do not include billings from one business unit to another for services which reside outside of the corporate center (e.g., GIS, meter reading, transportation, line locating). Nor does it include direct charges which are specific charges incurred directly in support of a business unit and billed directly to that business unit.

Basis of Assignment of Corporate Costs

In order to obtain a reasonable cost assignment method,
the Company adhered to the following criteria:

Cost-causative--

The distribution method should represent the relationship between the cause for the expense being incurred and the effect that the activity (and its associated cost) has on the operations of the benefiting business unit.

Measurable--

The distribution method should be derived from operational or financial data which is subject to internal accounting controls and independently auditable.

Objective--

The ability to influence the outcome of the distribution of any costs that cannot be directly linked to a specific business unit must be avoided. The method should reflect the causative nature of the incurred costs, with no intrinsic bias towards any business unit.

Stable/Predictable--

The distribution method should not produce inherent variations in the distribution of costs which are not related to fundamental changes in the service level provided.

Consistently applicable--

The amounts distributed to any one business unit should be no higher than those charged to any other business unit on a per unit of usage basis. Basically, the cost per unit should be the same for all users of that particular service.

Methodology of Assignment of Costs

Steps for assignment of costs:

1. Identify costs billed to the Holding Company
2. Identify direct charge specific support
3. Identify legislative advocacy and charitable contribution costs
4. Identify CenterPoint Energy corporate overhead
5. Classify remaining support
 - A. Internal
 - B. External
 - C. Composite of Internal & External support
6. Identify and assign internal customer costs through fixed distribution
7. Identify and assign costs to support external stakeholders
8. Identify and assign cost using Composite Ratio Formula

The following pages outline these steps in further detail

Step 1: Identify Costs Billed to the Holding Company

All corporate costs that are 100% billable to the Holding Company are identified. For example, corporate development expenses are not billed to the business unit's. Non-billable costs are captured in the CNP financial statements in separate cost centers to ensure these costs are not distributed to the business units.

CNP non-billable cost centers

<u>Cost center</u>	<u>Description</u>
125150	World Energy Congress
125153	Division VP Business Development
125310	Executive Benefits Unallocated
125451	Aircraft*
125452	Aircraft*
125453	Other Non-Allocable Costs (Overhead)

*If an SBU uses the corporate airplane, the SBU will receive a charge for the service. Otherwise, the costs are billed to the Holding Company. All charges for aircraft usage are made to unique cost elements that are assigned to a non-recoverable FERC account.

Step 2: Identify Direct Charge Specific Support

Each corporate cost center is responsible for charging expenses incurred directly on behalf of any single business unit to that business unit. Direct billed charges can be either external or internal. External direct charges such as travel, consulting and legal services are costs paid to third parties on behalf of a specific business unit. Internal direct charges are labor costs charged to certain projects performed by CNP personnel for a specific business unit. In these instances, CNP corporate personnel track time and expenses and these costs are billed directly to the business unit.

Direct charges related to services procured, managed, or brokered by a corporate cost center on behalf of a business unit are incurred in a corporate cost object and then re-billed directly to the specific business unit. A monthly over/under cost recovery true-up is allocated to clients in proportion to annual planned billings.

Step 2: Identify Direct Charge Specific Support

Cost centers directly charged:

- 125019 Corporate Communications
- 125020 Corporate Legal
- 125037 Accounts Payable
- 125038 Check Print
- 125039 Bank Reconciliation
- 125051 Remittance Processing
- 125056 Community Relations
- 125095 Risk Control Manager
- 125096 Financial Accounting & Reporting
- 125097 Gas Contract
- 125104 Property Accounting
- 125108 Gas Cost Accounting
- 125112 Regulatory Reporting
- 125113 Financial Accounting - Gas
- 125115 Residential Electric Billing
- 125119 Financial Accounting
- 125122 OnePay Compliance/Admin
- 125121 Commercial Credit
- 125126 CES Business Accounting
- 125127 Large Commercial & Industrial Billings
- 125132 Regulatory Reporting - Gas
- 125151 Senior & Division VP Energy Services
- 125202 Cash Management
- 125218 Business Services
- 125420 Legal Regulatory
- 125421 Legal Litigation
- 159022 Regulatory

Step 3: Identify Legislative Advocacy and Charitable Contribution Costs

In order to adhere to certain public utility commission (PUC) requirements, certain expenses must be specifically identified for regulated business units. For example, legislative advocacy and charitable contributions must be specifically identified during billing so that regulated business units can report and treat these costs consistently with PUC directives and rules. Procedurally this step is accomplished by charging these costs to specific cost centers and accounts.

Legislative advocacy

The legislative advocacy cost centers are externally focused. The cost drivers for the legislative advocacy cost centers are shown on below:

Based on assets:

- 125042 Texas State Relations
- 125044 Federal Relations
- 125050 Local Relations

Assigned to business units operating in Texas:

- 125430 Cedar Bayou Conference Center

Charitable contributions

Charitable contributions are incurred and billed to specific accounts for proper regulatory identification and assignment by the business units.

Step 4: Identify CNP Corporate Overhead

Any costs included within certain cost center's expenditures that represent overhead costs for CNP corporate personnel are identified. Once Identified, the overhead costs are charged to business units based on the total CNP labor dollars distributed per business unit or assets of the business units.

The labor assignment method is used because the majority of CNP corporate overhead are personnel related; therefore, they should follow the distribution of CNP labor to the business units.

The activities which primarily represent overhead costs for CNP corporate personnel such as depreciation costs are assigned based on assets of the business units.

Corporate Overhead

Based on labor dollars:

- 125308 HR - Allocated Employee Benefits (Burden)
- 125311 ASC 715 Non Service Benefits
- 125312 ASC 715 Non Service Benefits (Non-Allocated)

Based on SBU Assets:

- 125198 Corporate Accounting Transactions (Corp Overhead)

Step 5: Classify Remaining Support

All costs remaining after identifying (1) Holding Company costs, (2) direct charges, (3) legislative advocacy and charitable contribution costs and (4) corporate overhead costs must be evaluated and a general determination made as to whether “internal” or “external” customers are primarily being served by the cost center.

The remaining Corporate costs are distributed to the business units on either a statistical basis or a logical cost driver. These costs are incurred in centralized functions operating in support of multiple business units to comply with government or regulatory requirements (governance) or to leverage economic value from a centralized organizational approach (support).

- Governance Cost - Allocated cost applicable to corporate departments aligned to meet fiduciary responsibilities, establish policy and provide oversight to operations of the enterprise, in compliance with government or regulatory requirements.
- Support Cost - Allocated cost applicable to corporate departments that provide functional services to multiple business units leveraging economic benefit to the combined enterprise. Support cost is further evaluated to determine whether “internal” (Business units and/or their employees) or “external” (Customers, CNP investors, regulators, the business community, and the media) constituents are primarily being served by the cost center. Support cost to internal constituents is distributed on units of use or volumetric measures depending on the cost driver, while support cost associated with external constituents is distributed based on other sound allocation methods.

Step 6: Identify and Assign Internal Customer Support Costs Through Fixed Distribution

Assignment through a fixed distribution involves conducting a detailed review of each corporate function to determine a specific cost-causation for each service provided. This cost-causation study results in a distribution percentage that is applied to cost center expenditures. This percentage is the cost-causation driver or statistic for each business unit over the total driver or statistic. For example, transmission & distribution utility assets would be the statistic over the assets (total statistic). If there are multiple cost-drivers for the activities of the cost center, then the cost center dollars will be assigned based on the ratio of the dollars for each cost driver to the total applicable dollars. Normally, the activity can be classified as primarily representing the following categories:

- Corporate administration services
- Human services
- Financial services

The cost centers are grouped by assignment method in order to facilitate the identification and assignment of internal customer support costs.

Step 6: Identify and Assign Internal Customer Support Costs Through Fixed Distribution (continued)

Internal Customer Support Costs

Based on operating expenses (less fuel):

- 125070 Financial Accounting Systems and Processes
- 125102 Federal Tax
- 125109 Transaction & Ad Valorem Tax
- 125131 Financial Accounting Gas & Monthly Close
- 125217 D&O Insurance
- 104396 CERC Insurance

Based on number of employees:

- 125094 HR – Workforce Diversity & Policies
- 125125 Finance – Payroll & Benefit Accounting
- 125130 Payroll Administration & Compliance
- 125171 HR – Recruitment Strategy
- 125175 HR – Talent Acquisition Services
- 125176 HR – Talent Acquisition Support
- 125181 HR – Learning & Organization Development
- 125186 HR – Wellness Activity Center
- 125187 HR – Information Technology
- 125188 HR – Labor Relations
- 125197 HR – Shared Services
- 125410 HR – College Relations
- 158801 HR – Electric Operations
- 158802 HR – Compensation
- 158803 HR – Benefits
- 158805 HR – Gas Operations

Step 7: Identify and Assign Costs to Support External Stakeholders

The next step in the process is the distribution of any external support costs. External support costs benefit the overall management and operations of the business units and therefore, indirectly its customers, investors and communities in which it operates. In order to operate, a business unit generally must have assets and liabilities. As operations expand and grow, the balance sheet reflects this growth. The larger entities within the consolidated group are generally provided more support by corporate centers in terms of resources and time spent on their operations. In addition, the more significantly sized business units tend to be those “served first” where decisions must be made affecting all business units. Therefore, where support is provided either directly or indirectly the largest business units needs will tend to be given a higher priority. An assignment based on asset values as a reasonable proxy for size, will therefore best meet the causation criteria which should be considered in selecting an assignment method.

Please refer to the cost centers listed below. The cost centers are grouped by assignment method in order to facilitate the identification and assignment of external stakeholder support costs.

External stakeholder support costs

Based on assets:

- 125093 Financial Services
- 125214 Corporate Insurance Premiums
- 104304 CERC Finance
- 104397 CERC Directors/Officers

Step 8: Identify and assign cost using Composite Ratio Formula

The final step in the process is the distribution of specific governance costs. The Composite Ratio Formula allocates costs incurred by a Service Company on behalf of its affiliates to those affiliates. This three-part formula attempts to weight various aspects of each of the affiliates so that a fair distribution of the overhead cost is allocated to each affiliate member. The concept behind the Composite Ratio Formula attempts to balance conceptual correctness and practicality to provide a consistent and equitable allocation. Since CNP is operating in a capital-intensive industry, one of CNP's key focuses is to manage their assets to ensure the generation of revenues. Another key focus is to produce an ample revenue flow to meet the financial obligations along with a reasonable rate of return as established by each Public Utility jurisdiction in which CNP operates. Therefore, due the environment in which CenterPoint Energy (CNP) operates, assets and gross margin are given a higher weight than headcount.

Combination of Internal & External stakeholder support costs Based on Composite Ratio:

• 125001	President & CEO
• 125002	Chief Operating Officer
• 125004	Executive VP & CFO
• 125007	Financial Planning & Performance Management
• 125008	Finance Process Improvement
• 125021	Central Legal
• 125033	Process Improvement
• 125055	Legal Records Management / Ethics & Compliance
• 125090	Strategic Planning
• 125100	Chief Accounting Officer
• 125101	Financial Reporting / Corporate Accounting
• 125152	Executive Vice President
• 125203	Corporate Insurance/ Risk Management
• 125205	Investor Services
• 125210	Long Term Financing
• 125211	Investor Relations
• 125307	SVP & Chief HR Officer
• 125309	HR – Allocated Executive Benefits
• 125402	Chief Risk Officer
• 125404-125409	Audit Services
• 125413	Data Privacy
• 125999	Legal - Board of Directors

Cross Charges - Final Settlement Cost Centers

Major activities/Cost Center Overview:

Cost centers are established to accumulate all charges from the Functional Areas cost centers to be billed to the Business Units and other Corporate Business Services organizations, such as Finance, Legal, Communications, Government Affairs, Executive Office, Human Resources and Information Technology.

For administrative tracking and reporting, a standard allocation method is used to distribute all cross charged support between all Service Company 0002 organizations.

Assignment method:

- Support to other Service Company 0002 organizations from the Functional Areas are allocated into their final settlement cost centers for the business units based on their own respective billings into each.
- Support from other Service Company 0002 organizations to the Functional Areas are allocated into the Functional Area's final settlement cost centers based on Function's total billings into each.
- Each final settlement cost center is fully allocated to the applicable business unit.

Basis of assignment:

Final settlement cost centers are established to accumulate charges for proper FERC classification when billing to business units. All billed expenses of a like nature are grouped and allocated using designated secondary cost elements for each function and type of expense.

Senior Executive Office

President and Chief Executive Officer

Cost Center 125001

Major activities:

General activities and costs to support the office of the CEO such as salaries of the CEO and an executive assistant.
Oversees operations and strategic direction of the company

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Activities of this cost center primarily relate to providing support and interfacing with the board of directors and external entities such as stockholders, the investment community, customers and regulators. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Chief Operating Officer

Cost Center 125002

Major activities:

General activities and costs to support the office of the COO such as salaries of the COO and an executive assistant.
Oversees operations and strategic direction of the company

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Activities of this cost center primarily relate to providing support and interfacing with the board of directors and external entities such as stockholders, the investment community, customers and regulators. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Senior & Division VP Energy Services

Cost Center 125151

Major activities:

General activities and costs to support strategic planning for CenterPoint Energy Services such as salaries of Senior & Division VP Energy Services employees, administrative, consulting costs, etc.

Assignment method:

90% to CES and 10% to the Holding Company

Basis of assignment:

Based on a review of the activities of this cost center, the costs incurred by this cost center are billed 90% to CES and 10% to the Holding Company.

Executive Vice President

Cost Center 125152

Major activities:

General activities and costs to support strategic planning/business development for corporate and business units such as salaries of strategic planning/business development department employees, administrative, consulting costs, etc.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs have an emphasis on financial and economic analysis of business unit and corporate strategies to improve the profitability of the business units (internal organizations). The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Process Improvement

Cost Center 125033

Major activities:

General activities and costs to support corporate and business units.
Assistance to business units in the development of strategies.
Economic and financial analysis of business unit and corporate strategies.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs have an emphasis on financial and economic analysis of business unit and corporate strategies to improve the profitability of the business units (internal organizations). The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Environmental & Safety

VP Environmental Safety & Training

Cost Center 125120

Major activities:

Administrative oversight for all safety and environmental functions , general activities and costs to support environmental safety & training activities for Corporate and business units.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Headcount B, allocating to all active employees.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs have an emphasis on the environmental and safety activities of all business units, to ensure CNP employees are following the environmental and safety compliance training. These costs are cost incurred by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Headcount B, allocating to all active employees.

Safety Management System

Cost Center 125133

Major activities:

Administrative oversight for the safety management system.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.

Assignable internal labor charges are billed directly to the applicable business unit.

All other costs are assigned based on Headcount B, allocating to all active employees.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs have an emphasis on the managing of the safety management system, tracking the metrics of safety and environmental activities for the organization. These costs are cost incurred by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Headcount B, allocating to all active employees.

Finance & Accounting

Executive VP and CFO

Cost Center 125004

Major activities:

General activities and costs to support the office of the CFO such as salaries of the CFO and an executive assistant.
Oversees the financial & accounting operations and financial strategic direction of the company

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, most services can be classified as financial services with an emphasis on financial compilation, review, planning and management. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Financial Planning & Performance Management

Cost Center 125007

Major activities:

Planning and business unit performance reviews.
Financial forecasting.
Development of plans and goals.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, most services can be classified as financial services with an emphasis on one year and five year financial forecast compilation and analysis. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Finance Process Improvement

Cost Center 125008

Major activities:

General activities and costs to support corporate and business units. Assistance to business units in the development of strategies. Economic and financial analysis of business unit and corporate strategies.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs have an emphasis on financial and economic analysis of business unit and corporate finance strategies to improve the profitability of the business units (internal organizations). The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Accounts Payable

Cost Center 125037

Major activities:

Accounts Payable provides three (3) services which include: automated invoice processing, for all invoices processed via electronic payment, manual invoice processing for invoices manually entered into SAP by the central A/P staff, and special payment runs, authorized only in an emergency outside of normal payment runs (7:00 a.m. and 1:00 p.m.)

Assignment method:

Method of invoice entry into the accounts payable system

Number of line item transactions

Billable Hours

A portion of Accounts Payable allocations are capitalized to each business unit utilizing its services since the materials & supplies and contract services used to build plant assets could not be paid for without this function

Basis of assignment:

- A/P provides three (3) transaction driven services, each with its own fixed annual rate. They are: Manual Invoice Processing, Automated Invoice Processing, and Special Payment Runs.
- Emergency payments (requiring special payment run) are billed at a flat rate of \$250 per payment.
- Manual and Automated Invoice Processing services are billed to a client (monthly) based on the number of transactions times the service rate.
- Individual service rates are determined annually by calculating the total annual cost of providing a given service by the number of annual transactions estimated for the service.
- The estimated number of annual transactions is determined by historical precedent, modified by projected levels of future activity.
- Billable Hour Service - Workflow invoices that require a processing type change.
- After determining the planned service levels by company, capital allocations to construction overhead are calculated using the ratio of annual budgeted spend by company for capital materials & supplies and contract services compared to non-capital spend.
- Residual O&M amounts are cleared monthly based on planned dollars for activities.

Check Print

Cost Center 125038

Major activities:

Check Print provides services necessary for the printing and distribution of Accounts Payable and Payroll, Refund and Claims checks in compliance with the CNP Check Disbursement Policy. These services will include the following activities:

- Print checks, insert into envelopes, and prepare for distribution.
- Assist in the investigation of fraudulent checks.
- Send stop pay instructions to bank upon client request.
- Provide copies of cashed checks upon client request.
- Monitor bank Positive Pay file, which is file sent to notify the bank of checks issued.
- Provide ongoing review/investigation of new security features for Company check stock.

Assignment method:

Costs are assigned based on total estimated volume of printed checks.

Basis of assignment:

The annual cost of service for Check Print is divided by total estimated volume of printed checks to determine the standard rate.

Actual costs are calculated monthly by multiplying the standard rate times the actual check volume.

Check courier costs will be incurred directly by the Business Unit.

Bank Reconciliation

Cost Center 125039

Major activities:

Provide timely reconciliation of General Fund and Controlled Disbursement bank accounts to the General Ledger. Perform all activities required to satisfy the unclaimed property laws of the various states as relates to accounts payable checks.

Assignment method:

Time spent for each Business Unit overseeing and completing each account reconciliation, including research and clearing activities, and escheat services.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to the Business Units in proportion to their annual planned billings.

Remittance Processing

Cost Center 125051

Major activities:

CNP Remittance Processing will provide the following services:

- Open, process, and create deposits for all payments received.
- Update, research and correct customer accounts as required, for all payments received via US Mail, Courier, ACH, Wire, EFT or any payments received with an electronic transmission from authorized third party vendors.
- Resolve discrepancies in customer accounts (payments), bank deposits, balance sheets and General Ledger entries created by Remittance.
- Reconcile Remittance BAI (Bank Administration Institute) files, bank deposits, and general ledger entries.

Assignment method:

Paper Processing is billed on a standard unit cost basis.

Remittance Processing Research and Resolution is billed hourly.

Direct Client Incurred: Third party charges for payment collections (CheckFree, BillMatrix, etc.) are charged directly to the Business Unit.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to the Business Units in proportion to their annual planned billings.

Financial Accounting Systems and Processes

Cost Center 125070

Major activities:

General activities and costs associated with the use of financial systems and processes identified with accounting services by Strategic Business Units.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit, such as labor costs associated with accounting research specific to the business unit.

All remaining cost are assigned based on operating expense (less fuel).

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs can be classified as accounting services with an emphasis on financial systems and processes on behalf of the business (internal organizations). Therefore, the fixed distribution should be correlated to the size, complexity and activity level of the business units' operations. The fixed distribution percentage selected is based on the amount of operating expenses per business unit, less fuel costs. Fuel costs are excluded as for most entities these costs are pass-through items and recoveries are timely. This measure is a reasonable proxy for the relative transaction volumes and activity levels of each business unit.

Strategic Planning

Cost Center 125090

Major activities:

General activities and costs to support strategic planning for corporate and business units such as salaries of strategic planning department employees, secretarial services, consulting costs, etc.
Assistance to business units in the development of strategies.
Economic and financial analysis of business unit and corporate strategies.
Development and analysis of five year strategic forecasts of business units.
Outside consulting costs related to the evaluation of strategic plans of business units and corporate.
Benchmarking.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs have an emphasis on financial and economic analysis of business unit and corporate strategies to improve the profitability of the business units (internal organizations). The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Financial Services

Cost Center 125093

Major activities:

Financial Services general costs such as labor and supplies associated with management oversight of the execution of goals and initiatives for the transactional areas of finance, which include Electric Billing, Remittance Processing, Accounts Payable, Corporate Disbursements and the OnePay card program.

Assignment method:

Costs are assigned based on assets of the business units.

Basis of assignment:

Cost are allocated based on assets to the business units by the Financial Services functions.

Risk Control Manager

Cost Center 125095

Major activities:

- Safeguarding corporate assets
- Mitigating risks inherent in natural gas commodity transactions
- Analyzing, recording, verifying and reporting risks associated with natural gas commodity transactions.

Assignment method:

Hours worked directly on behalf of a Business Unit.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to the Business Units in proportion to their annual planned billings.

Financial Accounting & Reporting

Cost Center 125096

Major activities:

Financial Accounting and Reporting general costs such as labor, employee expense, and supplies associated with management oversight of the general, property, revenue and gas cost accounting functions and bank reconciliation function for CenterPoint Energy's regulated and corporate companies to ensure that financial data is in compliance with GAAP, FERC, Sarbanes-Oxley and regulatory requirements.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs can be classified as accounting services with an emphasis on financial compilation, financial statement and results analysis. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to the Business Units in proportion to their annual planned billings.

Gas Contract

Cost Center 125097

Major activities:

- Mitigate contractual risk within the Risk Control and Contract Administration (CA) Policy and Procedure guidelines.
- Facilitate and expedite in conjunction with the Transactional Representatives, Legal, Credit, and Accounting the execution, amendment, termination and renegotiation of contracts, including letter agreements and notices.
- Draft, analyze and process the contracts, including applicable schedules, exhibits and transaction confirmations, in a timely and accurate manner for all CenterPoint Energy companies served.
- Manage storage, retention and archival of all contracts, transaction confirmations, notices and letter agreements.

Assignment method:

Hours worked directly on behalf of a Business Unit.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to the Business Units in proportion to their annual planned billings.

Chief Accounting Officer

Cost Center 125100

Major activities:

General activities and costs to support the office of the CAO such as salaries of the CAO and an executive assistant.
Oversees the accounting operations and financial planning & performance measurement of the company

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, most services can be classified as financial services with an emphasis on financial compilation, review, planning and management provided. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Financial Reporting / Corporate Accounting

Cost Center 125101

Major activities:

- Compilation of internal and external financial reports.
- Financial analysis of results of operations.
- SEC compliance reporting.
- Accounting support of financing activities.
- Perform due diligence reviews for acquisitions and provide accounting guidance for proposed transactions.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit, such as labor costs associated with accounting research specific to the business unit. All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs can be classified as accounting services with an emphasis on financial compilation, financial statement and results analysis. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Federal Tax

Cost Center 125102

Major activities:

- Compilation of federal tax returns.
- Preparation of estimates and payment of federal taxes.
- Calculation of federal current and deferred tax expense, current taxes payable and deferred tax liabilities.
- Federal tax planning.
- Coordination and response to internal revenue services inquiries and audits.
- Preparation and maintenance of international tax data for accrual and dividend planning purposes.
- Maintenance of tax systems.
- Perform due diligence reviews for proposed acquisitions.
- Monitor proposed tax legislation and prepare appropriate responses.
- Litigation support for federal tax issues.

Assignment method:

- Direct charges are tracked and charged directly to the applicable business unit.
- Assignable internal labor charges are billed directly to the applicable business unit.
- All remaining cost are assigned based on operating expense (less fuel).

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs can be classified as financial services with an emphasis on tax compilation, tax planning and audit inquiry costs provided/incurred on behalf of the business units (internal organizations). Therefore, the fixed distribution should be correlated to the size, complexity and activity level of the business units' operations. The fixed distribution percentage selected is based on the amount of operating expenses per business unit, less fuel costs. Fuel costs are excluded as for most entities these costs are pass-through items and recoveries are timely. This measure is a reasonable proxy for the relative transaction volumes and activity levels of each business unit.

Property Accounting

Cost Center 125104

Major activities:

Provides Property Accounting services in compliance with GAAP and FERC that include: Maintaining fixed asset records and associated accumulated depreciation, providing guidance in making capital and expense determinations, providing fixed asset accounting/reporting to support corporate, financial, operational and regulatory requirements, and managing internal controls related to fixed asset records and test controls in compliance with Sarbanes-Oxley.

Assignment method:

Direct capital activities and non-capital activities are billed to the business units through a billable hour rate. Capital activities are determined based upon the capital related transactions being performed . All remaining amounts are cleared monthly based on planned activities.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are tracked between direct capital activities, such as asset unitization transactions and automated transaction corrections, and non-capital related activities, each of which are billed directly attributable to each business unit. Any over/under cost recovery each month is allocated to business units in proportion to their annual planned billings.

Gas Cost Accounting

Cost Center 125108

Major activities:

Prepares monthly cost of gas and over/under journal entries, attests to income statement and balance sheet representation for cost of gas, and performs inventory accounting functions for Gas & Electric Operations.

Assignment method:

Direct costs billed to the business units through a billable hour rate. All remaining amounts are cleared monthly based on planned activities.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to Business Units in proportion to their annual planned billings.

Transaction & Ad Valorem Tax

Cost Center 125109

Major activities:

- Compilation of sales and use tax returns (excluding Minnegasco support).
- Compilation of state income and franchise tax returns.
- Preparation of estimates and payment of state income taxes.
- Calculation of state current and deferred tax expense, current taxes payable and deferred tax liabilities.
- State tax planning.
- Coordination and response to state and local tax inquiries and audits.
- Prepare SFAS 109 accruals.
- Perform due diligence reviews for proposed acquisitions and provide state income tax estimates for proposed acquisitions.
- Monitor proposed tax legislation and prepare appropriate response.
- Litigation support for state and local tax issues.

Assignment method:

- Direct charges are tracked and charged directly to the applicable business unit.
- Assignable internal labor charges are billed directly to the applicable business unit.
- All remaining cost are assigned based on operating expense (less fuel).

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs can be classified as financial services with an emphasis on tax compilation and analysis and planning and audit inquiry costs provided/incurred on behalf of the business units (internal organizations). Therefore, the fixed distribution should be correlated to the size, complexity and activity level of the business units' operations. The fixed distribution percentage selected is based on the amount of operating expenses per business unit, less fuel costs. Fuel costs are excluded as for most entities these costs are pass-through items and recoveries are timely. This measure is a reasonable proxy for the relative transaction volumes and activity levels of each business unit.

Regulatory Reporting

Cost Center 125112

Major activities:

Rate case support, regulatory reporting, general accounting

Assignment method:

Direct costs billed to the business units through a billable hour rate. All remaining amounts are cleared monthly based on planned activities.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to Business Units in proportion to their annual planned billings.

Financial Accounting – Gas

Cost Center 125113

Major activities:

Responsible for preparing all revenue, volume and customer count related documents and reports primarily for Gas Operations. This primarily includes unbilled revenue, city franchise fees, state gross receipts and RRC fees, interest on customer deposits, transportation, billing determinants and billing determinant rate adjustment reporting.

Assignment method:

Direct costs billed to the business units through a billable hour rate. All remaining amounts are cleared monthly based on planned activities.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to Business Units in proportion to their annual planned billings.

Residential Electric Billing

Cost Center 125115

Major activities:

Transaction verification and processing for the electric revenue billing for residential, small commercial, and guard light premises. Internal control balancing between systems and other Sarbanes-Oxley key controls are completed.

Assignment method:

Billable hour rate used to bill exception time for direct work outside core activities, otherwise charged entirely to CenterPoint Energy Houston Electric.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to Business Units in proportion to their annual planned billings.

Financial Accounting

Cost Center 125119

Major activities:

Performing general accounting functions such as accruals, amortizations, reconciliations, and attesting to financial data in compliance with GAAP, FERC, Sarbanes-Oxley and regulatory requirements. Also includes a managerial accounting oversight function performed by the Cost Center Manager.

Assignment method:

Direct costs billed to the business units through a billable hour rate. Oversight activities billed as governance on a composite ratio. All remaining amounts are cleared monthly based on planned activities.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to the Business Units in proportion to their annual planned billings.

Commercial Credit

Cost Center 125121

Major activities:

Provides professional services by assessing creditworthiness and the proper monitoring of credit limits and timeliness of collection of accounts receivable balances in order to minimize credit risk.

Assignment method:

Direct costs billed to the business units through a billable hour rate. All remaining amounts are cleared monthly based on planned activities.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to Business Units in proportion to their annual planned billings.

OnePay Compliance/Admin

Cost Center 125122

Major activities:

Salaries and associated expenses for overseeing and monitoring expense reimbursement activities within the OnePay System.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
OnePay Administration related costs are assigned based on the total estimated volume of expense reports.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs can be classified as accounting services with an emphasis on accounting practice compliance. The annual cost of service for OnePay Administration is divided by total estimated volume of expense reports to determine the standard rate. Actual costs are calculated monthly by multiplying the standard rate times the actual expense report volume. Costs related to compliance activities are assigned based on Composite Ratio Formula.

Payroll & Benefits Accounting

Cost Center 125125

Major activities:

Salaries and associated expenses for payroll accounting and benefits accounting

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All remaining cost are assigned based on number of employees.

Basis of assignment:

Based on a review of this cost center, the related costs incurred in leading these activities benefit all business units and are therefore allocated proportionately based on the number of employees in each business unit.

CES Business Accounting

Cost Center 125126

Major activities:

Labor, employee related expenses and other costs associated with accounting functions performed for CenterPoint Energy Services.

Assignment method:

Billable hour rate used to bill exception time for direct work outside core activities, otherwise charged entirely to CenterPoint Energy CES.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Over/under cost recovery is allocated to BU in proportion to annual planned billings

Large Commercial & Industrial Billings

Cost Center 125127

Major activities:

- Provides transaction processing for electric revenue billing for large commercial and industrial premises, as well as Street Light billing
- Provides validation, editing and estimating of electrical usage for large commercial and industrial premises
- Performs billing verifications and processes error exceptions
- Performs internal control balancing between systems as well as other Sarbanes-Oxley controls

Assignment method:

This cost center is direct billed to Business Units supported, in this case CenterPoint Energy Houston Electric.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to Business Units in proportion to their annual planned billings.

Payroll Administration & Compliance

Cost Center 125130

Major activities:

General activities and costs to support the Payroll group, such as salaries for department employees.
Process and issue direct deposits, printed checks, and off-cycle (special request) checks
Process and issue Travel Advances
Process Per Diems
Educational Assistance
Process Relocation Allowances
Process and issue bonus payments and salary changes
Administer voluntary deductions and wage garnishments
Comply with union agreements as they relate to payroll
Prepare and file payroll related tax returns
Issue employee W-2 forms and certain non-employee 1099s

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All remaining cost are assigned based on number of employees.

Basis of assignment:

Based on a review of this cost center, the related costs incurred in leading these activities benefit all business units and are therefore allocated proportionately based on the number of employees in each business unit.

Financial Accounting Gas & Monthly Close

Cost Center 125131

Major activities:

General activities and costs associated with the management and execution of the monthly financial close as well as management of the activities for the general accounting area for Arkla and Entex..

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit, such as labor costs associated with accounting activities specific to the business unit.

All remaining cost are assigned based on operating expense (less fuel).

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs can be classified as accounting services with an emphasis on monthly financial close on behalf of the business (internal organizations). Therefore, the fixed distribution should be correlated to the size, complexity and activity level of the business units' operations. The fixed distribution percentage selected is based on the amount of operating expenses per business unit, less fuel costs. Fuel costs are excluded as for most entities these costs are pass-through items and recoveries are timely. This measure is a reasonable proxy for the relative transaction volumes and activity levels of each business unit.

Regulatory Reporting - Gas

Cost Center 125132

Major activities:

Rate case support, regulatory reporting, general accounting for Gas Operations

Assignment method:

Direct costs billed to the business units through a billable hour rate. All remaining amounts are cleared monthly based on planned activities.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to Business Units in proportion to their annual planned billings.

Corporate Accounting Transactions (Overhead)

Cost Center 125198

Major activities:

General corporate capital expenditures that are capitalized and depreciated in future periods.

Assignment method:

Costs are considered corporate overhead costs and are assigned using the method described below.

Basis of assignment:

The activities primarily represent overhead costs for CNP corporate personnel such as depreciation costs. Therefore, the costs are assigned based on assets of the business units.

Cash Management

Cost Center 125202

Major activities:

General activities and costs to support the cash management department which includes department salaries, secretarial services, and supplies.

Bank Fees

Payment of financing obligations (including interest) and related fees.

Daily cash management.

Monitoring bank accounts.

Execution of wire transfers.

Forecasting cash needs.

Manage banking relations in order to resolve problems and to minimize transaction costs.

Manage Money Pool accounts

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit. (I.E., Bank fees)

Assignable internal labor charges are billed directly to the applicable business unit.

Basis of assignment:

Based on a review of the activities of this cost center, most services can be classified as financial services provided on behalf of the business units (internal organizations). The costs incurred are by the Service Company on behalf of its affiliates.

Corporate Insurance/Risk Management

Cost Center 125203

Major activities:

- Analyze exposure and determine appropriate risk treatment
- Select insurance brokers and procure insurance policies
- Procure Workers' Compensation insurance and administer program
- Procure state required boiler and pressure vessel inspection services
- Procure, conduct, coordinate, assist and/or monitor loss control activities to reduce frequency and severity of claims
- Report claims to underwriters
- Compile and adjust 1st party property claims
- Other Insurance/Risk Management activities required by company

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit
Assignable internal labor charges are billed directly to the applicable business unit.
All remaining costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Activities of this cost center primarily relate to providing support to external entities such as the stockholders. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Investor Services

Cost Center 125205

Major activities:

General activities and costs to support the investor services department such as salaries and supplies.
Payment of dividends to stockholders.
Coordination of dividend reinvestment plan.
Mailing of annual reports.
Shareholder recordkeeping.
Coordination of stockholder meetings.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit
Assignable internal labor charges are billed directly to the applicable business unit.
All remaining costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Activities of this cost center primarily relate to providing support to external entities such as the stockholders. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Long Term Financing

Cost Center 125210

Major activities:

General activities and costs to support the administration and oversight of financial services and cash management including the salaries of the assistant treasurer and an assistant.
Financial analysis of existing financing.
Evaluation of new financing vehicles and instruments.
Support investment activities.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, most services/costs have an emphasis on financing options and investment analysis of business units to improve the profitability of the business units (internal organizations). The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Investor Relations

Cost Center 125211

Major Activities:

General activities and costs to support the investor relations department including salaries of department employees, secretarial services, travel and meeting costs.
Plan and prepare analyst presentations.
Meetings with security analysts and rating agencies.
Financial analysis to support discussions with security analysts and rating agencies.
Publications/reports sent to third parties including investors, analysts and rating agencies.
Coordination of statistical summary book.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

The activities primarily relate to providing services to external parties such as security analysts and rating agencies. The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Corporate Insurance Premiums

Cost Center 125214

Major Activities

Primary costs are the premium costs of various types of insurance procured for the business units.
General activities and costs to support the insurance benefits group.
Consulting costs related to insurance evaluations.
Internal evaluation of insurance risks and needs.

Assignment method:

Direct charges consist primarily of insurance premium costs and charged directly to the applicable business unit.
All remaining costs are assigned based on asset values of the business units.

Basis of assignment:

The primary responsibility of this corporate center is to procure insurance and to assist business units in managing property and liability risks of their business units. The remaining costs of the department which cannot be direct billed are assigned based on the CenterPoint Energy assets per business unit.

D&O Insurance

Cost Center 125217

Major Activities

Directors and officers insurance costs

Assignment method:

Cost are assigned based on operating expense (less fuel)

Basis of assignment:

Based on a review of the activities of this cost center, services/costs can be classified as directors and officers insurance provided/incurred on behalf of the business units (internal organizations). Therefore, the fixed distribution should be correlated to the size, complexity and activity level of the business units' operations. The fixed distribution percentage selected is based on the amount of operating expenses per business unit, less fuel costs. Fuel costs are excluded as for most entities these costs are pass-through items and recoveries are timely. This measure is a reasonable proxy for the relative transaction volumes and activity levels of each business unit.

Business Services

Cost Center 125218

Major activities:

Labor, employee related expenses and other costs associated with managing the Business Services planning and management reporting functions, including preparation of annual 5-year plans, reporting performance against plan on a monthly basis, and providing support for and assisting in regulatory filings.

Assignment method:

Direct Costs are tracked and billed to the Business Units through a billable hour rate. All remaining amounts are cleared monthly based on planned activities.

Basis of assignment:

The hourly rate is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to Business Units in proportion to their annual planned billings.

Chief Risk Officer

Cost Center 125402

Major Activities:

- Develop and maintain Corporate risk management policy.
- Develop and maintain Corporate risk infrastructure.
- Assist business units with specific risk limits, policy developments and implementation.
- Advise Commodity Risk Oversight Committee and arrange risk reviews with office of the CEO.

Assignment method:

- Direct charges are tracked and charged directly to the appropriate business unit.
- Assignable internal labor charges are billed directly to the applicable business unit.
- All other costs are assigned based on Composite Ratio Formula.

Basis of assignment:

Based on a review of the activities of this cost center, the risk control activities are provided/incurred on behalf of the business units (internal organizations). The costs incurred are by the Service Company on behalf of its affiliates. Therefore, the costs are assigned based on Composite Ratio Formula.

Government Affairs

Texas State Relations

Cost Center 125042

Major activities:

General activities and costs to support the Texas state government relations department including salaries of department employees, administrative services, state legislative advocacy costs, legislative consulting and advisor costs and travel costs, etc.

Lobbying activities related to electric and natural gas industries' regulation, environmental issues, taxes, land use issues, tort reform, ethics, etc.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.

Assignable internal labor charges are billed directly to the applicable business unit.

All other costs are associated with legislative advocacy which is assigned as described below.

Basis of assignment:

Activities relate to Texas state legislative advocacy which directly benefits the business units operating in Texas. Costs are assigned to business units operating in Texas based on assets.

Federal Relations

Cost Center 125044

Major activities:

General activities and costs to support Federal government relations activities including legislative advocacy costs, legislative consulting and advisor costs and travel costs, etc.

Lobbying activities related to industry regulation, environmental issues, taxes, pipeline safety, federal land issues, natural gas production, etc.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.

Assignable internal labor charges are billed directly to the applicable business unit.

All other costs are associated with legislative advocacy which is assigned as described below.

Basis of assignment:

Activities relate to Federal legislative advocacy which directly benefits all business units. Costs are assigned to business units based on assets.

Local Relations

Cost Center 125050

Major activities:

General activities and administrative costs to support the Houston area (local) government relations department including salaries of department employees, advocacy, and legislative consulting costs.

Lobbying activities related to electric and natural gas delivery industry, environmental issues, land use issues, taxes, franchise fees, operational ordinances, etc. with local regulations.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.

Assignable internal labor charges are billed directly to the applicable business unit.

All other costs are associated with legislative advocacy which is assigned as described below.

Basis of assignment:

The activities of this cost center relate to advocacy with Texas local governments. Costs are charged to business units operating in the Houston area and is based upon assets.

Cedar Bayou Conference Center

Cost Center 125430

Major activities:

General activities and administrative costs to support the Cedar Bayou Conference Center and employees, including salaries of employees, and ongoing operations and maintenance of the property,
Lobbying activities for Texas State Relations, Local Relations, and Federal Relations related to electric and natural gas delivery.
CNP offsite meetings.

Assignment method:

Costs are associated with legislative advocacy which is assigned as described below.

Basis of assignment:

Activities relate to Texas state legislative advocacy which directly benefits the business units operating in Texas. Therefore, the costs are assigned to business units operating in Texas.

Corporate Communications/Community Relations

Corporate Communications

Cost Center 125019

Major activities:

General activities and costs to support the administration and management of corporate communications travel and consulting cost, etc.

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
Assignable internal labor charges are billed directly to the applicable business unit.
General communication and costs are assigned based on asset values as described below.
Communication Governance associated costs are allocated on the composite ratio.
Employee communications are assigned based on number of employees.

Basis of assignment:

Based on a review of the activities of this cost center, services relate to media, financial audiences, employee communications and the community at large.

Community Relations

Cost Center 125056

Major activities:

General activities and cost incurred to support and retain community relations including salaries of department employees and costs associated with educational outreach, volunteer initiatives, philanthropy, and safety education.

Assignment method:

Direct Costs are tracked and billed directly to the Business Units through billable hour rate. All remaining amounts are cleared monthly based on planned activities.

Basis of assignment:

The costs represent support associated with community programs and activities which support all the business units. The costs incurred are by the Service Company on behalf of its affiliates. Direct program costs are billed through a billable hour rate, which is calculated by dividing the annual budget by the number of hours available for billing. Hours are billed each month as directly attributable to each Business Unit. Any over/under cost recovery each month is allocated to Business Units in proportion to their annual planned billings.

Regulatory

Regulatory

Cost Center 159022

Major activities:

- Develop and implement Regulatory strategy
- Develop and implement Legislative policy and strategy
- Coordinate dockets for regulatory policy rulemaking
- Coordinate rate proceedings and other technical filings

Assignment method:

- Direct charges are tracked and charged directly to the applicable business unit.
- Assignable internal labor charges are billed directly to the applicable business unit.

Basis of assignment:

Activities of this cost center primarily relate to regulatory activities and are billed to the applicable business unit. A monthly over/under cost recovery true-up is allocated to clients in proportion to annual planned billings.

Human Resources

HR-Workforce Diversity & Policies

Cost Center 125094

Major activities:

General activities and costs to support the Affirmative Action group, such as salaries for department employees.
Department of Labor reports
Office of Federal Contract Compliance Programs
Affirmative action plans
Drug & Alcohol Testing (DOT and Non-DOT)
Diversity Initiatives

Assignment method:

Direct charges are tracked and charged directly to the applicable business unit.
All remaining cost are allocated to business units proportionally based on number of employees.

Basis of assignment:

Based on a review of the activities in this cost center, the related costs incurred in leading these activities benefit all business units and are therefore allocated proportionately based on the number of employees in each business unit.