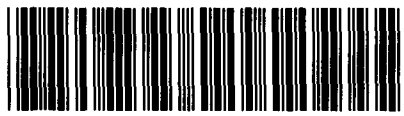

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SOAH DOCKET NO. 473-19-3864
PUC DOCKET NO. 49421

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR AUTHORITY TO CHANGE RATES	**§ § §**	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

May 16, 2019

Contact: Denise Hardcastle
CenterPoint Energy Houston Electric, LLC
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Houston, Texas 77002
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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864

TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-01

QUESTION:

Depreciation Data Requests
Please provide all property data utilized in the depreciation study, including, but not limited to, additions, retirements, transfers, sales, adjustments, cost of removal, and salvage data.

a. Please provide this data by account, placement, and experience year since the date of inception.
b. Please provide all survivors for each account as of the study date.
c. Please include all transaction codes and a description of each transaction code.
d. Please also provide a description of any production unit / group / location codes if applicable.
e. This data should allow for the reconstruction of the analysis and calculations performed as part of the depreciation study.
f. Please provide this information in Excel format with formulae intact where applicable.

ANSWER:

Please see Exhibit DAW-1, which included Mr. Watson's electronic workpapers.

a. Information relating to the data used in the depreciation study is found in various folders in Mr. Watson's electronic workpapers. Data for actuarial analysis (aged retirements) is found in the folder Actuarial Data set which contains transaction codes and other relevant data. That information is not available from the inception of the Company.
Data used for unaged life analysis (SPR analysis) is found in the folder SPR data set.
Finally, net salvage data is found in the folder Net Salvage

b. See response to part a.

c. The transaction codes are: Balance for Plant balances, Ret which means Regular Retirements, Addition for Plant addition, Trans for Transfer, Sale for a retirement which was a sale of property, and Transfer for Transfer.There is no production data included in the depreciation study.

d. There is no production data included in the depreciation study.

e. The information provided in response to part a was the data used in the original depreciation study.

f. Some of the reports produced by Alliance Consulting Group's software are only produced in Adobe format and are not available in other electronic formats. Otherwise, all available information responsive to this request is provided in Exhibit DAW-1, Mr. Watson's electronic workpapers.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-02

QUESTION:

Depreciation Data Requests

Please provide all workpapers, schedules, tables, and exhibits used in the depreciation study or relied upon in conducting the depreciation study in Excel format with formulae intact where applicable.

ANSWER:

An electronic version of all workpapers, schedules, tables, and exhibits used in the depreciation study was provided as Exhibit DAW-1 and was filed previously in this proceeding with the depreciation study. Please refer to the subfolder directory "WP Exhibit DAW-1-Depreciation Study – Voluminous" that contains all workpapers used in the depreciation study. See also the Company's response to TCUC02-01(f).

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-03

QUESTION:

Depreciation Data Requests
Please provide all final observed life tables generated for each account in Excel format.

ANSWER:

The software used by Alliance Consulting Group does not produce the requested data in Microsoft Excel format. All outputs are in Adobe format and can be found in the workpapers filed previously in this proceeding as WP Exhibit DAW-1-Depreciation Study - Voluminous. The subfolder directory Actuarial has a subfolder directory by plant account. Within each of the account folders is a subfolder entitled "Observed Life Table or OLT" that contains multiple observed life tables, in Adobe format, for the various placement and experience bands analyzed for that account.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-04

QUESTION:

Depreciation Data Requests

Please provide all remaining life calculations in Excel format.

ANSWER:

All remaining life computations are found in Mr. Watson's Appendices. Please see the files: Appendix E1 Exhibit DAW-1, Appendix E2 Exhibit DAW-1, Appendix E3 Exhibit DAW-1, and Appendix E4 Exhibit DAW-1. All files are in Excel format with formulae intact.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-05

QUESTION:

Depreciation Data Requests
Please provide the average age of survivors as of the study date for each production plant by account.

ANSWER:

CenterPoint Energy Houston Electric does not have production plant assets that are regulated by the Public Utility Commission of Texas. Therefore, the depreciation study did not include any production plant and there are no documents responsive to this request.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-06

QUESTION:

Depreciation Data Requests
Please provide the book reserve (accumulated depreciation) balances for each account as of the depreciation study date.

ANSWER:

The book reserves used in the depreciation study at December 31, 2017 are found in Exhibit DAW-1 CenterPoint Houston Depreciation Study 2017, Appendix A Exhibit DAW-1, and Appendix A1 Exhibit DAW-1. Those amounts are determined using reserve reallocation within each functional group as shown in Exhibit DAW-1 CenterPoint Houston Depreciation Study 2017, Appendix E1 Exhibit DAW-1, Appendix E2 Exhibit DAW-1, Appendix E3 Exhibit DAW-1, and Appendix E4 Exhibit DAW-1.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-07

QUESTION:

Depreciation Data Requests
Please identify and describe any changes in the depreciation system / methodology between the previous depreciation study and the depreciation study filed in this case.

ANSWER:

There has been no change in the depreciation system / methodology between the previous Docket 38339 and the current proceeding. Both studies use straight line, broad group, average life group remaining life depreciation system.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-08

QUESTION:

Depreciation Data Requests
Please provide a schedule showing the currently-approved survivor curves, net salvage rates, and depreciation rates for each account, along with the proposed survivor curves, net salvage rates, and depreciation rates for each account.

ANSWER:

Please refer to Appendix B B-1 Exhibit DAW-1 and Appendix C Exhibit DAW-1 of the depreciation study previously filed in this proceeding as Exhibit DAW-1 CenterPoint Houston Depreciation Study 2017 of my Direct Testimony. Appendix B contains a comparison of the currently-approved depreciation rates and proposed depreciation rates for each account. Appendix C contains a summary of the currently-approved survivor curves and net salvage rates and the proposed survivor curves and net salvage rates for each account.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-09

QUESTION:

Depreciation Data Requests
Please provide a copy of the most recent, previously-filed depreciation study.

ANSWER:

A copy of the most recent, previously-filed depreciation study can be found on the Public Utility Commission of Texas Interchange under Docket Number 38339, Item Number 2, Bates Stamp pages 1921 – 2080.

SPONSOR (PREPARER):
Kristie Colvin (Kristie Colvin)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-10

QUESTION:

Depreciation Data Requests

Please provide a copy of the most recent Commission order(s) regarding currently approved depreciation rates and probable retirement dates of any production units.

ANSWER:

A copy of the Company's most recent Commission order(s) regarding currently-approved depreciation rates can be found on the Public Utility Commission of Texas Interchange under Docket Number 38339, Item Number 906, Bates Stamp pages 27 – 29. The company does not own any production units.

SPONSOR (PREPARER):
Kristie Colvin (Kristie Colvin)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-11

QUESTION:

Depreciation Data Requests
Please provide a copy of the Company's most recently-filed integrated resource plan; please also provide a copy of the most recently prepared integrated resource plan.

ANSWER:

The Company does not file and does not prepare an integrated resource plan.

SPONSOR (PREPARER):
Kristie Colvin (Kristie Colvin)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-12

QUESTION:

Depreciation Data Requests
Please provide all notes taken during any meetings with Company personnel regarding the depreciation study. Identify by name and title, all Company personnel who provided the information, and explain the extent of their participation and the information they provided. Please explain how this information affected the depreciation study.

ANSWER:

The notes taken while conducting interviews with Company personnel can be found in the "Interview Notes" folder of the workpapers filed previously in this proceeding as Exhibit DAW-1 CenterPoint Houston Depreciation Study 2017. These interview notes contain the names of the Company personnel that attended these meetings, detailed discussion of assets in each account, and other relevant information that was incorporated into my judgment while completing the depreciation study. The following individuals participated in interviews with Mr. Watson:

George Blamire - DIRECTOR CORP REAL ESTATE & FAC MGMT
Tim Bush - LEAD FINANCIAL ANALYST
Joe Gresham - SR MANAGER FACILITIES CONSTR OPS & MAINT
Jason Hulbert - MANAGER HIGH VOLTAGE PLANNING & SUPPORT
Ernie Kaster - DISTR PROGRAM MGMT MANAGER
Chester Kowalik – SENIOR CONSULTING ENGINEER
Michael Kristek - SENIOR CONSULTING ENGINEER
Scott Krivacka - ACCOUNTANT IV
Rick Nelson - STAFF ENGINEERING SPECIALIST
Shelton Mitchell - MANAGER STREETLIGHT OPERATIONS
Melvin Schoech - PROJECT MANAGER RELIABILITY SOLUTIONS
Jessica Thayer - DIRECTOR PROPERTY ACCOUNTING
Dale Tinnin - MANAGER CENTRAL METERING
Deryl Tumlinson - DIRECTOR DISTRIBUTION PROJECTS
David Turner - BUSINESS ANALYST
Freddie Whitlock - OPERATIONS SUPERVISOR
Paul Willson – DIRECTOR DISTRIBUTION PROGRAMS

Information obtained during discussions with Company personnel, from different areas of the Company, helps to gain insight about asset utilization, environment, and changes to materials and operation and maintenance practices that impact the life and salvage analysis performed during the study. Information incorporated the life and net salvage selection process is discussed in more detail on pages 15-17 of my Direct Testimony and the Depreciation Study on pages 25-82 of Exhibit DAW-1 CenterPoint Houston Depreciation Study 2017 in the Life Analysis and Salvage Analysis sections of the depreciation study report. The explicit impact of Company subject matter experts' information is discussed in the detail for each plant account.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-13

QUESTION:

Depreciation Data Requests
Please identify all plant tours taken in relation to the depreciation study. For each such tour:

a. Identify those in attendance and their titles and job descriptions.
b. Provide all conversation notes taken during the tour.
c. Provide all photographs and images taken during the tour.
d. Provide all written materials obtained during the tour.

ANSWER:

No plant tours were taken while completing the depreciation study for CenterPoint Energy Houston Electric in this case. In performing the previous depreciation study for the Company in Docket 38339, I participated in plant tours. Discussion with Company personnel determined that no material changes had occurred that would require additional plant tours. I am very familiar with the type of assets owned and operated by the Company and the operating environment of Texas, since I have performed more than 40 electric plant depreciation studies for Texas assets over the course of my career.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-14

QUESTION:

Depreciation Data Requests
Please specifically identify and describe any information obtained from any plant tour, field trip, or discussion with Company personnel, that would indicate that the average service lives of any life span or mass property would be shorter or longer than what is indicated by the retirement rate described by the Company's plant data.

ANSWER:

The accounts analyzed by the retirement rate method in this depreciation study are general plant accounts, which are described in Exhibit DAW-1 CenterPoint Houston Depreciation Study 2017, pages 59-67 and 79-82 as well as in my direct testimony and workpapers. The discussions with Company personnel supported the average service lives found in the retirement rate analysis. See response to question TCUC Set 2, Question 12 and the above referenced pages in the Depreciation Study report.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
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TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-15

QUESTION:

Depreciation Data Requests
Please identify and provide a copy of the Company's accounting policies and procedures for plant retirements and cost of removal.

ANSWER:

Please see TCUC02-15 Attachment 1 CNP 19 Asset Retirement and Disposal Policy.pdf for a copy of the Company's accounting policies and procedures for plant retirements and cost of removal.

SPONSOR (PREPARER):
Kristie Colvin (Kristie Colvin)

RESPONSIVE DOCUMENTS:
TCUC02-15 Attachment 1 CNP 19 Asset Retirement and Disposal Policy.pdf

CenterPoint Energy

Accounting and Control Policies

Policy Number: 19

Asset Retirement and Disposal Policy

Policy

Property and Equipment Asset Retirements

The Company accounts for property and equipment assets that are capitalized and later retired using a retirement unit (RU) method. Retirement constitutes physical removal of an asset from service or abandonment in place.

Timing

Retirement capital work orders are to be technically completed (TECO'd) when the asset is used and useful and all capital materials are appropriately reflected on the work order. Technically completing the capital work order ensures the retired asset is removed from service and depreciation will cease.

No later than 60 days after a work order is placed in a TECO status, Property Accounting will remove the asset from Plant in Service. If an RU asset is identified as retired but does not require a work order,

◆*However, due to differing fixed asset systems, legacy Vectren companies continue to retire assets when the replacement asset is placed in service. The timing of these retirements is not dependent upon the system status of the work order. Refer to Appendix I for legacy Vectren information*◆

Property Accounting removes the asset from Plant in Service by the month following notification of the retirement. Depreciation will cease the month following the removal of the asset from Plant in Service.

◆*However, due to differing fixed asset systems, legacy Vectren companies continue to utilize a different depreciation convention, with no depreciation being accrued during the month the asset is removed from service. Refer to Appendix I for legacy Vectren information*◆

The RU asset value is assigned by utilizing one of the following methods:

- Prior year average installed cost
- Vintage average year installed cost (composite)
- Specific identification – only to be used for items that have been recorded by serial or company numbers (e.g. large transformers, breakers and transportation equipment), or that can be specifically identified in the property records
- The cost of the oldest remaining like asset

CenterPoint Energy

Accounting and Control Policies | Policy Number: 19

Asset Retirement and Disposal Policy

Policy, *continued*

Retirement Unit treatment is as follows:

- When a RU is removed and not replaced, the unit must be retired.
- When an identical or different RU replaces the removed RU, the new unit must be added and the old unit must be retired.
- Replacements of items that are a component of an RU are charged to maintenance expense and do not result in a retirement or capitalization.

When a depreciable RU is retired, the RU value shall be removed from Plant in Service through one of the following methods:

- a charge to the accumulated depreciation account for:
  - regulated entities
  - unregulated entities using the composite depreciation method
- a charge to the income statement for all other situations

When a RU is retired/removed from service, there may be removal costs or salvage associated with the retirement. Removal costs are the costs incurred to remove the asset from service, and generally consist of labor, overhead and other associated costs. Salvage is the proceeds received, either in cash or trade-in value, from the sale of a capital asset to a third party. Assets that are returned to inventory may also have an associated salvage value.

When a depreciable RU is retired, the cost of removal/salvage is:

- charged/credited to the accumulated depreciation account for regulated entities
- charged/credited to the income statement for unregulated entities (cost of removal only)

When a non-depreciable RU is retired (e.g. the sale of land), the value shall be removed from Plant in Service. The net gain or loss on the transaction will be recorded as a reduction to O&M expense as a component of Operating Income.

All sales or retirements of major assets will be reviewed to determine if a gain or loss should be recognized. Unregulated entities using the composite method of depreciation will review the sale or retirement of a mass asset with an undepreciated net book value greater than 1% of the reserve to determine if a gain or loss should be recognized.

CenterPoint Energy

Accounting and Control Policies | Policy Number: 19

Asset Retirement and Disposal Policy

Policy, *continued*

The cost of removal amounts for rate-regulated entities that apply the guidance of Accounting Standards Codification 980, "Regulated Operations" will be reclassified to a regulatory liability for Generally Accepted Accounting Principles reporting purposes for all assets that have included these costs in depreciation rates.

Asset Retirement Obligation (ARO)

Assets that are subject to a legal obligation to be retired as defined by Accounting Standards Codification (ASC) 980-410 "Asset Retirement and Environmental Obligations" and ASC 980-450, "Contingencies" require a liability to be recorded upon capitalization at fair value if a reasonable estimate of fair value can be made, to cover future retirement obligation costs, with the debit increasing the value of the related asset by a like amount. See Policy 42 Asset Retirement Obligations (ARO) for additional detail.

Purpose

The purpose of the Asset Retirement and Disposal Policy is to document the requirements for recording asset retirement and disposal.

Adherence to this policy is designed to:

- Ensure integrity of the financial data by reporting property and equipment and associated retirement obligations accurately in the financial statements
- Provide a defined expectation of communication on asset retirement and asset retirement obligations throughout the Company

Responsibilities

The below table lists the position responsibilities for this Policy:

Position	Responsibility
Business Unit	• Controlling, using and safeguarding fixed assets in its possession • Utilizing the order system designed to facilitate the accounting function of asset retirement • Communicating required information to Property Accounting for retirements not recorded on Service Management work orders • Notifying the Investment Recovery Group when retired assets are to be disposed of as salvage
Controller	• Administering and approving any exceptions to this Policy

CenterPoint Energy

Accounting and Control Policies **Policy Number: 19**

Asset Retirement and Disposal Policy

Position	Responsibility
Property Accounting Manager	• Calculating and recording the required liability for all assets determined to contain an ARO • Reviewing and updating ARO liability annually, or if circumstances exist to change the calculation inputs significantly, on an as needed basis • Communicating new or significant changes to existing ARO's to the Controller and the Business Unit Finance Director
Property Accounting	• Reviewing assets to determine existence of a legal obligation to retire under ASC 980-410 and ASC 980-450 • Communicating to Property Accounting Manager the list of assets determined to possess an ARO • Entering asset retirement activity in SAP • Maintaining the pricing tables and accounting records used to determine the RU value at retirement, where applicable • Ensuring timely clearing of all work orders • Reviewing retirement related charges to determine appropriately included as cost of removal • Reviewing all sales of Major assets to determine if a gain or loss should be recognized

Definitions

The below table provides definitions of terms used in this policy:

Term	Definition
Business Unit	The functional operating area that maintains and reports operating financial information
Company	CenterPoint Energy, Inc.
Entity	The Company or any corporation, partnership, trust, joint venture, firm, association, unincorporated organization, legal entity, or other enterprise in which the Company holds, directly or indirectly, a greater than 50% control
Finance Director	Any Director in Finance who has been assigned the responsibility of planning and financial analysis for one or more Business Units
Major Asset	A significant piece of equipment or facility. Examples include: • Large building such as a business office • Substation • Underground storage facility • Large propane tank

CenterPoint Energy

Accounting and Control Policies **Policy Number: 19**

Asset Retirement and Disposal Policy

Term	Definition
Property Accounting Manager	The Accounting Manager responsible for fixed asset accounting for all entities.
Property Accounting	The departments that are responsible for fixed asset accounting
Retirement Unit (RU)	The basic units to which the capital assets of the Company are identified. A RU is the smallest item of property, which, on replacement or removal from service, is removed from the capital assets records. A RU may be an item (35 foot wood poles), a group of items (yard lighting system), or a unit of measure associated with bulk material (pounds of copper conductor or feet of main). Unit costs are associated with each RU (35 foot wood poles @ $77.56 each installed or bare copper conductor @ $2.1136 per pound installed). Each RU has an identifying code and is listed in the Retirement - Property Unit Catalog or identified in the Local Distribution Company Capitalization Guidelines.
Technically Complete (TECO)	TECO applies to assets that are substantially complete and ready for intended use. TECO is also an order status in SAP which should be updated by the business unit when appropriate. A TECO'd work order should include installed materials and any required retirement components.
Titles, Offices, and Officers	Those of the Company unless otherwise specified

Additional Guidance

The entities within the Company governed by regulatory commissions must follow the guidance outlined by the Federal Energy Regulatory Commission, as modified by their state or local regulatory body, when accounting for asset retirement and disposal.

Authorization

Property Accounting approves changes to a defined Retirement Unit.

CenterPoint Energy

Accounting and Control Policies

Policy Number: 19

Asset Retirement and Disposal Policy

Documentation requirements

Property Accounting maintains documentation for the following items:

- review of significant asset retirements for possible income statement impact
- retirement unit pricing tables and other accounting records used to determine retirement unit value
- manual journal entries
- all ARO calculations and associated journal entries

Compliance

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

Document History

This policy was implemented in July 2004. Below are at least the last three revisions of this document, including all revisions within the last three months.

Date	By	Description
03/2005	Accounting Policy & Research Manager	Clarify posting gain or loss on sale of non-depreciable asset is in Operating Income.
11/2005	Accounting Policy & Research Director	Remove salvage amounts for rate-regulated entities to reclassify to a regulatory liability and change in role for Property Accounting Manager re: ARO documentation for calculations and associated journal entries
04/2007	Accounting Policy & Research Director	Address the appropriate timing of retirement work orders and define the associated cost of removal and salvage.
12/2018	Accounting Integration Team	Modified policy to incorporate changes related to integration of legacy Vectren companies.

CenterPoint Energy

Accounting and Control Policies **Policy Number: 19**

Asset Retirement and Disposal Policy

Appendix I: Legacy Vectren Information
Asset Retirements and Disposal

Policy:
Capital Asset retirements and cost of removal must be properly identified, authorized, classified and posted.

Asset Types
Utility Assets:
Utility assets are depreciated based on a plant account classification as defined by the Federal Energy Regulatory Commission (FERC). Each FERC account defines the types of assets that roll up into it and has a specific depreciation rate based on the last approved depreciation study. Utility assets are depreciated together as a group with the theory that some assets are retired prior to an estimated average useful life and others are retired after their average useful life. The group composite rate derived for each group takes various items into account including the average service life of the assets, theoretical depreciation reserve, actual depreciation reserve, cost of removal, plant balances, and other items. Vectren utility assets include, but not limited to, the following types of assets;

Steam Production
Other Production
Transmission
Distribution
General
Underground Storage
Manufactured Gas Production

Under the group or composite method, gains or losses are not recognized on the disposal of an asset but are netted into accumulated depreciation. This method of netting disposals against the investment and accumulated depreciation is also supported by FERC. Specifically, the Uniform System of Accounts in 18 CFR Chapter 1, General Instructions 10, *Additions and Retirements of Electric Plant*, specifies that retirements should be recorded as: (i) a credit to the plant account; and (ii) a debit to the accumulated provision for depreciation.

Non-Utility Assets:
Non-Utility assets are assets that are individually depreciated over a defined life based on the asset classification. Vectren depreciates non-utility assets using straight line depreciation. Consequently, any disposition of a non-utility asset results in a gain or loss recognized on the income statement. This is supported by Staff Accounting Bulletin Topic 5, *Miscellaneous Accounting, paragraph B, Gain or Loss from Disposition of Equipment*, which states that "gains and losses resulting from the disposition of revenue producing equipment should not be treated as adjustments to the provision for depreciation in the year of disposition, but should be shown as a separate item in the statement of income."

Vectren non-utility assets include, but not limited to, the following types of assets;

- Software (5-10 year life)
- Furniture and Fixtures (15 year life)
- Communication Equipment (12 year life)
- Electronic Equipment/Hardware (6 year life)
- Transportation Equipment (5-10 year life)
- Structures and Improvements (30-40 years)
- Land (non-depreciable)

CenterPoint Energy

Accounting and Control Policies **Policy Number: 19**

Asset Retirement and Disposal Policy

Appendix I: Legacy Vectren Information
Asset Retirements

At the end of each year or with any new significant IT investments, Plant Accounting works with the Information Technology group to review the existing asset lives, retirements, and also to ensure that the existing Powerplant lives are appropriate for all future IT investments (software, hardware, other electronic equipment, communication equipment, etc.). Any changes to existing lives must be approved by the Director of IT and the Director of Plant Accounting.

Identification
Retirements are identified in a variety of ways.

- Capital work order creation - if the assets being created are replacing an existing asset then Plant Accounting will ensure a retirement is identified during the capital work order creation and approval process (discussed in more detail below).
- In Service Review Process – all work orders placed in service are assigned and reviewed monthly by plant accounting to ensure proper asset classification of assets being placed in service as well as asset retirements (discussed in more detail below).
- Fully Depreciated Assets – non-utility assets that are fully depreciated are identified by Plant Accounting and are retired unless the assets can be specifically identified by a Business Unit Analyst (BUA) and/or it is common knowledge that the assets are still used and/or useful.
- Specific Identification – if any asset can be specifically identified as retired and/or it is common knowledge that the assets are no longer used and/or useful.
- Unitization – Plant Accounting reviews the retirements made on a work order during the asset unitization process. This serves as the final review of the assets to be retired. Any retirement that is 90% or more of the costs of the new asset is further investigated to ensure that the appropriate asset retirements have been identified.

Capital work order creation:
New construction, retirement only, or replacement work that is capital in nature requires the completion of a capital work order (see Plant Accounting Policy for procedures related to creation and approval of capital work orders). All new capital work orders are created by project managers and/or BUAs via the Plant Accounting System, Powerplant and are approved in accordance with the Oracle expenditure hierarchy. During the review of the work orders by Plant Accounting, the retirements identified in the work order are reviewed as part of a work order checklist. If the assets being created on the new capital work order are replacing an existing asset, then Plant Accounting will ensure a retirement is identified during the capital work order creation and approval process. Plant Accounting will work with the project initiator and/or project manager to identify and book the proper retirement. The type of attributes used to identify retired assets typically exist on the new replacement assets and consist of the asset location, utility (FERC) account, property group, retirement unit, and work order descriptions.

If the asset being created on the new capital work order is a new asset and is not replacing an existing asset then plant accounting will ensure that no asset is retired.

The work order checklist includes control procedures to test the reasonableness of the asset dollars associated with the new asset versus the estimated cost of the asset to be retired. Typically, assets being retired are older vintage assets and would result in a lower cost. Any retirement that is 90% or more of the cost of the new asset is further investigated to ensure the appropriate asset retirements have been identified. The results of the review are provided in the checklist.

CenterPoint Energy

Accounting and Control Policies **Policy Number: 19**

Asset Retirement and Disposal Policy

Appendix I: Legacy Vectren Information
Asset Retirements and Disposal

In Service Review Process:
All capital work orders placed in service are flagged via a systematic alert process in which work orders are assigned and reviewed monthly by plant accounting to ensure proper asset classification of assets being placed in service well as the appropriate asset retirements being booked. This process consists of signing off on who reviewed the work order as well as whether or not a retirement was identified. This is a second review of the work order (separate from the review process described above) and consists of determining if anything has changed during the construction process that would have changed the identified retirement.

Plant Accounting reviews the In service review alert file during month-end close to evaluate the materiality of any retirements that have not been made on work orders that have been placed in service. This may occur when Plant is working with project managers, field operations and/or engineering to properly identify the asset to be retired. In the case of potential significant retirement that is outstanding, the Plant Accounting Manager would determine whether an accrual would be necessary for month-end close.

Retirement Methods
Plant Accounting currently records all mass asset retirements using the First in First out (FIFO) approach. Mass assets would include, but not be limited to, gas mains, meters, distribution electric wire, and utility poles. The FIFO approach is followed for all mass assets within a given legal entity, regardless of asset location.

For specifically identified retirements (non-mass assets), assets are specifically identified using the various attributes listed earlier (location, utility account, description, etc.).

Handy Whitman Retirement – for specifically identified retirement of components of larger assets (*e.g.*, heater in a building) Plant Accounting will used the Handy Whitman Index methodology when recording the retirement. The retirement for this methodology is calculated based on the replacement cost of the new asset plus the ratio between the Handy Whitman Index rate for the vintage year of the asset being replaced and the rate for the current year.

Authorization:
Retirements are authorized via capital work order approval within Powerplant. Plant Accounting performs the first approval of all capital work orders and reviews and authorizes that all work orders are setup with the appropriate retirements (see Plant Accounting Policy to read about the Company's policy on capital work orders).

The In Service review process explained above is performed by Plant Accounting and consists of a different individual reviewing the retirements than the individual who approved and identified the necessary retirements.

Plant Accounting records all retirements via Powerplant, which creates pending transactions to be processed and approved during the month-end closing process. Retirement pending transactions are approved and posted by a Senior and/or Lead Plant Analyst.

Classification:
Assets are classified based on the identification process. Once the assets are identified, all assets have corresponding FERC Accounts, Property Groups, Retirement Units, and locations in Powerplant which they are assigned that assist in the identification process.

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Completion and Posting:
Asset retirements are completed in Powerplant by Plant Accounting based on the identification process. Once a retirement is identified in the system, it will remain attached to a work order until an in service or out of service date is entered into Powerplant. Once a work order receives either one of these dates, it will be picked up during month-end close processing. All retirement pending transactions are reviewed and approved prior to posting in the system. See the authorization section above.

Cost of Removal:
As identified above, part of the capital work order creation process is to identify assets to be retired. An additional step involves estimating the cost associated with removing the existing assets. This estimated cost becomes part of the total cost of the work order that is authorized. Additionally, the cost of removal estimated drives a process within Powerplant to allocate charges to the work order to installation tasks (assets) or removal tasks (cost of removal). As an example, assume a work order is estimated to have 10% removal charges and an invoice of $100 is charged to the work order. This $100 invoice will have $10 allocated to the removal task while the remaining $90 will be allocated to the install task. This occurs through a process in Powerplant called Cost Repository (CR) Derivations. CR Derivation entries are processed by the Plant Accounting Department and reviewed and posted in a similar manner to all Controller Group journal entries requiring a separate preparer and reviewer/poster. Cost of removal incurred is accounted for by debiting Accumulated Depreciation and crediting Accounts Payable/Cash.

The process of allocating costs of removal puts more emphasis on engineering estimates as opposed to data entry allocations of invoices across numerous work orders and tasks.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864

TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-16

QUESTION:

Depreciation Data Requests
Please identify and provide copies of Company programs and plans that might substantially affect the remaining lives of any plant assets.

ANSWER:

Please see Exhibit DAW-1 CenterPoint Houston Depreciation Study 2017, pages 25-67 and Mr. Watson's interview notes provided in work papers for a detailed discussion by account of the Company-specific operational information that support the depreciation study's recommended lives. Mr. Watson is not aware of any specific written plan or program that might substantially affect the remaining lives of any plant assets. A number of activities were noted and discussed in the interview notes and Depreciation Study report that sustained the expected life of asset groups (such as the preventative maintenance program for towers discussed on page 29 of the report), lengthened the life of asset groups (such as the historical replacement of wood transmission poles with steel or concrete discussed on page 31 of the report), shortened the life of an asset group (such as the general movement from electromechanical to electronics in the field as noted in multiple accounts) or were normal end-of-life replacements (such as the transmission breaker change-out program discussed on page 27 of the report).

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864

TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-17

QUESTION:

Please provide copies of any internal memos, policies, studies, etc., identifying the appropriate allocation or treatment of costs between cost of removal and the installation of new investment when a retirement occurs and a replacement investment is installed at the same location. Further, provide all support, justification and related documents associated with establishing the allocation levels.

ANSWER:

The allocation of costs between cost of removal and the installation of a new asset when an asset is being retired and replaced with a new asset at the same location was established historically by the predecessor company of CenterPoint Energy Houston Electric and has been in effect since that time. There are no documents available that are responsive to supporting the historical allocation. The Company performed a formal removal cost study for this case and calculated a pro forma adjustment in the net salvage analysis to incorporate the results of the removal cost study into the depreciation study.

Please refer to the Cost of Removal Report found in the workpapers filed previously in this proceeding as WP DAW-2 Cost of Removal Report that discusses the process, data reviewed, and discussions with Company personnel to support these allocations.

SPONSOR (PREPARER):
Kristie Colvin/Dane Watson (Kristie Colvin/Dane Watson)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864

TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-18

QUESTION:

Please provide the updated plant balances to which the approved depreciation rates in this case will be applied.

ANSWER:

The updated plant balances to which the approved depreciation rates in this case will be applied can be found in the Company's rate filing package at WP II-E-1 Adj 1.

SPONSOR (PREPARER):
Kristie Colvin (Kristie Colvin)

RESPONSIVE DOCUMENTS:
None

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864

TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC02-19

QUESTION:

Please state whether the recorded vintage years of retirement have been modified in the historical data used to conduct the depreciation study. If so, please specifically identify such modifications by account, and provide all justification and support for the same.

ANSWER:

No adjustments were made to the vintage years of historical data in conducting the depreciation study.

SPONSOR (PREPARER):
Dane Watson (Dane Watson)

RESPONSIVE DOCUMENTS:
None

CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of May 2019, a true and correct copy of the foregoing document was served on all parties of record in accordance with 16 Tex. Admin. Code § 22.74.