Control Number: 49421

Item Number: 517

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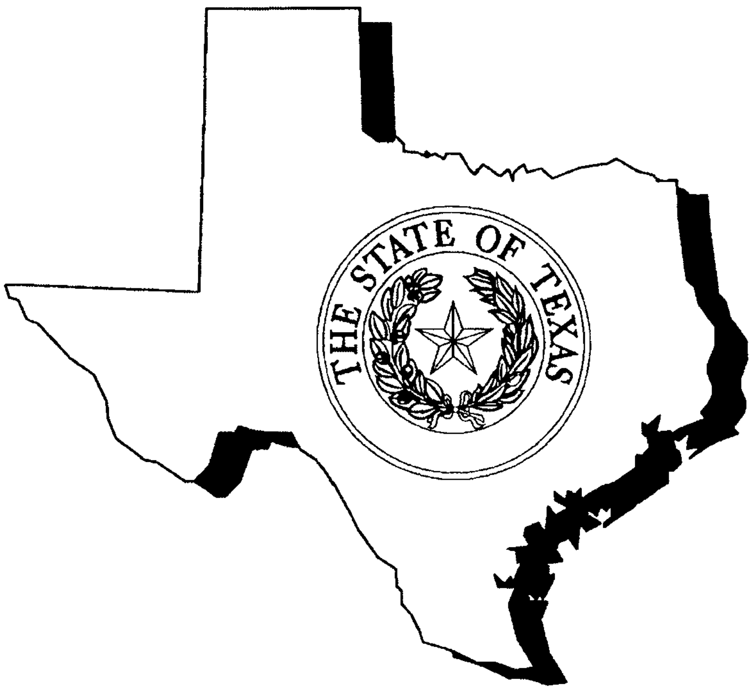
PUC DOCKET NO. 49421
SOAH DOCKET NO. 473-19-3864

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



REDACTED DIRECT TESTIMONY
AND WORKPAPERS OF

DARRYL TIETJEN

RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS

JUNE 12, 2019

DIRECT TESTIMONY OF
DARRYL TIETJEN

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I. INTRODUCTION

Q. Please state your name and business address.

A. Darryl Tietjen, 1701 N. Congress Avenue, Austin, Texas.

Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utility Commission of Texas (PUC or Commission) as the Director of the Rate Regulation Division.

Q. What are your principal areas of responsibility?

A. In addition to the management of the Rate Regulation Division, I am responsible for recommending fair rates of return on invested capital, evaluating financial integrity requirements, conducting various financial analyses, leading or participating in various rulemaking projects, and preparing testimony concerning various financial matters relevant to public utilities regulated by the Commission.

Q. Please describe your educational background and professional qualifications.

A. I hold a Master of Business Administration degree with concentrations in finance and accounting from The University of Texas at Austin (UT Austin), and a Bachelor of Business Administration degree with a concentration in finance, also from UT Austin. While earning my master's degree, I was employed by UT Austin as an instructor, teaching two sections of undergraduate corporate finance. Prior to attending graduate school, I was employed by a commercial bank, where I was principally involved in investment activities and internal and external financial reporting.

I am a Certified Public Accountant (CPA) licensed in the state of Texas and a member of the Texas Society of Certified Public Accountants (TSCPA). I have twice served as chairman of the annual TSCPA-sponsored Energy Conference, for which I have been a committee member for approximately 19 years.

I also hold the designation of Chartered Financial Analyst (CFA), which is awarded by the CFA Institute after successful completion of its three-part examination process over a minimum three-year period. The curriculum for the CFA charter covers a defined body of knowledge fundamental to the practice of investment management, and includes the areas of finance, accounting, economics, statistics, and ethical and professional conduct.

Q. Have you previously testified before this Commission?

A. Yes. Attachment DT-1 provides a summary of the dockets in which I have filed direct or other testimony.

Q. What is the purpose of your testimony in this case, Docket No. 49421, *Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates*?

A. The purpose of my testimony is to address the following question from the Commission's *Preliminary Order* filed May 9, 2019 (as numbered therein):

> 9. Are any protections, such as financial protections, appropriate to protect CenterPoint's financial integrity and ability to provide reliable service at just and reasonable rates?

Additionally, I address the issue of excess portions of accumulated deferred federal income tax expense related to the securitized amounts of stranded costs and system restoration costs that CenterPoint Energy Houston Electric, LLC (CEHE) reflects in its rates.

Q. Under what provisions of the Public Utility Regulatory Act (PURA) are you making your recommendations?

A. PURA §§ 11.002 (Purpose and Findings) and 14.001 (Power to Regulate and Supervise) provide the bases for my recommendations in this proceeding. PURA § 11.002 provides in subsections (a) and (b) that:

> (a) This title is enacted to protect the public interest inherent in the rates and services of public utilities. The purpose of this title is to establish a comprehensive and adequate regulatory system for

> public utilities to assure rates, operations, and services that are just and reasonable to the consumers and to the utilities.
>
> (b) Public utilities traditionally are by definition monopolies in the areas they serve. As a result, the normal forces of competition that regulate prices in a free enterprise society do not operate. Public agencies regulate utility rates, operations, and services as a substitute for competition.

PURA § 14.001 states that:

> The commission has the general power to *regulate and supervise* [emphasis added] the business of each public utility within its jurisdiction and to do anything specifically designated or implied by this title that is necessary and convenient to the exercise of that power and jurisdiction.

From a financial perspective, the plain meaning of the above statutory provisions sets out and attests to the Commission's broad authority over the rates, operations, and services of public utilities it regulates. Accordingly, I believe that, consistent with the implicit underpinnings of *Preliminary Order* question #9, the Commission's ability to establish protective measures that help ensure a utility's financial integrity and that facilitate the utility's ability to provide reliable service at just and reasonable rates is, under any reasonable interpretation of the statutory language, a legitimate application of the Commission's general regulatory oversight function and its authority to "regulate and supervise."

II. RECOMMENDATIONS

Q. What are your recommendations in this proceeding?

A. With regard to *Preliminary Order* question #9, I recommend that the Commission order CEHE to implement certain financial policies and requirements that are designed to create an effective degree of insulation between CEHE and its parent company CenterPoint Energy, Inc. (CenterPoint) and CenterPoint's other affiliates. These measures will provide CEHE with meaningful protection against possible situations of financial distress by non-CEHE entities that are part of the CenterPoint organization. In Sections III – V of my testimony, I discuss these issues in more detail, and in Section VI, I provide a listing of my recommended protection measures.

With regard to the issue of excess accumulated deferred federal income tax amounts related to CEHE's securitized cost recovery, I recommend that the Commission require CEHE to file an application for a separate proceeding in which the Commission and all parties have the opportunity to develop a more complete evidentiary record and the ability to conduct an appropriately thorough examination of all the relevant aspects of this issue. In Section VII of my testimony, I discuss this issue in considerable detail.

III. PROTECTIVE MEASURES—GENERAL DISCUSSION

Q. In the context of the Commission's regulation of the rates and operations of CEHE, are there reasons that the Commission may wish to expressly and pre-emptively address possible concerns about the impact on CEHE of the business activities of CenterPoint and its non-CEHE subsidiaries?

A. In my view, the answer is yes. CenterPoint, with $29 billion of assets, is a large corporation that includes not only CEHE as a subsidiary, but also a number of other entities, such as:[1]

- CenterPoint Energy Resources (CERC), a multi-state gas distribution company;
- CenterPoint Energy Services (CES), a natural gas marketing business that sells non-rate-regulated natural gas and related services in 33 states (as of September 2018);

[1] See:
https://www.vectren.com/corporate/about;
https://www.centerpointenergy.com/en-us/corporate/about-us/news/1201;
https://www.centerpointenergy.com/en-us/Corp/Documents/CenterPoint_Energy_Fact_Sheet.pdf.
Also see Exhibit MSK-2 (Vectren Post-Closing Ownership Structure) in the Direct Testimony of CEHE witness M. Shane Kimzey.

- Enable Midstream Partners, LP, a publicly traded master limited partnership that owns, operates, and develops strategically located natural gas and crude oil infrastructure asset; and

- Vectren Corporation (Vectren), which CenterPoint acquired in February 2019 and which includes natural gas operations and vertically integrated electric utility operations in Indiana and Ohio.

Given that each of these subsidiaries is a part of the overall CenterPoint organization, to the degree that there are aspects of operational and financial intermingling or interdependency among the various entities, the effects of financial instability or weakness in one entity could affect not only CenterPoint as the parent company, but other subsidiaries as well. In an extreme case, an event that causes severe financial distress for CenterPoint could lead to its bankruptcy—a situation, that, absent the presence of protective measures, could impact subsidiaries like CEHE dramatically and drag them along into the bankruptcy process.

Q. Given the above discussion, for a regulated company such as CEHE, what do you believe is the principal purpose of establishing regulatory requirements that implement certain financial protections?

A. From a regulatory perspective, the most fundamental reason for the implementation of certain types of financial protections is to provide for a regulated utility a set of safeguards against a parent company's financial distress and potential contagiousness and, in an extreme situation, the parent's bankruptcy. Ultimately, I would characterize the goal of a regulatory authority's implementation of protective policies and standards as helping to ensure that a regulated utility maintains its ability to fulfill its core customer-oriented purpose: to provide reliable service at reasonable rates.

Q. Is there a generic phrase that is commonly used to describe different types of mechanisms that provide for some degree of separation between regulated utilities and their parents and affiliates?

A. Yes. That phrase is "ring-fencing," and in a regulatory context it refers to the general concept of establishing various requirements or policies that effectively isolate and thereby insulate a regulated entity from the effects of a parent organization's financial distress and, in a worst case, bankruptcy. As noted above, a basic regulatory function is the maintenance of a utility's financial ability to deliver reliable service at reasonable rates, and ring-fencing provisions are a tool that the Commission can use to carry out this most fundamental public interest goal.

Q. In what proceedings has the Commission implemented ring-fencing provisions, including the use of measures specifically related to financial protection?

A. The Commission has ordered ring-fencing provisions in a number of dockets, including two that have occurred within the last 16 months. Since 2008, these dockets have included:

- Docket No. 34077, *Joint Report and Application of Oncor Electric Delivery Company and Texas Energy Future Holdings Limited Partnership Pursuant to PURA § 14.101* (Order on Rehearing, April 24, 2008);

- Docket No. 45188, *Joint Report and Application of Oncor Electric Delivery Company LLC, Ovation Acquisition I, LLC, Ovation Acquisition II, LLC, and Shary Holdings, LLC for Regulatory Approvals Pursuant to PURA §§ 14.101, 37.154, 39.262(l)-(m), and 39.915* (Order, March 24, 2016);

- Docket No. 47675, *Joint Report and Application of Oncor Electric Delivery Company LLC and Sempra Energy for Regulatory Approvals Pursuant to PURA §§ 14.101, 39.262, and 39.915* (Order, March 8, 2018); and

- Docket No. 48929, *Joint Report and Application of Oncor Electric Delivery Company LLC, Sharyland Distribution & Transmission Services, L.L.C., Sharyland Utilities, L.P., and Sempra Energy for Regulatory Approvals Under PURA §§ 14.101, 37.154, 39.262, and 39.915* (Order, May 9, 2019).

Commission orders for all these dockets include various types of ring-fencing provisions, many of which are of a financial-protection nature.

Q. Each of the dockets listed above was a sale-transfer-merger (STM) proceeding, not a rate case such as this docket. Does this distinction matter with regard to the Commission's consideration of whether the use of ring-fencing provisions may be appropriate in a given proceeding?

A. I do not believe that it does. With regard to STM proceedings, PURA's relevant provisions[2] do not include language expressly requiring the implementation of ring-fencing provisions. Nonetheless, for the Commission decisions in the four dockets listed above, I believe that the Commission included ring-fencing provisions as part of its orders because doing so was appropriate given the particulars of those cases and, as well, because it was consistent with the broad statutory authority and the regulatory objectives that I discussed earlier in my testimony on pages 3 - 4. In other words, the Commission's decisions regarding the appropriateness of ring-fencing provisions in those proceedings were entirely consistent with its fundamental responsibility of implementing regulatory policies and requirements that serve the public interest. As a general matter, with regard to Commission determinations on issues pertaining to the implementation of mechanisms that serve to maintain a utility's financial stability and ability to provide reliable service at reasonable rates, I believe that the same logic and rationale apply irrespective of whether the proceeding is an STM docket or a rate-related docket.

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[2] PURA §§ 14.101, 39.262, and 39.915.

Q. In the context of a *rate-related* docket, has CEHE ever acknowledged that it is subject to ring-fencing provisions established by the Commission?

A. Yes. In fact, CEHE discussed ring-fencing in its most recent comprehensive rate case (Docket No. 38339[3]). In that proceeding, CEHE witness John J. Reed addressed the issue of ring-fencing in his rebuttal testimony, stating in a discussion of tax-related issues that:

> ...if there are sufficient measures in place to prevent cross-subsidization between jurisdictional and non-jurisdictional affiliates, as is the case with CenterPoint Houston, then the utility is sufficiently ring-fenced so that it should not be entitled to any of the tax benefits that arose from losses generated from those same activities from which it was protected.[4]

Also in Docket No. 38339, CEHE stated in a response to Gulf Coast Coalition of Cities' (GCCC) Request for Information (RFI) 1-07 that:

> Ring-fencing occurs when a regulated public utility business financially separates itself from its parent or an affiliate that engages in non-regulated business. This is done mainly to protect consumers of essential services such as power, water, and basic telecommunications from financial instability or bankruptcy of the affiliate. Ring-fencing policies may be of a regulatory or financial nature....
>
> CEHE employs practices to provide a regulatory ring-fence to isolate and protect the jurisdictional regulated utility and its customers from any adverse financial impact resulting from activities of the parent company and unregulated affiliates. ***In fact, PURA and the Commission's Substantive Rules require CEHE to employ such practices*** [emphasis added].

CEHE's response went on to describe a number of policies that CEHE follows in complying with the provisions of PURA and the requirements of the Commission. My workpapers include a copy of CEHE's response in its entirety.

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

[4] *Id.*, Rebuttal Testimony of John J. Reed at 10, lines 8 – 12.

IV. RATING AGENCY ASSESSMENTS OF CENTERPOINT AND THE IMPACT OF ITS RECENT ACQUISITIONS

Q. What opinions have credit rating agencies such as Standard & Poor's (S&P), Moody's Investor Service (Moody's), and Fitch Ratings (Fitch) expressed with regard to CenterPoint's acquisition of Vectren?

A. Recent assessments of CenterPoint by the rating agencies reflect a combination of pros and cons related to the Vectren acquisition, with the agencies' comments noting that the acquisition has certain beneficial aspects—for example, it provides a degree of greater diversification—but with other comments expressing concerns, such as the use of excessive leverage (i.e., debt financing) resulting from the transaction.

For example, in a report[5] dated November 2, 2018, Fitch stated that its ratings of CenterPoint:

[redacted]

Similarly, in a January 28, 2019 report, Moody's discussed how CenterPoint's acquisition of Vectren factored into its downgrade of CenterPoint's Issuer Rating and Senior Unsecured Rating from Baal to Baa2 and its downgrade of CenterPoint's subordinated debt rating from Baa2 to Baa3.[6] Moody's stated that:

[5] My workpapers include the Fitch, Moody's, and S&P reports (redacted) that I reference in this section of my testimony.

[6] S&P and Fitch provide increasing risk and declining credit ratings for "investment grade" bonds ranging from **AAA** to **AA** to **A** to **BBB** (with "+" and "-" as sub-ratings or notches within these rating classes for relatively lower or higher risk, respectively). Moody's provides comparable investment-grade credit quality ratings of **Aaa** to **Aa** to **A** to **Baa** (with 1, 2, and 3 as sub-ratings or notches within these rating classes for relatively lower to higher risk, respectively). **Thus, the lowest investment-grade ratings are BBB- (using S&P and Fitch conventions) and Baa3 (using Moody's conventions).** Bonds rated **BB/Ba** (S&P/Moody's) or lower are often called junk bonds. Bonds rated **B/B**, **CCC/Caa**, **CC/Ca**, and **C/C** are considered speculative; bonds rated below these speculative grades reflect insolvency.

[redacted]

[redacted]

S&P likewise downgraded CenterPoint's credit rating because of the impact of the Vectren acquisition, lowering CenterPoint's issuer credit rating from A- to BBB+ and lowering the rating on senior unsecured and subordinated notes from BBB+ to BBB. In a report dated February 1, 2019, S&P stated that:

[redacted]

I would additionally note that, in that same report, S&P lowered CEHE's issuer credit rating from A- to BBB+.

Q. What do you believe is the key takeaway from the above info?

A. The ratings actions and commentary from each of the three major credit rating agencies illustrate the basic point that the transactions, business, operations, and leveraging activities of a parent company and its subsidiaries can have wide-ranging effects, not only on the credit profile and financial exposure of the parent, but on regulated utility affiliates as well. This, in turn, can affect certain of the regulated utility's rate-related elements such as capital structure and cost of capital (both equity costs and debt costs). If these circumstances lead to a higher cost of providing service for the regulated utility, it is possible—or likely—that the utility in its next rate proceeding will request that ratepayers bear the higher costs. Accordingly, in the course of a rate case, when the Commission reviews a utility's financial risk as part of its fundamental task of establishing just and reasonable rates, pre-emptive Commission actions (such as requiring the utility to implement protective ring-fencing mechanisms) that help insulate a regulated utility company from possible financial-stress contagion are entirely—and appropriately—within the Commission's responsibility and authority.

V. CEHE'S EXISTING POLICIES THAT PROVIDE A DEGREE OF SEPARATION FROM CENTERPOINT

Q. Has CEHE provided information indicating that it already follows a number of policies with regard to maintaining a separation from CenterPoint and other affiliates of CenterPoint?

A. Yes. In response to a number of discovery requests in this proceeding, CEHE provided information demonstrating that, in some respects, it already maintains a degree of isolation from CenterPoint and other affiliates. For example, CEHE has indicated that:

- CEHE's credit agreements and indentures do not contain cross default provisions by which a default by CenterPoint or its other affiliates would cause a default at CEHE;[7]

- The financial covenant in CEHE's credit agreement is not related to any entity other than CEHE;[8]

- CEHE has not pledged its assets in respect of or guaranteed any debt or obligation of any of its affiliates or CenterPoint; per the terms of CEHE's credit agreement, it is prohibited from pledging, mortgaging, hypothecating,

[7] Response to Texas Industrial Energy Consumers (TIEC) RFI 2-06 (included in attached workpapers).

[8] Response to TIEC RFI 2-07 (included in attached workpapers).

or granting a lien upon the property of CenterPoint with only a few exceptions such as the first mortgage and general mortgage;[9]

- CEHE maintains its own stand-alone credit facility, and CEHE does not share its credit facility with any regulated or unregulated affiliate;[10]

- CEHE's first mortgage bonds and general mortgage bonds are secured only with CEHE's assets;[11]

- No CEHE assets secure the debt of CenterPoint or its non-CEHE affiliates;[12]

- There are no limitations on CEHE's ability to pay dividends to CenterPoint, except if the dividend would result in a specific indebtedness ratio (as defined in CEHE's credit agreement) exceeding 65%.[13]

Q. **Do you believe the above policies are relevant to and generally consistent with the objectives of question #9 in the Commission's *Preliminary Order*?**

A. Yes. CEHE's existing policies as detailed in the previous question-and-answer provide a basic foundation for creating a meaningful measure of separation from CenterPoint and its other affiliates, and they serve as a platform for any additional requirements the Commission may choose to implement. In the next section of my testimony, I present recommendations for such additional measures.

[9] Response to TIEC RFI 2-08 (included in attached workpapers).

[10] Response to TIEC RFI 2-09 and Staff RFI 13-03 (included in attached workpapers).

[11] Response to Staff RFI 13-04 (included in attached workpapers).

[12] Response to Staff RFI 13-05 (included in attached workpapers).

[13] Response to TIEC RFI 2-10 (included in attached workpapers).

VI. RECOMMENDATIONS FOR ADDITIONAL PROTECTIVE MECHANISMS

Q. In addition to CEHE's existing policies, what other mechanisms do you recommend for purposes of establishing and maintaining for CEHE a more robust separation from potential situations of financial distress of CenterPoint and its affiliates?

A. Below is a listing of several financial protection measures the Commission used in the various dockets I cited earlier. I believe implementation of these types of provisions would provide a meaningful degree of separation for CEHE and serve as insurance against the possibility of CEHE being swept up in a situation of severe financial distress on the part of CenterPoint or its other affiliates. I would additionally recommend that, to the extent that CEHE's existing policies (as discussed in the previous section of my testimony) provide compliance with the recommendations below, CEHE should be required to commit to maintaining those policies.

1. Dividend Restriction Commitment. CEHE will limit the payment of dividends by CEHE to an amount not to exceed CEHE's net income (as determined in accordance with generally accepted accounting principles).

2. CEHE Credit Ratings and Dividends. CEHE will work to ensure that its credit ratings at all three major ratings agencies (S&P, Moody's, and Fitch) remain at or above CEHE's current credit ratings, and if CEHE's credit rating at any one of the three major ratings agencies falls below BBB+[14] (or its equivalent) for CEHE's senior secured debt, then CEHE will suspend payment of dividends or other distributions, except for contractual tax payments, until otherwise allowed by the Commission. CEHE shall notify the Commission if its credit issuer rating or corporate rating as rated by any of the three major rating agencies falls below investment-grade level.

3. Debt-to-Equity Ratio Commitment. CEHE's debt will be limited so that its debt-to-equity ratio is at or below the debt-to-equity ratio established from time to time by the Commission for ratemaking purposes in CEHE rate proceedings. The Commission has authority to determine what types of debt and equity are included in a utility's debt-to-equity ratio. CEHE will make no payment of dividends or other distributions, except for contractual tax payments, where such dividends or other distributions would cause CEHE to be out of compliance with the Commission-approved debt-to-equity ratio. Additionally,

[14] This rating is two notches above the minimum investment-grade rating. The Commission may conclude a higher rating is appropriate for this threshold.

neither CenterPoint nor any of its affiliates will issue stock or ownership interest that supersede the foregoing obligations of CEHE.

4. Regulatory Return on Equity (ROE) Commitment. If CEHE's issuer credit rating is not maintained as investment grade by S&P, Moody's, and Fitch, CEHE will not use its below-investment-grade ratings to justify an argument in favor of a higher regulatory ROE.

5. Stand-Alone Credit Rating. Except as may be otherwise ordered by the Commission, CenterPoint shall take the actions necessary to ensure the existence of a CEHE stand-alone credit rating.

6. CEHE will not hold out its credit as being available to pay the debt of any CenterPoint affiliates.

7. CEHE will not commingle its assets with those of other CenterPoint affiliates.

8. No Pledging of Assets Commitment. CEHE will not pledge its assets with respect to, or guarantee, any debt or obligation of CEHE affiliates.

9. Affiliate Asset Transfer Commitment. CEHE will not transfer any material assets or facilities to any affiliates, other than a transfer that is on an arm's-length basis consistent with the Commission's affiliate standards applicable to CEHE, regardless of whether such affiliate standards would apply to the particular transaction.

10. No Inter-Company Lending and Borrowing Commitment. CEHE will not lend money to or borrow money from CenterPoint affiliates.

11. No Debt Disproportionally Dependent on CEHE. Without prior approval of the Commission, neither CenterPoint nor any affiliate of CenterPoint (excluding CEHE) will incur, guaranty, or pledge assets in respect of any incremental new debt that is dependent on: (1) the revenues of CEHE in more than a proportionate degree than the other revenues of CenterPoint; or (2) the stock of CEHE.

12. Non-Consolidation Legal Opinion. CenterPoint will obtain a non-consolidation legal opinion that provides that, in the event of a bankruptcy of CenterPoint or any of its affiliates, a bankruptcy court will not consolidate the assets and liabilities of CEHE with CenterPoint or any of its affiliates.

13. No Bankruptcy Cost Commitment. CEHE will not seek to recover any costs associated with a bankruptcy of CenterPoint or any of its affiliates.

Q. Why do you believe that implementation of the above provisions would be effective in providing a meaningful degree of separation between CEHE and CenterPoint?

A. The reason, quite simply, is that they are known to have worked. In the 2014 bankruptcy of Energy Futures Holdings Corporation (EFH), the various ring-fencing provisions that the Commission included in its order for Docket No. 34077 (referenced on page 7) served their purpose: they effectively insulated Oncor Electric Delivery from its parent's bankruptcy filing and preserved Oncor's stand-alone credit status and financial stability. Throughout the entirety of EFH's approximately three-year bankruptcy process, Oncor maintained its bankruptcy-remote separateness and its ability to provide reliable delivery service at just and reasonable rates.

It is important to keep in mind the reasonable assumption that, at the time of the Commission's order in Docket No. 34077, interested parties did not place a material probability on a future EFH bankruptcy. Indeed, had the assessment been otherwise, I believe it is reasonable to conclude that the 2007 leveraged buyout (LBO) of TXU Energy—which was (and still is) the largest LBO transaction in history[15]—would never have taken place.

Such generally optimistic expectations notwithstanding, economic events can sometimes take unpredictable twists and turns—and ultimately for EFH, twist and turn they did. Seven years after the Commission's order in Docket No. 34077, EFH declared bankruptcy. Oncor, however, effectively stayed isolated from the bankruptcy fray—and the basic reason was that the Commission's ring-fencing provisions achieved the exact objectives for which they were intended. Though the Commission may have implemented ring-fencing provisions in Docket No. 34077 largely out of an abundance of caution, in the end the Commission's prudence and foresight paid off: Oncor remained bankruptcy-remote and effectively financially separated from the

[15] https://www.cnbc.com/2018/08/07/here-are-the-top-10-largest-leveraged-buyouts-in-history.html; https://en.wikipedia.org/wiki/Energy_Future_Holdings.

morass of legal wrangling as the largest LBO in history deteriorated into a multi-billion-dollar bankruptcy.

Accordingly, given the unpredictable nature of economic realities, I believe it is reasonable to consider how (relatively recent) past events may help inform and guide Commission decisions relevant to the particular circumstances of this proceeding. Consequently, for purposes of providing a reasonable set of protective measures designed to insulate CEHE's financial integrity from possible situations of CenterPoint's or its affiliates' financial distress, and to protect CEHE's ability to provide reliable service at just and reasonable rates, I recommend that the Commission require CEHE to implement the measures I have presented here.

VII. EXCESS ADFIT RELATED TO CEHE'S SECURITIZED COSTS

Q. Please briefly describe the issue you are addressing in this section of your testimony.

A. In its RFI 1-05, GCCC inquired about an income tax reduction—i.e., an increase to income—of $158 million that CEHE reported in its 2018 Form 10-K Report. CEHE stated in its response that:[16]

> The $158 million referenced in this question was for the revaluation of deferred taxes associated with transition and system restoration bonds that are recorded on the books of CenterPoint Energy Houston Electric, LLC.

CEHE further explained in its response that the $158 million adjustment was related to the Tax Cuts and Jobs Act (TCJA), which Congress enacted on December 22, 2017. CEHE's response included the following:

> …the effect of a change in tax laws or rates on a deferred tax liability or deferred tax assets is recognized as a discrete item in the interim period that includes the enactment date. The TCJA was enacted on December 22, 2017 so CenterPoint Energy Houston Electric, LLC was required to record the deferred tax effects in December 2017.

[16] My workpapers include CEHE's response in its entirety.

Given the magnitude of this $158 million figure that CEHE moved to its income account, I have attempted in my discussion below to provide an appropriately thorough explanation of the background and critical substance of this item. This historical context furnishes the basis of my reasoning for the recommendation that I provide at the end of this section.

Q. CEHE's response to GCCC's RFI 1-05 refers to "transition and system restoration bonds," which are securitized bonds. Please provide a brief description of CEHE's securitized bond issuances that remain outstanding.

A. At present, CEHE has four issuances of securitized bonds outstanding. The table below provides basic information from and about the proceedings in which the Commission issued financing orders for those four securitization transactions:

Docket	Order Date	Securitized Amount (rounded)	Type of Costs Securitized	Scheduled Final Payment Dates
30485[17]	Mar 2005	$1,851,000,000	Stranded/True-up	Aug 2019
34448[18]	Sept 2007	$488,000,000	Stranded/True-up	Feb 2020
37200[19]	Aug 2009	$665,000,000	System Restoration	Aug 2022
39809[20]	Oct 2011	$1,695,000,000	Stranded/True-up	Oct 2024

Q. CEHE's response to GCCC's RFI 1-05 also refers to "deferred taxes associated with transition and system restoration bonds." Does the phrase "deferred taxes" in this context refer to accumulated deferred federal income taxes (ADFIT)?

A. Yes.

[17] *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 30485 (Order, March 16, 2005).

[18] *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 34448 (Order, September 18, 2007).

[19] *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 37200 (Order, August 27, 2009).

[20] *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 39809 (Order, October 27, 2011).

Q. Please provide a general discussion of ADFIT.

A. In my testimony in Docket No. 30485, I addressed the issue of ADFIT extensively. For purposes of providing in this proceeding a more complete reference and overall picture of the nature of ADFIT, and to illustrate the detailed and financially material role it has played in the context of past securitized bond transactions, I have included in my workpapers a complete copy of my testimony in Docket No. 30485. Below are excerpts of particular relevance from that testimony.

From page 11:

> **Q. Please briefly explain how ADFIT balances are created.**
>
> A. Accumulated deferred income tax liabilities represent amounts that are payable to the government. These amounts arise because there is a difference between the Company's income for accounting purposes and the income it uses to determine its taxes for federal taxation purposes. The major element of ADFIT liabilities typically results from the use of accelerated depreciation of a company's assets for tax purposes. Because the depreciation on an accelerated basis is tax deductible, it creates a difference between the taxes reported on the company's books and the taxes currently payable to the government.

From pages 12 – 13 (footnotes from original omitted):

> **Q. Can you clarify the distinction between ADFIT *balances* and ADFIT *benefits*?**
>
> A. Yes. As described above, ADFIT *balances* consist of the funds reflected on a company's books that are payable to the government for tax liabilities. Until these liabilities are paid, however, the company has the use of these funds.
>
> When I refer to ADFIT *benefits*, I am referring to the value that can be created by putting the ADFIT balances to use—in other words, I am essentially referring to the time value of money on the ADFIT balances. For example, if I have $100 in my possession that I owe to the government, but because of tax laws I am not obligated to make the payment until one year from now, I can invest that $100 balance for one year in a savings account and earn, say, 8%, or $8. In this situation, the deferred tax-liability *balance* is $100, while the related *benefit* that results from my being able to use the funds is $8.

From pages 13 – 14 (footnotes from original omitted):

Q. Please describe more specifically how ADFIT balances provide benefits to a regulated utility company.

A. ADFIT balances provide benefits to a regulated company because these amounts are traditionally considered to be *cost-free* capital to the company. This is because, as noted above, ADFIT balances consist of a regulated company's tax-expense amounts that are currently received, but which are not currently payable. Thus, the company can use these funds on a cost-free basis until they are ultimately paid as income taxes to the federal government. As with any form of capital, the ADFIT can be employed to fund the company's operations; thus, the use of the ADFIT provides economic value. But—and this is the key point—because the ADFIT amount has not been contributed by investors who require a rate of return, a value or benefit is created as a result of the company being able to use the cost-free ADFIT as a *substitute* for other capital that would otherwise need to be provided by investors who *do* require a rate of return.

Q. In the traditional determination of a regulated revenue requirement, how do regulatory bodies typically reflect the benefits of cost-free ADFIT capital?

A. In a traditional cost-of-service rate proceeding, the benefits of cost-free ADFIT are realized by subtracting the ADFIT balance from the company's return-earning rate base. In this way, ratepayers effectively receive the benefit of the cost-free capital by paying a reduced amount of return dollars, with the reduction being equivalent to the company's rate of return—*i.e.*, its weighted average cost of capital, or WACC—multiplied by its ADFIT balance.

Q. You have described how ratepayers traditionally realize the benefits of cost-free ADFIT balances. Does the utility company still receive its regulated rate of return* if the benefits of cost-free capital are flowed through to ratepayers?

A. Yes. There are two basic ways in which a company can realize the benefits of cost-free ADFIT. The first way is to use the cost-free ADFIT to pay off existing providers of capital (such as debt and equity holders), and the second way is to use the ADFIT amounts as a source of funds for new investments and projects, thereby eliminating or reducing the need to issue additional debt and/or equity. In either instance, the company realizes the benefits of cost-free ADFIT by effectively "avoiding" the costs of capital that would otherwise be imposed by traditional providers of debt and equity capital for the use of their funds. Therefore, even though the cost-free effects of ADFIT capital are flowed through to ratepayers, the company has avoided having to pay an equivalent amount of capital

> costs. For the company's existing traditional capital providers, the net effect is that they still receive their authorized regulated rate of return.
>
> * Strictly speaking, the regulated company has the *opportunity* to receive its regulated rate of return.

Q. In the four proceedings related to CEHE's securitized bond transactions, how has the Commission reflected the amounts of ADFIT benefits associated with the relevant ADFIT balances?

A. In the four CEHE securitization dockets listed above, the Commission has used different ways of reflecting ADFIT benefits. In Docket No. 30485, for example, the Commission determined a $314 million *present-value* amount of ADFIT benefits related to CEHE's stranded costs, and then used that amount as a lump-sum offset to other recoverable "true-up"[21] balances that were initially recovered through a "competition transition charge" (CTC).[22] CEHE recovered this CTC in a *non-*securitized form of recovery until the Texas legislature, in 2007, authorized *securitized* recovery of CTC amounts. Subsequently, in Docket No. 34448, the Commission issued a financing order authorizing securitized recovery of CEHE's remaining $488 million CTC balance.[23] Because the Commission had already offset the original CTC recovery amount by the $314 million present-value of ADFIT benefits (as determined in Docket No. 30485), no further action specifically related to the remaining portion of the ADFIT balance was required in the Commission's order in Docket No. 34448.

In Docket No. 37200, the Commission used a different approach to recognize the benefits of ADFIT. Instead of using the present value of the ADFIT benefits as a lump-sum offset to the amount of system restoration costs authorized for securitized

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[21] See PURA § 39.262 (True-Up Proceeding)

[22] See PURA Subchapter F, Recovery of Stranded Costs Through Competition Transition Charge.

[23] The initial net recoverable balance of the CTC was approximately $570 million, reflecting recoverable amounts of $1,136 million offset by $566 million of "negative" amounts, of which the $314 million amount of ADFIT benefits was a part. See *Application of CenterPoint Energy Houston Electric, LLC for a Competition Transition Charge (CTC)*, Docket No. 30706, Order at 33 and Findings of Fact 78 and 79 (July 14, 2005).

recovery, the Commission approved a separate ADFIT credit tariff that provided (and continues to provide) a degree of reduction to the monthly *ongoing* charges for recovery of the securitized costs. The separate tariff thus reflects ADFIT benefits as a monthly billing credit to the securitized bond charges, in contrast to the approach used in Docket No. 30485 in which the present-value of all ADFIT benefits was used as a lump-sum offset to a total amount to be recovered.

Finally, in Docket No. 39809, the Commission issued a financing order for securitized recovery of $1.695 billion, an amount that resulted from a remand by the Supreme Court of Texas of true-up-related costs that were originally part of CEHE's 2004 true-up proceeding. The $1.695 billion figure was the result of a settlement agreement, and the Commission's order did not address the issue of ADFIT benefits because such amounts were subsumed within the agreed-upon settlement amount. This point notwithstanding, CEHE recorded and continues to record on its books the amount of ADFIT related to this transaction, as evidenced by information included in its response to GCCC RFI 3-03.[24]

Q. Given your above discussion, what are the implications of the TCJA on the ADFIT *balances* related to CEHE's securitized bonds?

A. The TCJA had the same effect on CEHE's securitization-related ADFIT balances as it had on CEHE's other ADFIT balances. That is, the reduction in the corporate tax rate from 35% to 21% resulted in a portion of CEHE's remaining securitization-related ADFIT balances becoming <u>*excess*</u> accumulated deferred federal income tax (EDIT) balances. In other words, because of the tax-rate reduction, the EDIT portion of the ADFIT balance reflects amounts that are no longer a liability payable to the Internal Revenue Service (IRS).

[24] My workpapers include CEHE's response to GCCC RFI 3-03.

Q. Does the fact that CEHE's securitization-related EDIT amounts are no longer payable to the IRS explain CEHE's accounting adjustment to reduce its 2017 income tax expense, thereby increasing its income by that amount?

A. Yes, I believe that is the fundamental explanation.

Q. Is CEHE's adjustment to reduce income tax expense—and thus increase income—by approximately $158 million consistent with the Commission's treatment of utility companies' *non*-securitization-related EDIT amounts?

A. No. In Project No. 47545,[25] the Commission on February 15, 2018 issued an order addressing the TCJA's change to federal income tax rates and its impact on investor-owned Texas utility companies. The order included the following specific directive:

> Each investor-owned electric, telecommunications, and class A water and sewer utility in the State of Texas, for which the Commission has jurisdiction, shall, starting the date this Order is signed, record as a regulatory liability the following: (1) the difference between the revenues collected under existing rates and the revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates; and, (2) the balance of excess accumulated deferred federal income taxes (ADFIT) that now exists because of the decrease in the federal income tax rate from 35% to 21%.

In the months following this Commission order, all the affected utilities filed separate compliance proceedings that addressed the changes in the tax law. These proceedings resulted in: (1) tax-reduction revisions to customer rates, and (2) measures that took into account the Commission's order to reflect a regulatory liability for the newly created balances of EDIT—with the latter serving to effectively eliminate the possibility that the affected utilities would experience an income windfall from the EDIT amounts.

Thus, CEHE's securitization-related EDIT accounting adjustment to increase income by $158 million is not consistent with the treatment of other EDIT amounts.

[25] *Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*, Project No. 47945.

Q. Based on your discussion concerning this issue, should the Commission require CEHE to credit to ratepayers the $158 million amount[26] of securitization-related EDIT?

A. For a number of detailed reasons, I do not believe that things are quite that simple. These reasons include the following points:

1. The original calculations in Docket No. 30485 of present-value, lump-sum amounts of ADFIT *benefits* incorporated ADFIT *balances* that, because of the TCJA, have now been reduced as some portions of those balances have become *excess* ADFIT (or EDIT). To the extent that the Commission determines that any remaining amounts of such excess portions of ADFIT balances should be refunded to ratepayers, the amount of the benefits corresponding to that refunded EDIT would also need to be taken into account, thus reducing to some degree the amount of the EDIT refund. Stated a bit differently, the net effect would be a refund to ratepayers of the EDIT amount, but at a reduced level to reflect the corresponding reduction in the associated ADFIT benefit.

2. The original present-value calculations of the lump-sum amount of ADFIT benefits in Docket No. 30485 were based on the amortization periods and payment structures of the securitized bonds authorized in that proceeding. To accurately determine the net effects described in point #1 above, I believe that additional, updated information is needed with regard to items such as the remaining bond balances, the remaining bond maturities, the remaining bond payment amounts and timing thereof, and any other relevant inputs necessary for the calculation of the remaining ADFIT benefits that may be associated with the remaining ADFIT balances of CEHE's relevant securitized bond issuances.

3. Given that in Docket No. 37200 the Commission used a different approach in reflecting ADFIT benefits by including in ongoing monthly billings a separate ADFIT credit tariff, the amounts underlying implementation of that approach would need revision, on a going-forward basis, if the Commission ordered a refund of the EDIT balance associated with that securitization transaction.

4. I believe that some amounts of the ADFIT balances (and thus some amounts of the EDIT balances) may not be attributable to *ratepayer-supplied* capital. That is, even though CEHE may have ADFIT balances associated with each of the securitized bond issuances, not all of those

[26] I would note here that the amount of any Commission-ordered credit of EDIT balances would need to be grossed-up for tax effects. Assuming a credit amount of $158 million and using the 21% corporate tax rate, the grossed-up amount would be calculated as $158 million divided by [1 minus 21%], or approximately $200 million.

amounts may reflect monies that ratepayers have provided. This type of situation contrasts with the more common one in which cost-free capital arises from ADFIT balances created as a result of ratepayers paying charges that include "normalized" cost-of-service tax amounts that, because of temporary timing differences in expense recognition for tax and book purposes, differ from tax liabilities that are currently payable. Consequently, I am not certain what portion (if any) of the EDIT balance related to the system restoration costs authorized for securitized recovery should be subject to refund to customers.

5. The Commission may determine that, in the context of financing orders for securitization transactions, the consequences of settlement agreements are different from those resulting from settlement agreements in rate proceedings of a traditional nature. Related to this point, I would note that securitization financing is a special type of financing that PURA expressly authorizes for specific purposes—with one particularly important and overarching purpose being, I believe, the achievement and assurance of capital costs at the most advantageous financing terms available. That is, the process underlying the issuance and terms of securitized bonds—as provided for in very specific statutory provisions—is designed to essentially guarantee repayment of the bonds, thus achieving the highest possible credit ratings and the lowest possible ratepayer costs. The impact of the TCJA notwithstanding, the Commission may determine that if it takes any actions on securitization-related EDIT, there is a risk that capital markets and credit rating agencies would view such actions as a crack in the well-established processes and standards applicable to Texas' statutorily authorized securitized bonds, leading possibly to a market reappraisal of the risk of these types of securities and an increase in the financing costs for future securitization transactions. After consideration of this possible risk, the Commission may reach a policy conclusion that, once financing orders have been issued and the related securitized bond transactions have been completed, further actions related to the original terms of such transactions are not in the overall public interest.

Q. What is your recommendation with regard to the treatment of CEHE's securitization-related EDIT?

A. As I have discussed in substantial detail in this section of my testimony, I believe there are a number of important factors worthy of the Commission's attention as it considers this issue. Perhaps the two most emphasis-worthy points in this regard are that (1) the $158 million EDIT amount that CEHE transferred to income is clearly of considerable magnitude,[27] and (2) there may be a risk that capital markets and credit rating agencies would view in a negative light any Commission actions that alter certain aspects of prior securitization-related decisions. With regard to the latter point, such a result could affect the perceptions of, and financing costs for, future securitization transactions.

Given all the above discussion, I do not believe that in this proceeding a sufficient and thorough amount of information and evidence exists for the Commission to make an appropriately informed decision. Accordingly, if the Commission believes that this issue warrants additional review and possible action, I recommend that the Commission require CEHE to file, by a Commission-determined date, a separate proceeding to specifically address the appropriate treatment of EDIT amounts related to CEHE's four securitized bond issuances still outstanding. CEHE's filing should include information responsive to the points I have discussed in this section of my testimony, and any other information that CEHE—and the Commission—believe may be relevant and necessary for the Commission to consider.

Q. Does this conclude your testimony?

A. Yes.

[27] And as I noted previously, a refund amount of a $158 million, when grossed-up for taxes, becomes a refund amount of approximately $200 million.

LIST OF TESTIMONIES
BY DARRYL TIETJEN

P.U.C. Docket	Company	Subject
10060	Brazos River Authority	Rate of Return
10462	Tex-La Electric Cooperative	Interim Rates/ROR
10325	Central Texas Electric Cooperative	Rate of Return
10744	Rayburn Country Electric Cooperative	Sale, Transfer, Merger
10820	Magic Valley Electric Cooperative	Rate of Return
11347	Johnson County Electric Cooperative	Rate of Return
11571	Fayette Electric Cooperative	Rate of Return
11520	Southwestern Public Service Company	Rate of Return
12065	Houston Lighting & Power Company	Decomm. Exp.
12700	El Paso Electric Company	Rate Moderation/ Mirror CWIP
12815	Pedernales Electric Cooperative	Rate of Return
12820	Central Power and Light Company	Decomm. Exp.
12852	Gulf States Utilities Company	Decomm. Expense/ Contra-AFUDC
13827	Southwestern Public Service	Notice of Intent
14965	Central Power and Light Company	ROR/ Decomm. Exp.
15638	Texas Utilities Electric Company	Transmission COS
16585	T&H Communications	SPCOA
16705	Entergy Gulf States	Rate of Return
16705	Entergy Gulf States	ROR on ECOM
18290	Entergy Gulf States	Int. on Tax Remand
18845	Central and South West Companies	Financial Condition of Resource Providers
21527	TXU Electric Company	Securitization
21528	Central Power and Light Company	Securitization
22344	Generic Unbundled Docket	Return on Equity
22355	Reliant Energy	ECOM Estimate
22352	Central Power and Light Company	Cost of Debt
22354	West Texas Utilities Company	Refinancing Costs
22350	TXU Electric Company	ECOM Estimate
26942	Texas-New Mexico Power Company	Reg Asset Treatment
29206	Texas-New Mexico Power Company	Stranded Costs & True-up Issues
29206	Texas-New Mexico Power Company	Int on Stranded Costs
29526	CenterPoint Energy Houston Electric	Stranded Costs & True-up Issues
29526	CenterPoint Energy Houston Electric	Int. on Stranded Costs
30485	CenterPoint Energy Houston Electric	Financing Order

**LIST OF TESTIMONIES
BY DARRYL TIETJEN (cont.)**

30706	CenterPoint Energy Houston Electric	Comp. Transition Charge
31056	AEP Texas Central Company	Stranded Costs & True-up Issues
31994	Texas-New Mexico Power Company	Comp. Transition Charge
32475	AEP Texas Central	Financing Order
32907	Entergy Gulf States, Inc.	Interest on Storm Costs
33106	Texas-New Mexico Power Company	Interest Rate on CTC
33586	Entergy Gulf States, Inc.	Financing Order
32795	$5 Billion Stranded-Cost Threshold	Interest Amount
34448	CenterPoint Energy Houston Electric	Financing Order
34077	Oncor Electric Delivery and Texas Energy Future Holdings Limited Partnership	Support of Stipulation
35038	Texas-New Mexico Power Company	Tariff Filing
33891	Southwestern Electric Power Co.	CCN Application
36918	CenterPoint Energy Houston Electric	Restoration Costs
36931	Entergy Texas	Restoration Costs
39504	CenterPoint Energy Houston Electric	Remanded True-up Costs
39722	AEP Texas Central Company	Remanded True-up Costs
40627	Austin Energy	Rate Issues
45188	Oncor Electric Delivery Company, et al.	Federal Inc. Taxes; Cost of Capital
46238	NextEra, Oncor	Federal Income Taxes
45414	Sharyland Utilities, et al.	Federal Income Taxes
46936	Southwestern Public Service Co.	Wind Facilities—Rate Treatment
46936	Southwestern Public Service Co.	Testimony in Support of Stipulation
46957	Oncor Electric Delivery Company	Testimony in Support of Stipulation (included in AIS item #420)
47527	Southwestern Public Service Company	Testimony in Support of Stipulation
48401	Texas-New Mexico Power Company	Testimony in Support of Stipulation

LIST OF TESTIMONIES
BY DARRYL TIETJEN (cont.)

48929	Oncor Electric Delivery Company, Sharyland Utilities, LP, et al.	Rate-Related Issues
49308	AEP Texas, Inc.	Testimony in Support of Stipulation (Financing Order)

Workpapers

this tax must be computed on a consolidated basis, even though it harms CEHE."

This issue is addressed in the rebuttal testimony of Mr. Felsenthal. As he explains, "CenterPoint Houston's Texas margin tax is computed based on the only method available to the members of the affiliated group (under the statutory requirements for computing the Texas margin tax) applied to CenterPoint Houston's stand alone financial information."[7]

Ultimately, Mr. Kollen misses the point. The point is, if there are sufficient measures in place to prevent cross-subsidization between jurisdictional and non-jurisdictional affiliates, as is the case with CenterPoint Houston, then the utility is sufficiently ring-fenced so that it should not be entitled to any of the tax benefits that arose from losses generated from those same activities from which it was protected. Ring fencing is a general term and there is a continuum of measures that may be taken depending on the ultimate objective the company is seeking to achieve. Below is an excerpt of a copy of a 2005 credit opinion on CenterPoint Energy Resources Company ("CERC") from Moody's. In the Ratings Outlook below, Moody's uses the term "ring-fenced" as I have in my testimony to describe the segregation of the regulated utility from its parent and unregulated affiliates. Moody's wasn't referring to CERC's ability to withstand a corporate bankruptcy or to diversify its own ownership, but was instead talking about the steps Moody's expected CenterPoint to

[7] Felsenthal Rebuttal at 39.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 38339
SOAH DOCKET NO. 473-10-5001

GULF COAST COALITION OF CITIES
REQUEST NO.: GCCC01-07

QUESTION:

SH1-7 Please provide a narrative description of the ring-fencing measures that have been put in place to provide separation between the bond ratings of CenterPoint Energy, Inc. and CenterPoint Energy Houston Electric, LLC. Please provide supporting documentation for each ring-fencing measure listed (e.g., if a legal opinion regarding CEHE's bankruptcy-remote status has been rendered, please provide a copy of same; if dividend restrictions are in place, please provide the governing documents)

ANSWER:

Ring-fencing occurs when a regulated public utility business financially separates itself from its parent or an affiliate that engages in non-regulated business. This is done mainly to protect consumers of essential services such as power, water and basic telecommunications from financial instability or bankruptcy of the affiliate. Ring-fencing policies may be of a regulatory or financial nature. The referenced question proffers a narrow financial interpretation of ring-fencing specific to the separation of bond ratings between CenterPoint Energy Houston Electric, LLC ("CEHE") and its parent, CenterPoint Energy, Inc.

CEHE employs practices to provide a regulatory ring-fence to isolate and protect the jurisdictional regulated utility and its customers from any adverse financial impact resulting from activities of the parent company and unregulated affiliates. In fact, PURA and the Commission's Substantive Rules require CEHE to employ such practices. Below are notable requirements of PURA and the Substantive Rules that serve to separate the utility from its parent company:

- A utility's cost of service, allowed in rates, is limited to those costs associated with property used by and useful to the utility in providing services.
- The inclusion in rates of a payment to an affiliate for the cost of a service, property, right, or interest expense requires that the Commission find that the payment is necessary and meets the tests of an arm's length transaction.
- Costs are to be separated and allocated in accordance with regulatory rules.
- The utility must receive Commission approval before it may transfer a controlling interest of the utility or consolidate with another electric utility.
- The utility must keep books and records separate from its affiliates.
- The utility is prohibited from allowing any financing arrangement that would include a specific pledge to an affiliate of utility assets or cash needed for utility operations.
- The utility and its affiliates must fully allocate costs for any shared services in a manner that does not undermine competition or provide cross-subsidies between the utility and its affiliates.
- The utility must maintain a contemporaneous list of all transactions with affiliates and will be subject to an annual compliance audit with respect to its observance of Commission rules as they

pertain to affiliates and competition.

- Strict separation of the utility from its competitive affiliates, including prohibitions against the sharing of employees, officers, directors, property, equipment, computer systems, information systems and corporate support services, is required, unless there are safeguards that the Commission determines adequate to prevent a negative impact on competition or to prevent cross-subsidization of affiliates.
- Shared investment and financing arrangements with competitive affiliates are permitted provided there are safeguards that the Commission determines are adequate to prevent a negative impact on competition or to prevent cross-subsidization of affiliates.
- A utility is prohibited from subsidizing the business activities of any affiliate with revenues from regulated service.

The following table further describes some of the ring-fencing practices and measures which CEHE employs:

Ring-Fencing Measure	Supporting Documentation
Structural	
– CEHE is a separate legal entity and not a division of another company.	– CEHE's Certificates of Conversion and of Organization
– CEHE is in a holding company structure and is an indirect wholly owned subsidiary of CenterPoint Energy, Inc.	– Page 40 of CEHE's publicly available Form 10-K for the year ended December 31, 2009
– CEHE has four subsidiaries which are special purpose entities established for the purpose of issuing securitization bonds authorized by the Public Utility Commission of Texas. CEHE has no other subsidiaries.	– Page 40 of CEHE's publicly available Form 10-K for the year ended December 31, 2009
Financial	
– CEHE maintains separate books and records.	– Exhibit WLF-2, Business Records Affidavit on Bates Pages 223-224 of the Rate Filing Package
– CEHE is a separate registrant with the Securities and Exchange Commission ("SEC") and files quarterly and annual financial statements with the SEC.	– Cover page of CEHE's publicly available Form 10-K for the year ended December 31, 2009 and cover page of CEHE's publicly available Form 10-Q for the quarter ended March 31, 2010
– CEHE has a separate financing program which includes mortgage bonds issued by CEHE and a revolving credit facility on which CEHE is the sole obligor. Other than intermittent borrowings from the CenterPoint Energy money pool, all of CEHE's debt is external and not inter-company.	– Pages 53 and 54 of CEHE's publicly available Form 10-K for year ended December 31, 2009
– CEHE's debt is rated by the three major rating agencies.	– Schedule 11-C-2.10 of the Rate Filing Package
– The debt to total capital covenant in CEHE's revolving credit facility restricts CEHE's payment of dividends.	– Page 53 of CEHE's revolving credit facility dated as of June 29, 2007
– Debt defaults and debt acceleration of affiliates do not create a default or acceleration of CEHE's debt.	– Page 31 of CEHE's publicly available Form

	10-K for the year ended December 31, 2009
Operational	
– The affairs of CEHE and its affiliates are not so intertwined as to make the entities undistinguishable.	– Testimony of Dan Hagen and Karen Dominguez of the Rate Filing Package
– CEHE's transactions with affiliates are fairly priced, and CEHE does not cross-subsidize affiliates.	– Testimony of Dan Hagen and Karen Dominguez of the Rate Filing Package
– CEHE's business is limited to the transmission, distribution and measurement of electricity.	– Pages 1 through 20 of CEHE's publicly available form 10-K for the year ended December 31, 2005
– Costs allocated to CEHE from the service company and CEHE's other affiliates follow the methodologies contained in CenterPoint Energy Inc.'s Cost Center Assignment Manuals filed with the Public Utility Commission of Texas.	– Cost Center Assignment Manuals at Bates 896 –917 and Bates 1075–1169 of the Rate Filing Package

The documents as indexed below are voluminous and will be made available in the Houston and Austin offices. To make arrangements for viewing these documents, please contact Linda Johnston in Houston at (713) 207-5218 or Dolores Prince in Austin at (512) 397-3060.

Description	Page
CEHE's Certificates of Conversion and Organization	1-6
CEHE's Revolving Credit Facility, dated as of June 29, 2007	7-28
Amended CEHE's Revolving Credit Facility, dated November 18, 2008	29-134

Sponsor: Marc Kilbride/John Reed

Responsive Documents:
See Index of documents above

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

TEXAS INDUSTRIAL ENERGY CONSUMER
REQUEST NO.: TIEC02-06

QUESTION:

Do any of CenterPoint' s debt or credit contracts, agreements, or other related documents contain cross-default provisions between CenterPoint and any of its affiliates or CNP? If so, please list the document(s) and the associated amount of debt.

ANSWER:

CenterPoint Energy Houston Electric's credit agreements and indentures do not contain cross default provisions by which a default by CNP Inc. or its other affiliates would cause a default at CenterPoint Energy Houston Electric. The cross default provision that is included in CenterPoint Energy Houston Electric's debt agreement only relates to Significant Subsidiaries of CenterPoint Energy Houston Electric, of which there are none. Additionally, a Change in Control, as defined in CenterPoint Energy Houston Electric's credit agreement, of CNP Inc. would constitute an Event of Default.

SPONSOR:
Robert McRae (Robert McRae)

RESPONSIVE DOCUMENTS:

None

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

TEXAS INDUSTRIAL ENERGY CONSUMER
REQUEST NO.: TIEC02-07

QUESTION:

Do any of CenterPoint' s debt or credit contracts, agreements, or other related documents contain any financial covenants or rating agency triggers related to any entity other than CenterPoint? If so, please list all such documents and describe the debt, the covenant, and/or the trigger.

ANSWER:

No. The financial covenant in CenterPoint Energy Houston Electric's credit agreement is not related to any entity other than CenterPoint Energy Houston Electric.

SPONSOR:
Robert McRae (Robert McRae)

RESPONSIVE DOCUMENTS:

None

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

TEXAS INDUSTRIAL ENERGY CONSUMER
REQUEST NO.: TIEC02-08

QUESTION:

Has CenterPoint pledged any assets in respect of or guaranteed any debt or obligation of any of its affiliates or CNP? If so, please list the entity and describe the pledged debt or obligation.

ANSWER:

No. CenterPoint Energy Houston Electric has not pledged its assets in respect of or guaranteed any debt or obligation of any of its affiliates or CNP Inc. Per CenterPoint Energy Houston Electric's credit agreement, it is prohibited from pledging, mortgaging, hypothecating or granting a lien upon the property of CenterPoint Houston with only a few exceptions such as the first mortgage and general mortgage.

SPONSOR:
Robert McRae (Robert McRae)

RESPONSIVE DOCUMENTS:

None

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

TEXAS INDUSTRIAL ENERGY CONSUMER
REQUEST NO.: TIEC02-09

QUESTION:

Does CenterPoint share credit facilities with any affiliate(s) or CNP? If so, please list the affiliate/parent and describe the shared credit facility.

ANSWER:

No. CenterPoint Energy Houston Electric maintains its own stand alone credit facility.

SPONSOR:
Robert McRae (Robert McRae)

RESPONSIVE DOCUMENTS:

None

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

TEXAS INDUSTRIAL ENERGY CONSUMER
REQUEST NO.: TIEC02-10

QUESTION:

Please explain in detail the governance process by which CenterPoint declares dividends for distribution to CNP. Are there any limitations on CNP's ability to determine the dividends CenterPoint must pay? If so, please list and describe all such limitations.

ANSWER:

Intercompany dividends and distributions are governed by section 10.4.2 of the CenterPoint Energy Authorization Policy (See TIEC02-10 Authorization Policy.pdf). CenterPoint Houston dividends must be made in compliance with the Annual Plan and related Financing Plan and must be approved by the Chief Financial Officer in consultation with the Corporate Secretary. In addition, the dividend must be declared by the CenterPoint Energy Houston Electric, LLC Sole Manager.
There are no limitations on CenterPoint Houston's ability to pay dividends, except if the dividend would result in a ratio of Consolidated Indebtedness for Borrowed Money to Consolidated Capitalization to exceed 65%, as defined in section 7.2.a of CenterPoint Houston's $300 million Credit Agreement dated as of March 3, 2016 (See TIEC02-10 CenterPoint Houston Credit Agreement March 3 2016.pdf).

The requested information is voluminous and will be provided to the propounding party only in electronic format on CD. Please contact Alice Hart at (713) 207-5322 to request a copy of the CD. Please see index of voluminous material below.

Date	Title	Preparer	Number of Pages	Page No(s)
Undated	TIEC02-10 CenterPoint Houston Credit Agreement March 3 2016	Robert McRae	120	1-120
Undated	TIEC02-10 Authorization Policy	Robert McRae	29	1-29

SPONSOR (PREPARER):
Robert McRae (Robert McRae)

RESPONSIVE DOCUMENTS:
TIEC02-10 Authorization Policy.pdf
TIEC02-10 CenterPoint Houston Credit Agreement March 3 2016.pdf

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

PUBLIC UTILITY COMMISSION OF TEXAS
REQUEST NO.: PUC13-03

QUESTION:

Does CEHE share any type of credit facility with any unregulated CenterPoint affiliate? If so, please explain thoroughly and provide relevant details, including the degree to which a given affiliate is financially responsible for any borrowings by other affiliates.

ANSWER:

No. CEHE maintains its own credit facility which is not shared with any regulated or unregulated affiliate.

SPONSOR (PREPARER):
Robert McRae (Robert McRae)

RESPONSIVE DOCUMENTS:
None

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

PUBLIC UTILITY COMMISSION OF TEXAS
REQUEST NO.: PUC13-04

QUESTION:

Is any of CEHE's debt secured by non-CEHE assets? If so, please explain thoroughly and provide relevant details.

ANSWER:

No. CEHE's first mortgage bond and general mortgage bonds are secured only with CEHE's assets.

SPONSOR (PREPARER):
Robert McRae (Robert McRae)

RESPONSIVE DOCUMENTS:
None

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

PUBLIC UTILITY COMMISSION OF TEXAS
REQUEST NO.: PUC13-05

QUESTION:

Is any of the debt of CenterPoint or its non-CEHE affiliates secured by CEHE's assets? If so, please explain thoroughly and provide relevant details.

ANSWER:

No Only CEHE's first mortgage bond and general mortgage bonds are secured by CEHE's assets.

SPONSOR (PREPARER):
Robert McRae (Robert McRae)

RESPONSIVE DOCUMENTS:
None

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

GULF COAST COALITION OF CITIES
REQUEST NO.: GCCC01-05

QUESTION:

Refer to the CNP 2018 10-K at 151 and the components of CEHE income tax expense in 2016, 2017, and 2018. In 2017, CEHE recorded a reduction in income tax expense of $158 million due to the TCJA on the line labeled "Federal Income Tax Rate Reduction."

a. Provide a detailed description of the 2017 reduction in income tax expense, especially given that the federal income tax rate was not reduced until 2018. In your description, address why this was recorded in 2017 and why it was not deferred (and thus, why it did not net to $0).
b. Provide a copy of all journal-entries by FERC by month and provide a copy of all supporting calculations, including all electronic spreadsheets in live format with all formulas intact.

ANSWER:

a. Under US GAAP, the effects of new legislation are recognized upon enactment (ASC 740-10-25-47). More specifically, the effect of a change in tax laws or rates on a deferred tax liability or deferred tax asset is recognized as a discrete item in the interim period that includes the enactment date. The TCJA was enacted on December 22, 2017 so CenterPoint Energy Houston Electric, LLC. was required to record the deferred tax effects in December 2017.

   The $158 million referenced in this question was for the revaluation of deferred taxes associated with transition and system restoration bonds that are recorded on the books of CenterPoint Energy Houston Electric, LLC. These deferred taxes are not associated with ongoing utility operations and the revaluation of the deferred taxes was recorded as a reduction to income tax expense in the period of enactment of the TCJA in December 2017.

b. The support for the $158 million above was reflected in the 2017 Q4 Provision as an adjustment that came from the 2017 Q4 Deferred Tax Model. Both the provision model and the deferred tax models for CenterPoint Energy Transition Bond Company, LLC, CenterPoint Energy Transition Bond Company II, LLC, CenterPoint Energy Transition Bond Company III, LLC, CenterPoint Energy Transition Bond Company IV, LLC, and CenterPoint Energy Restoration Bond Company, LLC are being provided as attachments to this request.

The requested information is voluminous and will be provided to the propounding party only in electronic format on CD. Please contact Alice Hart at (713) 207-5322 to request a copy of the CD. Please see index of voluminous material below.

DATE	TITLE	PREPARER	NUMBER OF PAGES	PAGE NO(S)
Undated	GCCC01-05 Attachment 1 - 2017 Q4 Provision.xlsm	Charles Pringle	6	1-6
Undated	GCCC01-05 Attachment 2 - 2017 Q4 Deferred Tax Model.xlsx	Charles Pringle	286	1-286

SPONSOR (PREPARER):
Charles Pringle (Charles Pringle)

RESPONSIVE DOCUMENTS:
GCCC01-05 Attachment 1 - 2017 Q4 Provision.xlsm

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

GULF COAST COALITION OF CITIES
REQUEST NO.: GCCC03-03

QUESTION:

Refer to Schedule II-C-2.9, which provides the data used to calculate the Company's earned return on common equity shown on Schedule II-C-2.8. The Company recorded a non-recurring net of tax gain of $158.275 million in 2017 due to the TCJA.

a. Provide a detailed description of this gain.

b. Provide the journal entries used to record this gain for accounting purposes, including all supporting descriptions, notes, other documents, correspondence, calculations, workpapers, and all electronic spreadsheets in live format with all formulas intact.

c. Explain why this gain was not deferred for ratemaking, accounting, and financial reporting purposes. Provide a copy of all correspondence and other documents that address this gain, including, but not limited to, the ratemaking effects. This includes correspondence and other documents that were prepared in-house by the Service Company and/or CEHE employees or outside advisors.

ANSWER:

This response is subject to a pending objection. Pursuant to and without waiving this objection, the Company provides the response stated below.

a. Please see the response to GCCC01-05 part a.

b. There is not a discrete journal entry specifically showing the tax benefit of $158.275 million as this is part of a larger tax provision total journal entry. Please see the attachments to GCCC01-05 for the income tax provision and deferred tax models for support and calculation of the $158.275 million. Also see GCCC03-03 Attachment 1.pdf for an e-mail responsive to this request.

c. Please see the response to GCCC01-05 part a.

SPONSOR (PREPARER):
Charles Pringle/Kristie Colvin (Charles Pringle/Kristie Colvin)

RESPONSIVE DOCUMENTS:
GCCC03-03 Attachment 1.pdf

Winn, Stephen

From:	John Swilling (US - TAX) [redacted]
Sent:	Saturday, December 23, 2017 7:23 AM
To:	Florance, Joyce A
Cc:	Pringle, Charles W; Winn, Stephen; Musser, Brenda L; Do, Anh P; Kyle Gifford (US - TAX)
Subject:	[External Email] Regulatory Asset - Stranded Cost

EXTERNAL EMAIL

Joyce,

While I was working on the model; I wanted to provide some background that might be relative with respect to the stranded cost on Co. 3. I believe based on the last conversation that regulatory felt like the EDIT for that item would not be passed back to the ratepayers and therefore the benefit would hit the P&L.

There are two line items that I think are both related to stranded cost. One of the items is called Reg. Asset - Equity and the other is more clearly labeled as "stranded cost". DT required that books allocated a portion of the stranded cost recovery as an equity component and recognize that revenue over time versus when the item was settled. We should check on this item with regulatory; since if we are not included stranded cost in the EDIT; it seems like the matching component for equity should also be excluded (it's an asset as well).

I'm not certain if the account is clean or commingled with other equity items for securitization, etc. It might just be stranded cost or a mixed bag; but I would guess they are segregated by account numbers. Let's discuss next week.

Thanks,

John Swilling

PwC | Partner
Offic[redacted]
Email[redacted]
PricewaterhouseCoopers LLP
1000 Louisiana, Suite 5800, Houston, TX 77002
http://www.pwc.com/us

The content of this email is limited to the matters specifically addressed herein and is not intended to address other potential tax consequences or the potential application of tax penalties to this or any other matter.

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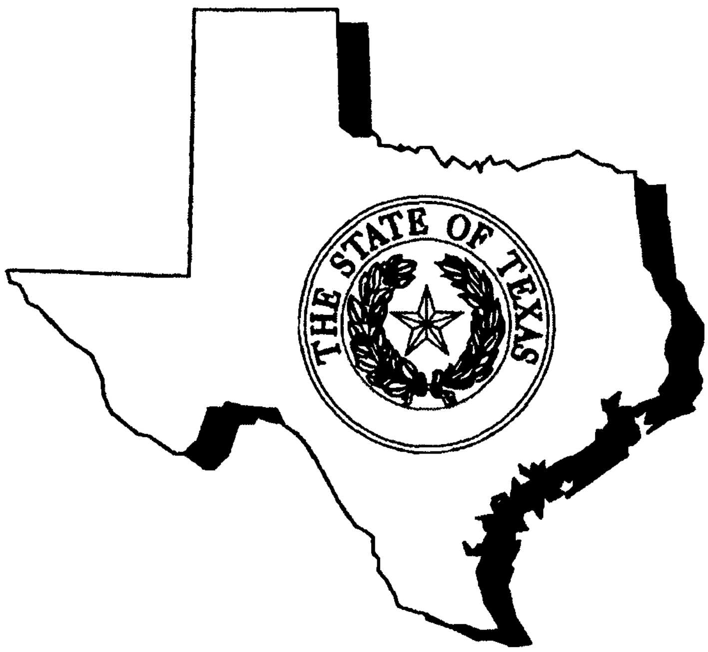
	A	B	C	D	E	F	G	H	I	J	R
1	**Income Tax Provision**										
2	**Consolidated CenterPoint Energy Inc & Subsidiaries**										
3	**12/31/2017**										
4											
5											
6		SIT Rate w/o TMT		0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	
7		TMT		0.7500%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	
8		SIT Rate w/o TMT (Deferred		0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	
9		TMT (Deferred Rate)		0.7415%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	
10											
11											
12		CEHE		CEHE	CEHE	CEHE	CEHE	CEHE	CEHE	CEHE	
13		Consolidated CenterPoint Energy Houston Electric, LLC & Subsidiaries		CNP Houston Electric, LLC	CNP TransitionBond Co LLC	CNP Houston Electric JE	CNP Transition Bond Co II	CNP Transition Bnd Co III	CNP Restrtion Bnd Co, LLC	CNP Transition Bond Co IV	
14		CEHE		10008	10174	10374	10401	10416	10418	10422	1
15											2
16	Pretax Income (Loss)	423,804,402		423,804,402	0	-	0	(0)	(0)	-	3
17	Permanent Differences	(21,105,497)		(21,105,497)	-	-	-	-	-	-	4
18	Temporary Difference	(171,467,290)		(511,780,845)	-	-	195,446,096	69,993,017	13,701,800	61,122,643	5
19	Current Taxable Income (Loss)	251,031,618		(109,251,789)	0	-	195,446,096	69,993,017	13,701,800	61,122,643	6
20	Current State Income Tax Deduction	(18,437,787)		(18,437,787)	-	-	(0)	(0)	(0)	-	7
21	Current Federal Taxable Income (Loss)	232,598,829		(127,688,528)	0	-	195,446,095	69,993,017	13,701,600	61,122,643	8
22											9
23	Current Federal Provision:										10
24	Current Federal Provision at 35%	74,407,840		(44,684,334)	0	-	68,406,133	24,497,556	4,795,560	21,392,925	11
25	Federal NOL (Utilization) Generation	-									12
26	Federal NOL Carryback	-									13
27	Charitable Contribution (Utilization) Generation	(1,559,576)		(1,559,576)							14
28	GBC (Utilization) Generation	(586,466)		(586,466)							15
29	GBC Carryforward	-									16
30	HDZ (Utilization) Generation	(2,426,853)		(2,426,853)	-		-	-	-	-	17
31	Capital Loss (Utilization) Generation	-		-						-	18
32	2016 Federal RTA	463,663		463,663	-	-	-	-	-	-	19
33	Restricted Stock Excess Tax Benefit	(28,925)		(28,925)	-	-	-			-	20
34	Tax on Weather Hedge Reversal	-									21
42	Other Current FIT Adjustments	-			-		-	-	-	-	29
43											30
44	Total Current FIT Expense (Benefit)	70,271,482		(48,829,492)	0	-	68,406,133	24,497,556	4,795,560	21,392,925	31
45											32
46	Current State Provision:										33
47	Current Other States Provision at SIT Rate	0		(0)	-	-	0	0	0	-	34
48	Current TMT Provision	18,871,604		18,871,604						-	35
49	Unitary Adjustment / CERC LE Adjustment	-									36
50	State NOL Generation (Utilization)	-		-	-	-	-	-	-	-	37
51	State Audit Settlement	-									38
52	State Return-to-Accrual	(433,817)		(433,817)						-	39
53	State FIN 48 - Tax Reserve	-									40
54	GBC (Utilization) Generation	-									41
55	State Impact of Enable Preferred Shares	-									42
56	Restricted Stock Excess Tax Benefit	-		-	-	-	-	-	-	-	43
57	2016 State Refund - Interest	-									44
60	Other Current SIT Adjustments	-									47
61											48
62	Total Current SIT Expense (Benefit)	18,437,787		18,437,787		-	0	0	0	-	49
63											50
64	Total Current Income Tax Expense (Benefit)	88,709,470		(30,392,705)	0	-	68,406,134	24,497,556	4,795,560	21,392,925	51
65											52
66	Deferred Federal Provision:										53
67	Deferred Federal Provision at 35%	80,044,839		179,136,815	-	-	(68,406,133)	(24,497,556)	(4,795,560)	(21,392,925)	54
68	Federal NOL Utilization (Generation)	-		-				-	-	-	55
69	Federal NOL Carryforward	-		-			-	-		-	56
70	Federal Charitable Contribution Utilization (Generation)	1,559,576		1,559,576	-		-	-	-	-	57
71	GBC Utilization (Generation)	586,466		586,466							58
72	HDZ Utilization (Generation)	2,426,853		2,426,853	-		-	-	-	-	59
73	Capital Loss Utilization (Generation)	-									60
74	AMT Credit Carryover	-									61
75	RDS - OCI Amortization	-			-		-	-	-	-	62
76	FIN 48 - Tax Reserve	-									63
77	Medicare Part D - Reg. Asset	(2,282,000)		(2,282,000)							64
78	Excess DFIT Amortization	(371,499)		(371,499)							65
79	ITC Amortization	-									66
80	2016 Federal RTA	(1,116,752)		(1,116,752)	-	-	-	-	-	-	67
81	InterCo Transfers	-									68
82	TBBS Adjustment - PP&E Transfers	4,336		4,336							69
88	Other I/C Reclasses	-									75
89	Federal Tax Rate Reduction	(158,279,467)		64,879,598	-		(34,563,723)	(15,994,637)	(37,991,209)	(136,607,290)	76
90	Other Deferred FIT Adjustments	(318,111)		(318,111)							77
91											78
92	Total Deferred FIT Expense (Benefit)	(97,743,998)		246,505,001	-	-	(102,967,856)	(40,492,193)	(42,786,769)	(158,000,223)	79
93											80
94	Deferred State Provision:										81
95	Deferred State Tax Provision - Other States	(0)					(0)	(0)	(0)	(0)	82
96	Deferred State Tax Provision TMT	(88,821)		(88,821)	-				-	-	83
97	Unitary Adjustment / CERC LE Adjustment	-									84
98	State NOL Utilization (Generation)	-		-		-	-	-	-	-	85
99	State Capital Loss Utilization (Generation)	-									86
100	State Other Tax Attributes Adjustments	-		-							87
101	State Valuation Allowance	-		-	-	-	-	-	-	-	88
102	GBC Utilization (Generation)	-		-	-	-	-	-	-	-	89
103	RDS - OCI Amortization	-		-	-	-	-	-	-	-	90
104	State Return-to-Accrual	-			-	-	-	-	-	-	91
105	Deferred Tax Impact New States (Armes)	-									92
106	Deferred Tax Impact -Rate Change	-		-							93
107	InterCo Transfers	-									94
108	TBBS Adjustment - PP&E Transfers	-									95
112	Other Deferred Tax Adjustments	-									73
113	Other DSIT Adjustments	-		-	-	-	-	-	-	-	102
114											103
117	Total DSIT Expense (Benefit)	(88,821)		(88,821)	-	-	(0)	(0)	(0)	(0)	104
118											105

	A	B	C	D	E	F	G	H	I	J	R
1	Income Tax Provision										
2	Consolidated CenterPoint Energy Inc. & Subsidiaries										
3	12/31/2017										
4											
5											
6		SIT Rate w/o TMT		0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	
7		TMT		0.7500%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	
8		SIT Rate w/o TMT (Deferred		0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	
9		TMT (Deferred Rate)		0.7415%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	
10											
11											
12		CEHE		CEHE	CEHE	CEHE	CEHE	CEHE	CEHE	CEHE	
13		Consolidated CenterPoint Energy Houston Electric, LLC & Subsidiaries		CNP Houston Electric, LLC	CNP TransitionBond Co LLC	CNP Houston Electric JE	CNP Transition Bond Co II	CNP Transition Bnd Co III	CNP Restoration Bnd Co, LLC	CNP Transition Bond Co IV	
14		CEHE		10003	10174	10774	10401	10416	10418	10422	1
119	Total Deferred Income Tax Expense (Benefit)	(97,830,779)		246,416,261	-	-	(182,987,854)	(40,492,193)	(42,796,780)	(158,600,221)	106
120											107
121	Total Income Tax Expense (Benefit)	(8,121,909)		218,033,956	0	-	(34,561,723)	(15,984,487)	(37,991,209)	(136,607,294)	108
122											109
123	Effective Tax Rate:										110
124	Total Effective Tax Rate	-2.15%		31.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	111
125											112

PUC DOCKET NO. 30485

APPLICATION OF CENTERPOINT	§	BEFORE THE
ENERGY HOUSTON ELECTRIC LLC	§	PUBLIC UTILITY COMMISSION
FOR A FINANCING ORDER	§	OF TEXAS



JANUARY 14, 2005

DIRECT TESTIMONY OF

DARRYL TIETJEN

PUBLIC UTILITY COMMISSION OF TEXAS

211

DIRECT TESTIMONY OF DARRYL TIETJEN

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. Darryl Tietjen, 1701 N. Congress Avenue, Austin, Texas.

Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utility Commission of Texas (PUC or the Commission) as the Director of Financial Analysis in the Financial Review Division.

Q. What are your principal areas of responsibility?

A. I am responsible for recommending fair rates of return on invested capital, evaluating financial integrity requirements, conducting various financial analyses, and preparing testimony concerning financial matters relevant to public utilities regulated by the Commission.

Q. Please describe your educational background and professional qualifications.

A. I hold a Master of Business Administration degree with concentrations in finance and accounting from The University of Texas at Austin, and a Bachelor of Business Administration degree with a concentration in finance from the same institution. While earning my master's degree, I was employed by the University as an instructor, teaching two sections of undergraduate corporate finance. Prior to attending graduate school, I was employed by a commercial bank, where I was principally involved in investment activities and internal and external financial reporting.

I am a Certified Public Accountant (CPA) licensed in the state of Texas and a member of the Texas Society of Certified Public Accountants (TSCPA). I am currently the chairman of the planning committee for the TSCPA-sponsored Natural

Gas, Telecommunications, and Electric Industries Conference, and have served as a committee member for a number of years.

I also hold the designation of Chartered Financial Analyst (CFA), which is awarded by the CFA Institute (formerly the Association for Investment Management and Research) after successful completion of its three-part examination process over a minimum three-year period. The curriculum for the CFA charter covers a defined body of knowledge fundamental to the practice of investment management, and includes the areas of finance, accounting, economics, statistics, and ethical and professional conduct. In addition to being the administrator of the CFA program, the CFA Institute is an international, nonprofit organization of over 60,000 investment practitioners and educators in more than 100 countries.

Q. Have you previously testified before this Commission?

A. Yes. Exhibit DT-1 provides a summary of the dockets in which I have filed direct testimony or memoranda in lieu of testimony.

Q. Have you prepared any exhibits in conjunction with your testimony?

A. Yes. Exhibits DT-1 through DT-7 are attached to my testimony. My workpapers are also attached.

Q. Were these exhibits prepared by you or under your supervision?

A. Yes.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Commission Staff.

Q. What is the purpose of your testimony in this case, Docket No. 30485, *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order?*

A. My testimony in this case addresses the following three questions:

1. Does the request by CenterPoint Energy Houston Electric, LLC (CenterPoint, or the Company) for a financing order meet the test for "total revenues" set forth in PURA § 39.303(a)?
2. Does the request by CenterPoint for a financing order meet the test for "tangible and quantifiable benefits" set forth in PURA §39.301?
3. Has CenterPoint properly calculated and applied the present value of the benefit arising from its accumulated deferred federal income taxes (ADFIT) against its recovery, as required by the final order in Docket No. 29526?

In addition to the tests for total revenues and tangible and quantifiable benefits noted above, PURA requires that the terms of a financing order also meet a third test, the "present value" test (or "cap" test) that is cited in PURA § 39.301. CenterPoint's compliance with this test is addressed by Staff witness Martha Elvey in her testimony.

Q. CenterPoint's filing includes not only schedules reflecting the request to securitize the entire true-up balance[1] approved by the Commission in Docket No. 29526, but also separate schedules reflecting the securitization of a lesser amount that excludes the non-stranded-cost items of the capacity auction true-up balance, fuel balance, and the TDU-AREP true-up balance. What requested amount of securitization are you addressing in your testimony?

A. In its Preliminary Order in this docket filed December 20, 2004, the Commission ruled that:

[1] CenterPoint's request includes certain adjustments—such as ADFIT benefits and bond-issuance costs—to the true-up balance authorized in Docket No. 29526. See page 6 and also page 8 of the testimony of CenterPoint witness James S. Brian for a detailed listing of these adjustments.

> The expansive definition of stranded costs that may be securitized that CenterPoint derives from a single sentence in P.U.C. SUBST. R. 25.263(l)(2)(A) cannot be held to govern in light of PURA provisions and the *Reliant* decision to the contrary. Consequently, to the extent any element of CenterPoint's securitization application is not described in either PURA §§ 39.251(7) or 39.302(4), it is not eligible for securitization.

Consistent with the above ruling, I have focused my analysis on that part of CenterPoint's filing that includes only those amounts implied by the Commission's decision as being securitizable. As discussed by CenterPoint witness Mr. James S. Brian on pages 10 and 11 of his testimony, this amount is $1,493,747,265, and his computations for the statutory tests on this amount are contained in Figure JSB-1 of his testimony. I have accordingly used in my testimony that same $1.493 billion figure as the assumed starting point for the securitizable amount.

II. SUMMARY OF RECOMMENDATIONS

Q. What are your general recommendations in this docket?

A. With respect to the tests for total revenues and tangible and quantifiable benefits, I conclude that CenterPoint's request for a financing order meets the statutory requirements. As demonstrated by the total revenues test, the revenues received from securitized transition charges would be less than the total revenue requirement under a conventional financing method; thus, the total revenues test is met. Additionally, as shown by the tangible and quantifiable benefits test, the proposed securitization would result in present-value savings to customers, and hence this test is also met.

With respect to the amount of ADFIT benefits that should be taken into account in CenterPoint's securitization transaction, I recommend $520,997,278 under CenterPoint's assumptions for a phase-in bond structure and $488,882,759 under the assumptions for a level bond payment structure. These amounts, which are different because of the time-value-of-money effects resulting from the different bond repayment structures, represent the aggregate benefits from the cost-free nature of ADFIT that CenterPoint has enjoyed and will continue to enjoy on a going-forward basis. The table below summarizes my recommendations concerning the components of estimated ADFIT benefits for both the phase-in bond payment structure and the level payment structure:

	Phase-in structure	Level structure
Prospective ADFIT benefits	$384,735,038	$352,620,519
Retrospective ADFIT benefits[2]	$136,262,240	$136,262,240
Total ADFIT benefits	**$520,997,278**	**$488,882,759**

I discuss all these issues in greater detail later in my testimony.

III. STATUTORY TESTS—TOTAL REVENUES TEST AND TANGIBLE AND QUANTIFIABLE BENEFITS TEST

III-A. Total Revenues Test

Q. Please describe the test for total revenues.

A. PURA § 39.303(a) states:

> The commission shall adopt a financing order, on application of a utility to recover the utility's regulatory assets and eligible stranded costs under Section 39.201 or 39.262, on making a finding that the total amount of revenues to be collected under the financing order is less than the revenue requirement that would be recovered over the remaining life of the stranded costs using conventional financing methods and that the financing order is consistent with the standards in Section 39.301

This statutory provision essentially requires that the total revenues—expressed on a *nominal-dollars* basis as opposed to a present-value basis—required to recover a stranded-asset amount are less under a securitized revenue requirement than under a

[2] Retrospective benefits are calculated from 1/1/04 through 5/31/05, as described in Section IV-C of my testimony.

conventional-financing revenue requirement. In contrast to a conventional-financing revenue requirement, securitization financing reflects a lower-cost debt rate and no equity return (and thus no tax component in the revenue requirement), and therefore the savings from securitization can be especially significant when stated in total revenues expressed on a nominal basis.

Q. What assumptions for the *securitized* revenue requirement have you used in your total revenue test?

A. Similar to the calculations performed by CenterPoint witness Mr. Brian, and relying on CenterPoint's assumptions for interest rates and bond repayment patterns,[3] I have used the following four scenarios in conducting the total revenues test:

Scenario 1—Phase-in Structure, Expected Case. This scenario assumes a phase-in bond repayment pattern and a securitized interest rate of 4.50%.

Scenario 2— Phase-in Structure, Worst Case. This scenario assumes a phase-in bond repayment pattern and a securitized interest rate of 9.0%.

Scenario 3—Level Structure, Expected Case. This scenario assumes a levelized bond repayment pattern and a securitized interest rate of 4.36%.

Scenario 4— Level Structure, Worst Case. This scenario assumes a levelized bond repayment pattern and a securitized interest rate of 9.0%.

In all these scenarios, I relied upon CenterPoint's estimates for qualified costs such as bond issuance costs and over-collateralization accounts. Additionally, because I assumed a lower securitized amount than CenterPoint (as a result of my higher recommended amount of ADFIT benefits to be used as an offset), the dollar figures of the bonds' interest and principal payments in my calculations are correspondingly lower. As a simplifying assumption in my determination of these lower interest and

[3] These assumptions, described on page 12 of Mr. Brian's testimony, include a securitized-bond life of 14 years. As noted, however, in the testimony of CenterPoint witness Mr. Wayne Olson, the assumptions for the securitized bonds' interest cost and repayment patterns are subject to change, and will be updated at the time of bond issuance.

principal payments, I used the same proportionate relationships (payments relative to bond amount) reflected in CenterPoint's assumed bond repayment schedules. To the extent the final amounts of all these items are different from the assumed figures, such differences should be reflected in the final calculations prior to bond issuance.

The most critical assumption I have used that is different from that used by CenterPoint is my estimate of the ADFIT benefits that should be reflected in the securitized amount. I discuss my recommended amount of ADFIT benefits in Section IV of my testimony.

Q. What assumptions for the *conventional-financing* revenue requirement have you used in your total revenue test?

A. For the cost-of-capital assumption, I used the 11.37% rate approved by the Commission in CenterPoint's unbundled cost of service (UCOS) case. For the recovery period, I used the estimated life of the securitized bonds. Both of these assumptions are consistent with those used by Mr. Brian in his testimony.[4]

As with the securitized revenue requirement, however, I have used a different assumption from that of Mr. Brian for the amount of ADFIT benefits in the conventional CTC (competition transition charge) revenue-requirement calculation. I reflected the same amounts of ADFIT benefits in the derivation of the conventional revenue requirement as I did in the securitized revenue requirement.[5]

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[4] As Mr. Brian notes on page 14 of his testimony, using a CTC recovery period longer than the securitized bond life would only result in an increase to the amount of estimated savings.

[5] Note that the ADFIT balance I have used in my conventional revenue requirement is the sum of the ADFIT balance related to stranded costs that I derive in Section IV of my testimony plus the retrospective ADFIT *benefits*. It is necessary to use the sum of these two components in the conventional revenue requirement to fully reflect all ADFIT benefits.

Q. What amount of total-revenue savings have you estimated in your analyses?

A. I have calculated the total-revenue savings for each of my four scenarios on Exhibit DT-2, pages 1 through 4 (these schedules are adaptations of the same worksheets used by Mr. Brian in his testimony; note that to facilitate reference, I have labeled the various amounts on the schedule by letter). The following table lists the total revenue savings under each of the scenarios:

	Total Revenue			
	Scenario 1 Phase-in Expected Case	Scenario 2 Phase-in Worst Case	Scenario 3 Level Expected Case	Scenario 4 Level Worst Case
Securitized	$1,429,503,021	$1,853,866,731	$1,434,492,619	$1,785,042,732
CTC	$2,228,712,202	$2,228,712,202	$2,228,712,202	$2,228,712,202
Savings	$799,209,181	$374,845,471	$794,219,583	$443,669,469

Based on the foregoing analysis, I conclude that CenterPoint's securitization request satisfies the total revenues test as required by PURA § 39.303(a). I again note, however, that these savings figures should be updated at the time of bond issuance when the final interest rate, bond repayment period, qualified costs, and any other relevant terms are known with certainty.

III-B. Tangible and Quantifiable Benefits Test

Q. Please describe the test for tangible and quantifiable benefits.

A. PURA § 39.301 states in part:

> The commission shall ensure that securitization provides tangible and quantifiable benefits to ratepayers, greater than would have been achieved absent the issuance of transition bonds.

This statutory provision essentially requires that the total revenues—expressed on a *present-value* basis—required to recover a stranded-asset amount are less under a securitized revenue requirement than under a conventional-financing revenue requirement. This test, because it reflects the time value of money, is generally considered to be a more accurate indicator of the actual economic benefit of securitization (hence the name, "tangible and quantifiable benefits"). Because the calculations for this test reflect in present-value terms the difference between the securitized revenue requirement and the CTC revenue requirement, the estimated savings amounts are lower than the amounts indicated by the total revenues test, which is expressed on a nominal-dollars basis.

Q. **What assumptions have you used in your test for tangible and quantifiable benefits?**

A. I performed my test for tangible and quantifiable benefits using essentially the same assumptions as contained in the total revenues test. That is, I performed calculations under the same four scenarios described above in Section III-A. These savings are stated on a present-value basis determined with a discount rate based on the estimated weighted average interest rate of the transition bonds.

Q. **What amount of tangible and quantifiable benefits have you estimated in your analyses?**

A. My estimates of tangible and quantifiable benefits for each of my four scenarios are detailed on Exhibit DT-2, pages 1 through 4. The following table lists the benefits under each of the scenarios:

	Present-Value Revenues			
	Scenario 1 Phase-in Expected Case	Scenario 2 Phase-in Worst Case	Scenario 3 Level Expected Case	Scenario 4 Level Worst Case
Securitized	$1,604,231,154	$1,205,760,418	$1,619,544,362	$1,205,760,418
CTC	$1,007,183,002	$1,006,507,063	$1,039,243,719	$1,039,378,595
Savings	$597,048,152	$199,253,355	$580,300,643	$166,381,823

Based on the foregoing analysis, I conclude that CenterPoint's securitization request satisfies the test for tangible and quantifiable benefits as required by PURA § 39.301. Like the total-revenue comparisons, these figures should be updated and reviewed at the time of bond issuance when the final terms are known with certainty.

IV. RECOMMENDED AMOUNT OF ADFIT BENEFITS

IV-A. General Discussion of ADFIT

Q. Please briefly explain how ADFIT balances are created.

A. Accumulated deferred income tax liabilities represent amounts that are payable to the government. These amounts arise because there is a difference between the Company's income for accounting purposes and the income it uses to determine its taxes for federal taxation purposes. The major element of ADFIT liabilities typically results from the use of accelerated depreciation of a company's assets for tax purposes. Because the depreciation on an accelerated basis is tax deductible, it creates a difference between the taxes reported on the company's books and the taxes currently payable to the government.

Q. How does the use of accelerated depreciation for tax purposes lead first to the creation and then to the eventual elimination of ADFIT?

A. The use of accelerated depreciation means that, in the early years of an asset's life, tax depreciation is higher than book depreciation, resulting in a reduction of current taxes payable and creating a future tax liability payable to the government. In the later years of the asset's life, after the asset is fully depreciated for tax purposes, the book depreciation is higher, causing the tax liability to the government to become due and the accumulated deferred tax amount to reverse and eventually be reduced to zero over the remaining life of the asset.

For regulated companies, ADFIT balances arise because in the determination of a company's regulated cost of service, ratepayers pay income taxes on a normalized basis. That is, a company's regulated cost of service usually incorporates a constant amount of depreciation each year (*i.e.*, straight-line depreciation), along with the related tax effects, until the asset is fully depreciated. Thus, while ratepayers pay a relatively constant amount of taxes based on a normalized revenue requirement, a portion of the company's tax liability to the government is not immediately payable.

Q. Can you clarify the distinction between ADFIT *balances* and ADFIT *benefits*?

A. Yes. As described above, ADFIT *balances* consist of the funds reflected on a company's books that are payable to the government for tax liabilities. Until these liabilities are paid, however, the company has the use of these funds.

When I refer to ADFIT *benefits*, I am referring to the value that can be created by putting the ADFIT balances to use—in other words, I am essentially referring to the time value of money on the ADFIT balances.[6] For example, if I have $100 in my possession that I owe to the government, but because of tax laws I am not obligated to make the payment until one year from now, I can invest that $100 balance for one year in a savings account and earn, say, 8%, or $8.[7] In this situation, the deferred tax-

[6] Consistent with this point, in the final order for Docket No. 29526, the Commission states on page 79 that, "Staff witness Tietjen proposed that the time value of money associated with the ADFIT amount should be considered in the post true-up proceeding. Mr. Tietjen testified that the adjustment is necessary because the joint applicant will have enjoyed ADFIT as a quantity of cost-free capital that could be put to productive use until the account reverses, and that this treatment is analogous to the deduction of ADFIT from rate base that occurs in a traditional ratemaking proceeding." Also, see Exhibit DT-6, containing CenterPoint's response to City of Houston RFI COH1-3. CenterPoint's response includes a reference to Finding of Fact No. 16 in the Commission's order in Docket No. 21665 (CenterPoint's previous financing-order case) concerning the present-value effects of ADFIT as a reduction in revenue requirements.

[7] Unfortunately, a bank that pays an 8% interest rate on savings accounts is only hypothetical.

liability *balance* is $100, while the related *benefit* that results from my being able to use the funds is $8.[8]

Moreover, as I shall describe later in Section V of my testimony, for purposes of this proceeding there is more than one way to reflect the benefits that result from a given ADFIT balance.

IV-B. Discussion and Recommendation of the Appropriate Interest-Rate for Determination of ADFIT Benefits

Q. Please describe more specifically how ADFIT balances provide benefits to a regulated utility company.

A. ADFIT balances provide benefits to a regulated company because these amounts are traditionally considered to be *cost-free* capital to the company. This is because, as noted above, ADFIT balances consist of a regulated company's tax-expense amounts that are currently received, but which are not currently payable. Thus, the company can use these funds on a cost-free basis until they are ultimately paid as income taxes to the federal government. As with any form of capital, the ADFIT can be employed to fund the company's operations; thus, the use of the ADFIT provides economic value. But—and this is the key point—because the ADFIT amount has not been contributed by investors who require a rate of return, a value or benefit is created as a result of the company being able to use the cost-free ADFIT as a *substitute* for other capital that would otherwise need to be provided by investors who *do* require a rate of return.

[8] Obviously, if I had the use of the funds for a period of time longer than one year, the benefits would be correspondingly greater.

Q. In the traditional determination of a regulated revenue requirement, how do regulatory bodies typically reflect the benefits of cost-free ADFIT capital?

A. In a traditional cost-of-service rate proceeding, the benefits of cost-free ADFIT are realized by subtracting the ADFIT balance from the company's return-earning rate base. In this way, ratepayers effectively receive the benefit of the cost-free capital by paying a reduced amount of return dollars, with the reduction being equivalent to the company's rate of return—*i.e.*, its weighted average cost of capital, or WACC—multiplied by its ADFIT balance.[9]

Q. You have described how ratepayers traditionally realize the benefits of cost-free ADFIT balances. Does the utility company still receive its regulated rate of return[10] if the benefits of cost-free capital are flowed through to ratepayers?

A. Yes. There are two basic ways in which a company can realize the benefits of cost-free ADFIT. The first way is to use the cost-free ADFIT to pay off existing providers of capital (such as debt and equity holders), and the second way is to use the ADFIT amounts as a source of funds for new investments and projects, thereby eliminating or reducing the need to issue additional debt and/or equity. In either instance, the company realizes the benefits of cost-free ADFIT by effectively "avoiding" the costs of capital that would otherwise be imposed by traditional providers of debt and equity capital for the use of their funds. Therefore, even though the cost-free effects of ADFIT capital are flowed through to ratepayers, the company has avoided having to pay an equivalent amount of capital costs. For the company's existing traditional capital providers, the net effect is that they still receive their authorized regulated rate of return.

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[9] This point is directly comparable to my previous discussion of how I would be able to enjoy a benefit of $8 on a $100 deferred tax balance.

[10] Strictly speaking, the regulated company has the *opportunity* to receive its regulated rate of return.

Q. Based on your above discussion, what rate is the appropriate rate to use for the determination of ADFIT benefits in the present docket?

A. As I have explained above, a company is able to use cost-free ADFIT balances to effectively "avoid" the costs of capital it would otherwise incur. Therefore, it is quite straightforward to see that the appropriate rate of interest with which to calculate the benefits of cost-free ADFIT is a company's *weighted-average cost of capital*. This rate represents a company's composite opportunity cost that can be avoided as a result of using the ADFIT as a substitute for traditional forms of capital. Accordingly, for purposes of this docket, I recommend that the rate of **11.075%** be deemed as the appropriate rate with which to calculate ADFIT benefits.[11] This is the same rate that the Commission authorized for purposes of determining interest on CenterPoint's stranded costs.

Q. CenterPoint witness James S. Brian testifies on pages 21 and 22 of his direct testimony that the appropriate rate for calculating ADFIT benefits is the transition bond rate. Do you have any comments in response to this argument?

A. Yes. I disagree with Mr. Brian's testimony on this issue because his argument is based solely on the continued mechanical application of a traditional method of ratemaking without any consideration of the economic rationale underlying the actual circumstances. On page 21, lines 9 through 21 of his testimony, Mr. Brian states:

[11] The pre-tax rate actually authorized in CenterPoint's unbundled cost-of-service docket was 11.37%. However, for purposes of computing interest on stranded cost, the Commission reduced the rate to 11.075% to reflect an adjustment related to franchise taxes.

> In conventional ratemaking, consumers pay a return to the utility on the utility's investment at the utility's weighted average cost of capital over a regulatory life. At the same time, consumers receive the benefits of ADFIT through a return on ADFIT at the utility weighted average cost of capital over the regulatory life. The return rate that consumers pay to the utility and the return rate that consumers receive are the same.
>
> Securitization provides benefits to consumers through a lower return paid on the investment than the utility's weighted average cost of capital. Securitization also provides for a shorter recovery period.
>
> When the true-up balance is securitized, the ADFIT becomes due and is paid over the securitization recovery period. Consumers are effectively paying a return at the transition bond rate. Consumers should therefore receive the ADFIT benefits at the transition bond rate since this rate is consistent with the rate they are paying and consistent with ratemaking methodology.

Mr. Brian is correct in the first paragraph of the above statements when he says that in conventional ratemaking, consumers receive the benefits of ADFIT through a return on ADFIT at the utility weighted-average cost of capital. This particular point is entirely consistent with my previous discussion concerning the deduction of ADFIT from rate base in conventional ratemaking. But Mr. Brian's comments go astray in the third paragraph quoted above. As I discussed in my earlier explanation of ADFIT benefits, the reason that the ratepayers properly receive the benefit of ADFIT at the weighted-average cost of capital in conventional ratemaking is because that is the rate that the utility can avoid by having the use of the ADFIT funds. *And that fact is not changed* simply because the ADFIT happens to become due as a result of the recovery of a securitization transition charge. Regardless of the rate of the transition bonds, the Company's use of the ADFIT funds is not inextricably tied to avoiding a particular capital cost at the level of that transition bond rate. Indeed, given that the transition bond rate is expected to be based on a AAA-credit rating and thus is virtually guaranteed to cost significantly less than the cost of any other financing available to the Company, to say that the transition bond rate is representative of the cost of capital that can be avoided by the use of ADFIT is not logical.

Accordingly, there is no theoretical support for Mr. Brian's statement that "consumers should receive the ADFIT benefits at the transition bond rate because this is consistent with the rate they are paying and consistent with ratemaking methodology." A company's use of its ADFIT balance is not tied to the transition bond rate paid by ratepayers. The overall WACC—the cost of capital for the capital remaining on the company's books[12] and not identified with any particular asset—is the best representation of the relevant opportunity cost to the company that can be avoided by using ADFIT as a source of cost-free capital. It is on this basis that I recommend the 11.075% rate as the correct rate for the determination of ADFIT benefits.

IV-C. Quantification of ADFIT Benefits

Q. How have you quantified the actual amount of ADFIT benefits to be applied in this proceeding?

A. I have used a two-step procedure to determine the amount of ADFIT benefits in this case. For the first step, I essentially replicated the procedure used by Mr. Brian in his calculation of the benefits. This step reflects the benefits of ADFIT on a *prospective* basis; that is, it reflects the future period of time over which the securitized bonds are expected to be repaid as well as the pattern of the bonds' repayment.

For the second step, I have calculated the benefits to CenterPoint on a *retrospective* basis; that is, from the date of 1/1/04 (I explain this starting point later in my testimony) to an assumed bond-issuance date of 6/1/05. CenterPoint witness Mr.

[12] As described on page 27 of Mr. Brian's testimony, the securitized transition property is sold to the special purpose entity, removed from the Company's books, and proceeds therefrom are used to retire debt and equity.

Brian completely ignores these retrospective ADFIT benefits. However, it is proper to include the amount of ADFIT benefits on a retrospective basis because 1) it is undeniable that CenterPoint has in fact had the use of these funds since that date, and 2) the Commission specifically stated in the final order for Docket No. 29526 that such benefits should be considered.

Q. Where in the final order for Docket No. 29526 did the Commission state that past ADFIT benefits should be considered?

A. In Findings of Fact 405 and 406, the Commission states the following:

> 405. CenterPoint has enjoyed, and will continue to enjoy, the benefit of the ADFIT reserve as a source of cost-free capital.
>
> 406. The benefit that CenterPoint has derived from retaining ADFIT as cost-free capital should be considered in the subsequent recovery proceeding, but not deducted from stranded costs in this proceeding.

Note the past-tense nature of the Commission's statements: CenterPoint "*has* enjoyed," and "*has* derived." These statements clearly indicate that the Commission believes that any benefits enjoyed by CenterPoint during the time period between the beginning of deregulation and the issuance of the true-up order should be taken into account in this proceeding.

For the sake of clarity, I would note that in the following analyses of ADFIT benefits, the *prospective* benefits relate only to the stranded-cost portion of ADFIT, while the *retrospective* benefits relate to the total amount of ADFIT. This is because the *non*-stranded-cost portion of ADFIT will become currently payable when the sale of Texas Genco is consummated, and thus there will be no prospective benefits from this portion of the ADFIT.

Q. Please provide the details of your quantification of *prospective* ADFIT benefits.

A. I have previously established the appropriate interest rate for the quantification of benefits as 11.075%, and, as I stated above, I have assumed the same bond life and repayment patterns as Mr. Brian. For the *balance* of ADFIT on which prospective benefits should be calculated, I have used $626,341,423. I show my derivation of this figure in the top portion of Exhibit DT-3, pages 1 and 2 (which correspond to the phase-in structure and level structure, respectively).

Q. What balance of stranded-cost-related ADFIT did CenterPoint use to calculate benefits?

A. On Figure JSB-1, page 9, Schedule 3, CenterPoint proposes a figure of $336,458,720 as the applicable amount of ADFIT on which to calculate prospective benefits. CenterPoint derives this figure by starting with an ADFIT balance of $867,783,937 (a figure that was included in the filing for Docket No. 29526), and then, after making certain adjustments to reflect Commission decisions in that docket, CenterPoint calculates a 26.3% proportion of stranded costs to adjusted book value. CenterPoint then applies the 26.3% ratio to the adjusted generation-related ADFIT amount, and to this product adds one final computation related to ADFIT for equity AFUDC and debt AFUDC.

Q. Do you agree with the above approach used by CenterPoint?

A. No. CenterPoint's method understates the proportionate amount of ADFIT that is associated with stranded costs. While at first blush it may seem intuitively correct that the relevant stranded-cost proportion of ADFIT is determined by taking the ratio of stranded costs to book value and then applying that ratio to the ADFIT balance, in fact this methodology leads to an incorrect result. To achieve the correct result, the ratio that should actually be applied to the ADFIT balance is the ratio of stranded costs to the *difference between the assets' book basis and tax basis*. This is because the ADFIT balance does not originate from the book value, but rather, it originates from multiplying the tax rate times the difference between the book and tax bases. While this may not be as intuitive, an illustration may help to clarify:

Suppose that a company has a $1,000 asset that has a book basis of $600 and a tax basis of $100. The difference between the book basis and tax basis, therefore, is $500. With an assumed 40% tax rate, this means that the ADFIT balance would be $200, which is calculated as 40% times the $500 difference in bases.

Now assume that the company sells the asset for $500. Because the book basis was $600, the company has incurred a $100 loss, which we will assume for purposes of this illustration is recoverable as a stranded cost. However, even though there is a book-basis loss, there is a tax-basis gain of $400 because the tax basis was $100. Therefore, the company would immediately pay taxes of $160 (calculated as $400 * 40%) on the $400 tax gain. These taxes would be paid out of the existing $200 ADFIT balance, and after paying the $160 of taxes, the company would have remaining ADFIT funds of $40. This remaining $40 amount would eventually be paid when the company received its stranded cost recovery of $100—*i.e.*, stranded-cost recovery of $100 * 40% tax rate equals the remaining $40 in taxes. Thus, at the completion of final stranded-cost recovery, all the mechanics would have worked out as they should—the asset would be fully recovered and all the ADFIT taxes would be fully reversed.

To see how CenterPoint's ratio method would lead to the incorrect result in the above example, I will first determine the ratio of stranded costs to book value. I will then apply this ratio to the ADFIT balance to determine the proportion of ADFIT that CenterPoint would assert is applicable to stranded costs. Recall that the stranded-cost amount is $100, and the book value is $600. Thus, the ratio is calculated as $100 /

$600 = 16.67%, and the proportion of stranded-cost ADFIT is then calculated under CenterPoint's method as 16.67% * $200 = $33.33. However, we already know from the preceding paragraph that the actual ADFIT related to the stranded-cost was not $33.33, but $40. Thus, it can easily be seen that CenterPoint's methodology understates the correct amount.

The correct amount, however, can be determined by using the ratio of stranded costs to the *difference between the book basis and tax basis*. As previously noted, that basis difference was $500, and dividing the $100 stranded-cost figure by this $500 amount produces a ratio of 20%, which, when applied to the ADFIT balance of $200, yields the correct $40 amount of remaining ADFIT associated with stranded-cost recovery.

Q. Is there an additional perspective that demonstrates the validity of this method?

A. Yes. Consider the fact that in this example, the company would be earning interest (per the Commission decision pursuant to court rulings) on $100 of stranded costs. However, the company still had $40 of ADFIT funds that it could put to use and with which it could thereby avoid a portion of its costs of capital. As I have previously described, standard ratemaking methodology would therefore require that the actual balance of return-earning stranded costs should be $100 less $40 = $60. Earning interest on this net amount of $60 would fully reflect the benefits of the $40 ADFIT balance. However, if the Commission adopted CenterPoint's ratio methodology, the net stranded-cost amount on which the company would be earning a return would not be $60, but $66.67 (calculated as $100 less $33.33). Thus, the company would earn interest on a net stranded-cost amount that is too high, and would consequently enjoy a windfall.

Q. Is there a more straightforward way of calculating the correct amount of ADFIT related to stranded costs?

A. Fortunately, yes. The correct $40 result can be obtained by simply multiplying the example's 40% tax rate by the $100 stranded-cost amount. Accordingly, as a general matter, the correct amount of stranded-cost-related ADFIT can be determined by simply multiplying the tax rate by the stranded-cost amount (or more precisely, the excess of book value over market value). The reason I have included the more detailed explanation above is to demonstrate the incorrectness of CenterPoint's approach.

Q. Does your detailed example above illustrate the same principle described by Office of Public Utility Counsel and TIEC witness Mr. David Effron on pages 9 through 12 of his testimony?

A. Yes. My example above illustrates the very same concept discussed by Mr. Effron in that portion of his testimony. I have simply attempted to explain the mechanics of the concept in a different way.

Q. Given your discussion above, what balance of ADFIT do you recommend be used for the calculation of prospective benefits?

A. As I show in the top portion of Exhibit DT-3, pages 1 and 2, applying CenterPoint's tax rate of 35% to the excess of book value over market value yields an ADFIT balance of $485,178,496, to which I then added the $141,162,927 ADFIT figure related to the regulatory assets. The $626,341,423 sum of these two amounts is the balance on which I have calculated prospective ADFIT benefits.

Q. Based on your calculated ADFIT balance, what is your recommended amount of *prospective* ADFIT benefits?

A. Using essentially the same spreadsheet employed by Mr. Brian in his Figure JSB-1, page 9, Schedule 3, I have calculated on pages 1 and 2 of Exhibit DT-3 the prospective ADFIT benefit amount of $384,735,038 for the phase-in bond payment structure and $352,620,519 for the level bond payment structure. The difference between the two amounts relates solely to the effect of different repayment patterns on the present-value calculations.

Q. With respect to *retrospective* ADFIT benefits, what do you recommend as the appropriate amount?

A. *On Exhibit DT-4, I show my calculations deriving my recommended* $136,262,240 amount of retrospective ADFIT benefits. These calculations reflect the effects of actual reductions in the remaining balance of the excess mitigation credits through August 31, 2004, and projected reductions from that date through the end of May 2005. The starting date for the calculations is January 1, 2004.

Q. Please explain why you used a 1/1/04 starting date and a 5/31/05 ending date in your calculations.

A. I used a starting date of 1/1/04 because, theoretically, the benefits of ADFIT for 2002 and 2003 were taken into account by the Commission's decisions regarding the capacity auction true-up balance and the amount of interest contributed thereby. I used an ending date of 5/31/05 because that is the date CenterPoint assumed in its filing as the estimated date on which securitization would take place. Additionally, an ending date of 5/31/05 reflects an estimate of the date on which CenterPoint's sale of Texas Genco will be final (see Exhibit DT-5, containing CenterPoint's response to City of Houston RFI COH3-6). Following the completion of the sale, the non-stranded-cost portion of ADFIT will reverse and become payable, but until that time, those ADFIT funds are still in CenterPoint's possession.

Q. In its final determination of ADFIT benefits, should the Commission update the calculations with more refined data?

A. Yes.

Q. Based on your preceding discussion, what is the total estimated amount of ADFIT benefits that should be recognized by the Commission in its determination of the true-up balance recovery?

A. The table below summarizes my recommendations concerning estimated ADFIT benefits for both the phase-in bond payment structure and the level payment structure:

	Phase-in structure	Level structure
Prospective ADFIT benefits[13]	$384,735,038	$352,620,519
Retrospective ADFIT benefits[14]	$136,262,240	$136,262,240
Total ADFIT benefits	**$520,997,278**	**$488,882,759**

V. ALTERNATIVE WAYS TO REFLECT ADFIT BENEFITS

Q. Is the application of the ADFIT benefits as a direct offset to the securitized amount the only Commission alternative for reflecting the ADFIT benefits in CenterPoint's recovery of its true-up items?

A. No. While it seems that much (or most) of the discussion in this proceeding (as well as Docket No. 29526) concerning the use of the ADFIT benefits has assumed that the benefits will be used to directly reduce the amount of securitized bonds, there are at

[13] Calculations are shown on Exhibit DT-3.

[14] Retrospective benefits are calculated through the end of May 2005, as described in my testimony. Calculations are shown on Exhibit DT-4.

least two other alternatives available to the Commission to incorporate the effects of the benefits.

The first alternative is to simply switch the application of the benefits from the securitized true-up amount to the non-securitized CTC true-up amount. Should the Commission opt for this alternative, there are two ways to realize the benefits. One way is to simply use the amount of ADFIT benefits as a direct offset to the CTC balance (just as it would be used as a direct offset if it were applied to the securitized true-up amount), and the other way is to use the ADFIT *balance*[15] (not the ADFIT benefits) as a deduction to the CTC balance for purposes of calculating the associated return dollars. This latter methodology is exactly analogous to the treatment of ADFIT in a traditional rate proceeding when the ADFIT balance is used to reduce a company's rate base before the rate of return is applied. In either situation—whether the ADFIT *benefits* are used as a direct offset to the CTC amount or whether the ADFIT *balance* is used to reduce the return-earning CTC balance—the economic effect is the same.

The second alternative at the Commission's disposal is to use a combination approach—that is, use part of the benefits (for example, the prospective benefits) to offset the securitized amount, and the remaining part (the retrospective benefits) in the recovery of the CTC amount.

Q. Can you illustrate with a simple example how the resulting economic effect is the same for each of the two different ways of reflecting the ADFIT benefits in the *CTC* recovery (described in your first alternative above)?

A. Yes. Assume a CTC recovery amount of $800, an ADFIT *balance* of $600, and an interest rate of 10%. Further assume that recovery of the entire amount as well as payment to the government of the ADFIT occurs at the end of a one-year period (I

[15] Note that the ADFIT balance in this situation would include the retrospective time value of the ADFIT. This concept is consistent with my statements in footnote 5 on page 8.

have assumed a one-year recovery period for the sake of simplicity). In this situation, the benefits of the ADFIT would be calculated as the present value of the interest that could be earned[16] during the year on the $600 balance. With a 10% interest rate, the interest on $600 would be $60, and the present value of that $60 would be $54.55.[17] This present-value amount of *benefits* could be used to directly offset the recoverable CTC amount of $800, resulting in a net recoverable balance of $745.45 ($800 less $54.55). Including 10% interest for one year on the $745.45 amount would lead to a total cost of $745.45 * 1.10 = $820.

Now consider the other possibility, in which the entire ADFIT *balance* is used to reduce the CTC amount that earns a return. Note that in this instance, the company would receive the full return *of* the $800, but the return *on* the CTC would be reduced to only $20, because the $600 would be used as a reduction to the amount on which interest is calculated. The one-year return *on* the CTC would be calculated as ($800 minus $600) * 10% = $20, and this figure, when added to the $800 full recovery *of* the CTC amount, equals the same $820 figure calculated in the approach described in the paragraph above. (As previously noted, this methodology is analogous to the way ADFIT is treated in a traditional rate case; *i.e.*, even though a company receives full recovery *of* its rate base through depreciation, the amount of rate base that actually earns a return is reduced by the available ADFIT balance.)

Thus, the foregoing examples show that the two methods are mathematically equivalent, and therefore the benefits of the ADFIT can be achieved by the use of either approach.

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[16] Or, stated in a way more consistent with my prior discussions, the benefits of the ADFIT would be calculated as the present value of the costs of capital that could be avoided.

[17] $60 / (1 + .10) = $54.5454

Q. If the Commission were to incorporate the ADFIT benefits in the recovery of the *CTC* amount (using either of the two methods described above), would this reduce the total carrying costs of the true-up balances vis-à-vis the approach in which ADFIT benefits are applied as a direct offset to the *securitizable* amount?

A. Yes. If the Commission were to reflect the ADFIT benefits in the recovery of the CTC balance rather than the recovery of the securitized balance, the total carrying charges on the entirety of all the true-up balances would be reduced. Hence, there is a benefit that can be realized by reflecting the ADFIT benefits in this way. Again, I will use a simplified example to illustrate the potential benefit.

Suppose a company had an authorized true-up balance of $2,300, with $1,500 deemed as securitizable and the remaining $800 recoverable through a CTC. Further suppose that the Commission determined that the appropriate amount of ADFIT benefits to be reflected in the recovery of these true-up balances was $500. Also assume that the interest rate on the $1,500 securitized amount was 5% and the interest rate on the $800 CTC amount was 11%. Finally, again for the sake of simplicity, assume that there is a one-year recovery period for both the securitized balance and the CTC balance.

Based on the above assumptions, and comparing the two scenarios in which the ADFIT benefits are used to reduce either the securitizable amount or the CTC amount, the total charges paid by ratepayers under the two scenarios would be as follows:

<u>First scenario—ADFIT benefits used to reduce *securitizable* balance:</u>

Securitizable amount	$1,500
Less ADFIT benefits	$500
Amount securitized	$1000
Interest for one year @ 5%	$50
Total securitized recovery = $1000 + $50 =	**$1,050**
CTC Amount	$800
Interest for one year @ 11%:	$88
Total CTC recovery = $800 + $88 =	**$888**
Total cost = $1,050 + $888 =	**$1,938**

<u>Second scenario—ADFIT benefits used to reduce *CTC* balance:</u>

Securitizable amount	$1,500
Amount securitized	$1,500
Interest for one year @ 5%:	$75
Total securitized cost = $1,500 + $75 =	**$1,575**
CTC Amount	$800
Less ADFIT benefits	$500
Net amount of CTC recovery:	$300
Interest for one year @ 11%:	$33
Total CTC cost = $300 + $33 =	**$333**
Total cost = $1,575 + $333 =	**$1,908**

Difference in total costs between two scenarios: $1,938 less $1,908 = $30.

As illustrated in this simplified example, the application of the ADFIT benefits to the higher-cost CTC financing results in total costs that are $30 lower (this $30 savings can also be computed in this example by simply multiplying the $500 ADFIT benefits by the 6% difference [11% less 5%] between the securitized and CTC interest rates). This illustration is directly analogous to a situation in which a consumer is trying to decide how to apportion a payment towards two credit-card bills with different interest rates. Obviously, it is financially advantageous to first pay off the card with the higher rate. The very same concept applies here.

Q. Does this conclude your testimony?

A. Yes.

LIST OF TESTIMONIES
BY DARRYL TIETJEN

PUC Docket	Company	Subject
10060	Brazos River Authority	Rate of Return
10462	Tex-La Electric Cooperative	Interim Rates/ Rate of Return
10325	Central Texas Electric Cooperative	Rate of Return
10744	Rayburn Country Electric Cooperative	Sale, Transfer, Merger
10820	Magic Valley Electric Cooperative	Rate of Return
11347	Johnson County Electric Cooperative	Rate of Return
11571	Fayette Electric Cooperative	Rate of Return
11520	Southwestern Public Service Company	Rate of Return
12065	Houston Lighting & Power Company	Decomm. Exp.
12700	El Paso Electric Company	Rate Moderation/ Mirror CWIP
12815	Pedernales Electric Cooperative	Rate of Return
12820	Central Power and Light Company	Decomm. Exp.
12852	Gulf States Utilities Company	Decomm. Expense/ Contra-AFUDC
13827	Southwestern Public Service	Notice of Intent
14965	Central Power and Light Company	Rate of Return/ Decomm. Expense
15638	Texas Utilities Electric Company	Transmission Cost of Service
16585	T&H Communications	SPCOA
16705	Entergy Gulf States	Rate of Return
16705	Entergy Gulf States	ROR on ECOM
18290	Entergy Gulf States	Carrying Charges on Tax Remand
18845	Central and South West Companies	Financial Condition of Resource Providers
21527	TXU Electric Company	Securitization
21528	Central Power and Light Company	Securitization
22344	Generic Unbundled Docket	Return on Equity
22355	Reliant Energy	ECOM Estimate
22352	Central Power and Light Company	Cost of Debt
22354	West Texas Utilities Company	Recovery of Refi Costs
22350	TXU Electric Company	ECOM Estimate
26942	Texas-New Mexico Power Company	Treatment of Reg Asset
29206	Texas-New Mexico Power Company	Stranded Costs & True-up Issues
29206	Texas-New Mexico Power Company	Interest on Stranded Costs
29526	CenterPoint Energy Houston Electric, et al.	Stranded Costs & True-up Issues
29526	CenterPoint Energy Houston Electric, et al.	Interest on Stranded Costs

LIST OF TESTIMONIES
BY DARRYL TIETJEN (cont.)

Memoranda in Lieu of Testimony

10156	Cap Rock Electric Cooperative	Rate of Return
10394	Coleman County Electric Cooperative	Rate of Return
10714	J-A-C Electric Cooperative	Rate of Return
11259	Farmers Electric Cooperative	Sale, Transfer, Merger
12368	Cooke County Electric Cooperative	Rate of Return
15120	Southwestern Public Service/Cap Rock	Transfer of Property
15904	Alenco Communications, Inc.	Sale, Transfer, Merger
15906	Central Texas Telephone Cooperative	Sale, Transfer, Merger
18443	Tri-County and B-K Electric Cooperatives	Sale, Transfer, Merger
21850	CPL Electric/SESCO	Sale, Transfer, Merger
22222	United Electric Cooperative Services	Sale, Transfer, Merger

LIST OF TESTIMONIES
BY DARRYL TIETJEN

PUC Docket	Company	Subject
10060	Brazos River Authority	Rate of Return
10462	Tex-La Electric Cooperative	Interim Rates/ Rate of Return
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11571	Fayette Electric Cooperative	Rate of Return
11520	Southwestern Public Service Company	Rate of Return
12065	Houston Lighting & Power Company	Decomm. Exp.
12700	El Paso Electric Company	Rate Moderation/ Mirror CWIP
12815	Pedernales Electric Cooperative	Rate of Return
12820	Central Power and Light Company	Decomm. Exp.
12852	Gulf States Utilities Company	Decomm. Expense/ Contra-AFUDC
13827	Southwestern Public Service	Notice of Intent
14965	Central Power and Light Company	Rate of Return/ Decomm. Expense
15638	Texas Utilities Electric Company	Transmission Cost of Service
16585	T&H Communications	SPCOA
16705	Entergy Gulf States	Rate of Return
16705	Entergy Gulf States	ROR on ECOM
18290	Entergy Gulf States	Carrying Charges on Tax Remand
18845	Central and South West Companies	Financial Condition of Resource Providers
21527	TXU Electric Company	Securitization
21528	Central Power and Light Company	Securitization
22344	Generic Unbundled Docket	Return on Equity
22355	Reliant Energy	ECOM Estimate
22352	Central Power and Light Company	Cost of Debt
22354	West Texas Utilities Company	Recovery of Refi Costs
22350	TXU Electric Company	ECOM Estimate
26942	Texas-New Mexico Power Company	Treatment of Reg Asset
29206	Texas-New Mexico Power Company	Stranded Costs & True-up Issues
29206	Texas-New Mexico Power Company	Interest on Stranded Costs
29526	CenterPoint Energy Houston Electric, et al.	Stranded Costs & True-up Issues
29526	CenterPoint Energy Houston Electric, et al.	Interest on Stranded Costs

LIST OF TESTIMONIES
BY DARRYL TIETJEN (cont.)

Memoranda in Lieu of Testimony

10156	Cap Rock Electric Cooperative	Rate of Return
10394	Coleman County Electric Cooperative	Rate of Return
10714	J-A-C Electric Cooperative	Rate of Return
11259	Farmers Electric Cooperative	Sale, Transfer, Merger
12368	Cooke County Electric Cooperative	Rate of Return
15120	Southwestern Public Service/Cap Rock	Transfer of Property
15904	Alenco Communications, Inc.	Sale, Transfer, Merger
15906	Central Texas Telephone Cooperative	Sale, Transfer, Merger
18443	Tri-County and B-K Electric Cooperatives	Sale, Transfer, Merger
21850	CPL Electric/SESCO	Sale, Transfer, Merger
22222	United Electric Cooperative Services	Sale, Transfer, Merger

Exhibit DT-2

Summaries of Cost-Benefit Analyses

CenterPoint Energy Houston Electric
Cost/Benefit Analyses
Expected Transition BondRate 4.5%
Phase-in Structure

True-Up Amount	Traditional Financing (Schedule 1A) 20 Year Amortization Nominal Dollars	Traditional Financing (Schedule 1A) 20 Year Amortization Present Value	Traditional Financing (Schedule 1B) 14 Year Amortization Nominal Dollars	Traditional Financing (Schedule 1B) 14 Year Amortization Present Value	Securitization Financing (Excluding Securitization Costs) (Schedule 5) Nominal Dollars	Securitization Financing (Excluding Securitization Costs) (Schedule 2A) Present Value	Costs of Securitization Nominal Dollars (Schedule 5) Upfront Costs	Costs of Securitization Nominal Dollars (Schedule 6) Ongoing Costs	Costs of Securitization Nominal Dollars Total	Costs of Securitization Present Value (Schedule 2A) Upfront Costs	Costs of Securitization Present Value (Schedule 6) Ongoing Costs	Costs of Securitization Present Value Total
1,493,747,264	2,589,602,116	1,643,698,912	2,228,712,202	1,604,231,154	1,389,105,675	972,749,986	25,704,346	14,693,000	40,397,346	18,000,000	16,433,016	34,433,016
	A	B	C	D	E	F	G	H	I = (G + H)	J	K	L = (J + K)

Securitization Financing (Including Securitization Costs) Nominal Dollars	Securitization Financing (Including Securitization Costs) Present Value	Saving/(Cost) (Excluding Securitization Costs) Versus 20 Year CTC Nominal Dollars	Saving/(Cost) (Excluding Securitization Costs) Versus 20 Year CTC Present Value	Saving/(Cost) (Excluding Securitization Costs) Versus 14 Year CTC Nominal Dollars	Saving/(Cost) (Excluding Securitization Costs) Versus 14 Year CTC Present Value	Saving/(Cost) (Including Securitization Costs) Versus 20 Year CTC Nominal Dollars	Saving/(Cost) (Including Securitization Costs) Versus 20 Year CTC Present Value	Saving/(Cost) (Including Securitization Costs) Versus 14 Year CTC Nominal Dollars	Saving/(Cost) (Including Securitization Costs) Versus 14 Year CTC Present Value
1,429,503,021	1,007,183,002	1,200,496,442	670,948,926	839,606,527	631,481,168	1,160,099,096	636,515,910	799,209,181	597,048,152
M = (E + I)	N = (F + L)	O = (A - E)	P = (B - F)	Q = (C - E)	R = (D - F)	S = (A - M)	T = (B - N)	U = (C - M)	V = (D - N)

Required Economic Tests			Test Met?	Savings Result	
Total Revenue Test (PURA Section 39.303)			yes	799,209,181	U
Tangible and Quantifiable Benefits to Ratepayers (PURA Section 39 301)			yes	597,048,152	V
Present Value (or "Cap") Amt (PURA Section 39.301)	**1,604,231,154**	D			
Amount to be securitized (excluding securitization costs)	972,749,986	F			

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CenterPoint Energy Houston Electric
Cost/Benefit Analyses
Worst Rate 9.0%
Phase-In Structure

	Traditional Financing				Securitization Financing (Excluding Securitization Costs)		Costs of Securitization					
	(Schedule 1A) 20 Year Amortization		(Schedule 1B) 14 Year Amortization				Nominal Dollars			Present Value		
True-Up Amount	Nominal Dollars	Present Value	Nominal Dollars	Present Value	(Schedule 2B) Nominal Dollars	(Schedule 2B) Present Value	(Schedule 2B) Upfront Costs	(Schedule 6) Ongoing Costs	Total	(Schedule 2B) Upfront Costs	(Schedule 6) Ongoing Costs	Total
1,493,747,264	2,589,602,116	1,129,115,279	2,228,712,202	1,205,760,418	1,805,759,522	972,749,986	33,414,209	14,693,000	48,107,209	18,000,000	15,757,078	33,757,078
	A	B	C	D	E	F	G	H	I = (G + H)	J	K	L = (J + K)

Securitization Financing (Including Securitization Costs)		Saving/(Cost) (Excluding Securitization Costs)				Saving/(Cost) (Including Securitization Costs)			
		Versus 20 Year CTC		Versus 14 Year CTC		Versus 20 Year CTC		Versus 14 Year CTC	
Nominal Dollars	Present Value	Nominal Dollars	Present Value	Nominal Dollars	Present Value	Nominal Dollars	Present Value	Nominal Dollars	Present Value
1,853,866,731	1,006,507,063	783,842,595	156,365,293	422,952,680	233,010,433	735,735,385	122,608,215	374,845,471	199,253,355
M = (E + I)	N = (F + L)	O = (A - E)	P = (B - F)	Q = (C - E)	R = (D - F)	S = (A - M)	T = (B - N)	U = (C - M)	V = (D - N)

Required Economic Tests	Test Met?	Savings Result	
Total Revenue Test (PURA Section 39 303)	yes	374,845,471	U
Tangible and Quantifiable Benefits to Ratepayers (PURA Section 39.301)	yes	199,253,355	V

Present Value (or "Cap") Amt (PURA Section 39 301)	**1,205,760,418**	D
Amount to be securitized (excluding securitization costs)	972,749,986	F

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CenterPoint Energy Houston Electric
Cost/Benefit Analyses
Expected Transition Bond Rate 4.36%
Level Structure

	Traditional Financing				Securitization Financing		Costs of Securitization					
	(Schedule 1A) 20 Year Amortization		(Schedule 1B) 14 Year Amortization		(Excluding Securitization Costs)		Nominal Dollars			Present Value		
True-Up Amount	Nominal Dollars	Present Value	Nominal Dollars	Present Value	(Schedule 5) Nominal Dollars	(Schedule 2A) Present Value	(Schedule 5) Upfront Costs	(Schedule 6) Ongoing Costs	Total	(Schedule 2A) Upfront Costs	(Schedule 6) Ongoing Costs	Total
1,493,747,264	2,589,602,116	1,664,911,299	2,228,712,202	1,619,544,362	1,394,731,976	1,004,864,505	24,983,643	14,777,000	39,760,643	18,000,000	16,379,214	34,379,214
	A	B	C	D	E	F	G	H	I = (G + H)	J	K	L = (J + K)

Securitization Financing		Saving/(Cost) (Excluding Securitization Costs)				Saving/(Cost) (Including Securitization Costs)			
(Including Securitization Costs)		Versus 20 Year CTC		Versus 14 Year CTC		Versus 20 Year CTC		Versus 14 Year CTC	
Nominal Dollars	Present Value	Nominal Dollars	Present Value	Nominal Dollars	Present Value	Nominal Dollars	Present Value	Nominal Dollars	Present Value
1,434,492,619	1,039,243,719	1,194,870,140	660,046,795	833,980,225	614,679,857	1,155,109,498	625,667,580	794,219,583	580,300,643
M = (E + I)	N = (F + L)	O = (A - E)	P = (B - F)	Q = (C - E)	R = (D - F)	S = (A - M)	T = (B - N)	U = (C - M)	V = (D - N)

Required Economic Tests	Test Met?	Savings Result	
Total Revenue Test (PURA Section 39.303)	yes	794,219,583	U
Tangible and Quantifiable Benefits to Ratepayers (PURA Section 39.301)	yes	580,300,643	V

Present Value (or "Cap") Amt (PURA Section 39.301)	**1,619,544,362**	D
Amount to be securitized (excluding securitization costs)	1,004,864,505	F

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CenterPoint Energy Houston Electric
Cost/Benefit Analyses
Worst Rate 9.0%
Level Structure

	Traditional Financing				Securitization Financing		Costs of Securitization					
	(Schedule 1A) 20 Year Amortization		(Schedule 1B) 14 Year Amortization		(Excluding Securitization Costs)		Nominal Dollars			Present Value		
True-Up Amount	Nominal Dollars	Present Value	Nominal Dollars	Present Value	(Schedule 2B) Nominal Dollars	(Schedule 2B) Present Value	(Schedule 2B) Upfront Costs	(Schedule 6) Ongoing Costs	Total	(Schedule 2B) Upfront Costs	(Schedule 6) Ongoing Costs	Total
1,493,747,264	2,589,602,116	1,129,115,279	2,228,712,202	1,205,760,418	1,739,113,235	1,004,864,505	31,152,497	14,777,000	45,929,497	18,000,000	16,514,091	34,514,091
	A	B	C	D	E	F	G	H	I = (G + H)	J	K	L = (J + K)

Securitization Financing		Saving/(Cost) (Excluding Securitization Costs)				Saving/(Cost) (Including Securitization Costs)			
(Including Securitization Costs)		Versus 20 Year CTC		Versus 14 Year CTC		Versus 20 Year CTC		Versus 14 Year CTC	
Nominal Dollars	Present Value	Nominal Dollars	Present Value	Nominal Dollars	Present Value	Nominal Dollars	Present Value	Nominal Dollars	Present Value
1,785,042,732	1,039,378,595	850,488,881	124,250,774	489,598,966	200,895,914	804,559,384	89,736,683	443,669,469	166,381,823
M = (E + I)	N = (F + L)	O = (A - E)	P = (B - F)	Q = (C - E)	R = (D - F)	S = (A - M)	T = (B - N)	U = (C - M)	V = (D - N)

Required Economic Tests	Test Met?	Savings Result	
Total Revenue Test (PURA Section 39.303)	yes	443,669,469	U
Tangible and Quantifiable Benefits to Ratepayers (PURA Section 39.301)	yes	166,381,823	V

Present Value (or "Cap") Amt (PURA Section 39.301)	1,205,760,418	D
Amount to be securitized (excluding securitization costs)	1,004,864,505	F

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Exhibit DT-3

Prospective ADFIT Benefits on Applicable Assets

Prospective ADFIT Benefit on Applicable Assets
Phase-in Payment Structure

Calculation of Applicable ADFIT Balance

Net Book Value of Assets	4,803,652,497	(a) (referenced below)
Market Value	3,417,428,222	(b) (referenced below)
Generation Book Value over Market Value	1,386,224,275	(c) = (a) - (b)
Federal Tax Rate	35%	(d) (referenced below)
ADFIT Related to Excess	485,178,496	(e) = (c) * (d)
Plus: ADFIT related to Regulatory Assets	141,162,927	(f) (referenced below)
Total Applicable ADFIT Balance	626,341,423	(g) = (e) + (f)

Calculation of *Prospective* ADFIT Benefits:

Period	Year	Estimated Bond Amortization	ADFIT Payment	PV @ **11.075%**
0.583	2005	-0.93%	(5,799,337)	(5,454,674)
1.583	2006	-1.90%	(11,902,772)	(10,079,112)
2.583	2007	2.59%	16,212,495	12,359,693
3.583	2008	6.03%	37,755,485	25,913,231
4.583	2009	6.47%	40,544,741	25,052,999
5.583	2010	6.92%	43,339,051	24,109,503
6.583	2011	7.38%	46,206,476	23,141,707
7.583	2012	7.86%	49,226,806	22,196,162
8.583	2013	8.39%	52,575,556	21,342,426
9.583	2014	8.99%	56,285,900	20,570,422
10.583	2015	9.61%	60,218,355	19,813,269
11.583	2016	10.28%	64,371,816	19,068,068
12.583	2017	10.98%	68,782,977	18,343,220
13.583	2018	11.82%	74,007,757	17,768,695
14.583	2019	5.51%	34,516,116	7,460,774
			626,341,423	241,606,385

Prospective **ADFIT Benefits (time value of money) =** 626,341,423 - 241,606,385 = **384,735,038**

References
(a) = Commission Order, Docket No 29526, Schedule I, line 10 - line 23
(b) = Commission Order, Docket No. 29526, Schedule I, line 19
(d) = Federal tax rate
(f) = James S. Brian testimony, Figure JSB-1, Schedule 3, line 10

Prospective **ADFIT Benefit on Applicable Assets**
Level Payment Structure

Calculation of Applicable ADFIT **Balance**

Net Book Value of Assets	4,803,652,497	(a) (referenced below)
Market Value	3,417,428,222	(b) (referenced below)
Generation Book Value over Market Value	1,386,224,275	(c) = (a) - (b)
Federal Tax Rate	35%	(d) (referenced below)
ADFIT Related to Excess	485,178,496	(e) = (c) * (d)
Plus: ADFIT related to Regulatory Assets	141,162,927	(f) (referenced below)
Total Applicable ADFIT Balance	626,341,423	(g) = (e) + (f)

Calculation of ***Prospective*** **ADFIT Benefits:**

Period	Year	Estimated Bond Amortization	ADFIT Payment	PV @ **11.075%**
0.583	2005	1.03%	6,443,487	6,060,541
1.583	2006	4.75%	29,754,707	25,195,897
2.583	2007	5.09%	31,894,921	24,315,285
3.583	2008	5.43%	34,030,383	23,356,532
4.583	2009	5.81%	36,393,764	22,488,069
5.583	2010	6.20%	38,808,622	21,589,227
6.583	2011	6.59%	41,281,196	20,674,967
7.583	2012	7.01%	43,930,262	19,807,972
8.583	2013	7.48%	46,848,498	19,017,594
9.583	2014	7.99%	50,054,878	18,293,213
10.583	2015	8.53%	53,440,089	17,583,059
11.583	2016	9.10%	57,009,241	16,887,144
12.583	2017	9.70%	60,786,409	16,210,675
13.583	2018	10.42%	65,266,989	15,670,104
14.583	2019	4.85%	30,397,976	6,570,624
			626,341,423	273,720,904

Prospective **ADFIT Benefits (time value of money) =** 626,341,423 - 273,720,904 = **352,620,519**

References
(a) = Commission Order, Docket No. 29526, Schedule I, line 10 - line 23
(b) = Commission Order, Docket No. 29526, Schedule I, line 19
(d) = Federal tax rate
(f) = James S. Brian testimony, Figure JSB-1, Schedule 3, line 10

Exhibit DT-4

Retrospective ADFIT Benefits

Retrospective **ADFIT Benefit on Applicable Assets**

End of Period	(1) Gross ADFIT Balance	(2) EMC ADFIT	(3) Net ADFIT	(4) Return @ 11.075% (0.8791% monthly)	(5) Cumulative Return	(6) Cumulative Return Net of Taxes
Dec-03	1,105,362,019	(278,760,046)	826,601,973			
Jan-04	1,105,362,019	(273,681,344)	831,680,675	7,266,967	7,266,967	4,723,529
Feb-04	1,105,362,019	(268,895,099)	836,466,920	7,353,142	14,620,110	9,503,071
Mar-04	1,105,362,019	(263,837,011)	841,525,008	7,437,239	22,057,349	14,337,277
Apr-04	1,105,362,019	(259,064,283)	846,297,736	7,524,206	29,581,555	19,228,010
May-04	1,105,362,019	(253,662,649)	851,699,370	7,609,161	37,190,715	24,173,965
Jun-04	1,105,362,019	(247,168,617)	858,193,402	7,700,130	44,890,846	29,179,050
Jul-04	1,105,362,019	(239,559,336)	865,802,683	7,801,223	52,692,069	34,249,845
Aug-04	1,105,362,019	(231,570,193)	873,791,826	7,912,699	60,604,768	39,393,099
Sep-04	1,105,362,019	(226,175,359)	879,186,660	8,028,151	68,632,918	44,611,397
Oct-04	1,105,362,019	(220,780,526)	884,581,493	8,121,455	76,754,373	49,890,342
Nov-04	1,105,362,019	(215,385,693)	889,976,326	8,215,292	84,969,665	55,230,282
Dec-04	1,105,362,019	(209,990,860)	895,371,159	8,309,665	93,279,330	60,631,564
Jan-05	1,105,362,019	(204,596,026)	900,765,993	8,404,578	101,683,908	66,094,540
Feb-05	1,105,362,019	(199,201,193)	906,160,826	8,500,033	110,183,941	71,619,561
Mar-05	1,105,362,019	(193,806,360)	911,555,659	8,596,033	118,779,974	77,206,983
Apr-05	1,105,362,019	(188,411,527)	916,950,492	8,692,583	127,472,557	82,857,162
May-05	1,105,362,019	(183,016,693)	922,345,326	8,789,683	**136,262,240**	88,570,456

Total Restrospective ADFIT benefits = **136,262,240**

References
Column 1: (1,069,915,582+31,564,455+3,881,982) from Company response to PUC 1-3 (shown in Exhibit DT-7)
Column 2: See Workpaper DT-4/1
Column 3: Column 1 + Column 2
Column 4: (Colum 3 + Column 6) * .00879137436 (12th root of 11.075%)
Column 5: Prior month's balance plus current month's balance.
Column 6: Column 5 * (1 - 35% tax rate)

Exhibit DT-5

Response to City of Houston RFI COH3-6

PUC DOCKET NO. 30485

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APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR A FINANCING ORDER	§ § § § §	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

Contact: Andy Machtemes

(713) 207-5372
Fax: (713) 207-9840

December 29, 2004

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Request No: COH3-6

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

PUC DOCKET NO. 30485

City of Houston

Q. Have the generation assets been sold? Provide the date the sale was or will be final. Explain in detail the income tax liability that results from this sale and identify the organization that will incur this tax liability.

A. On July 21, 2004, Texas Genco Holdings, Inc. (Genco Holdings) and CenterPoint Energy, Inc. announced a definitive agreement for GC Power Acquisition LLC (GC Power) to acquire Genco Holdings. The transaction is expected to be accomplished in two steps. First, on December 15, 2004, GC Power acquired Genco Holdings' fossil fuel assets. Second, in the first half of 2005 and following receipt of approval by the Nuclear Regulatory Commission, Genco Holdings (with the principal remaining asset being the interest in in the South Texas Project Nuclear Electric Generating Station) will merge with a subsidiary of GC Power.

The ADFIT related to the sold generating assets will become a current payable and shall be payable in accordance with IRS regulations. CenterPoint Energy, Inc. will incur the tax liability from the sale.

Sponsor: James S. Brian

Attachments: None

Exhibit DT-6

Response to City of Houston RFI COH1-3

PUC DOCKET NO. 30485

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR A FINANCING ORDER	§ § § § §	**BEFORE THE** **PUBLIC UTILITY COMMISSION** **OF TEXAS**

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Contact: Andy Machtemes

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Fax: (713) 207-9840

December 20, 2004

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000049

Request No: COH1-3

CENTERPOINT ENERGY, INCORPORATED

PUC DOCKET NO. 30485

City of Houston

Q. Explain the reason CenterPoint has used "an amount to reflect the present value of the benefits associated with applicable accumulated deferred federal income taxes" in this filing (Figure JSB-1, Page 20, Schedule 2A). Did CenterPoint use this approach in its previous application for a financing order? If so, provide a copy of the schedules on which this approach was presented.

A. CenterPoint Houston has provided this calculation in response to FOF 406 in the true-up proceeding Docket 29526 which says " the benefit that CenterPoint has derived from retaining ADFIT as cost-free capital should be considered in the subsequent recovery proceeding...."

In Docket 21665, the previous securitization application, Finding of Fact No. 16 says "The $740 million is an agreed amount for recovery of the $1,070,530,866 of generation-related regulatory assets Applicant asked to securitize in its application in this docket and fully reflects the present value of the reduction in revenue requirements that under conventional ratemaking would have resulted if the $592,633,762 of accumulated deferred income taxes associated with such assets as of December 31, 1998 had continued to be included in invested capital." In this settled proceeding, no schedules were provided for the ADFIT calculations.

Sponsor: James S. Brian

Attachments: None

Exhibit DT-7

Response to Public Utility Commission Staff
RFI PUC1-3

PUC DOCKET NO . 30485

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR A FINANCING ORDER	§ § § § §	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

Contact: Andy Machtemes

(713) 207-5372
Fax: (713) 207-9840

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January 10, 2005

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Description **Page**

Request No: PUC1-3

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

PUC DOCKET NO. 30485

Public Utility Commission

Q. Regarding the 12/31/01 ADFIT amount of $867,783,937 shown on line 1 of Schedule 3, please provide the corresponding balance for this figure (that is, state how this specific amount of ADFIT has changed) as of 12/31/02 and 12/31/03, and also 12/31/04 if possible, and explain the reasons for any changes. If no change has occurred in the $867,783,937 balance since 12/31/01, please provide an explanation why not.

A. Please see the attachment for changes to ADFIT amounts as of 12/31/02 and 12/31/03 where available. ADFIT amounts for excess mitigation credits as of December 31, 2004 are not available because tax analysis for 2004 has not been completed.

Method/Life, Basis and AFUDC related ADFIT were captured at 12/31/01 on a regulatory basis for use in the True-up proceeding. CenterPoint did not continue to maintain property records on a regulatory basis for book or tax purposes, therefore these components are not available after that date. Please refer to Docket No. 29526 Bates page 2398 for a reconciliation of the property accounts from a regulatory basis to a GAAP basis for an explanation of events creating differences in regulatory and GAAP books through 12/31/01.

Non-confidential responsive documents, if any, are attached to this response. Protected Materials and Highly Sensitive Protected Materials are being provided to you separately under seal pursuant to the Protective Order in Docket No. 30485.

Sponsor: James S. Brian

Attachments: PUC1-3 Attachment 1

CenterPoint Houston
Accumulated Deferred Federal Income Taxes
As of December 31, 2001, 2002 and 2003

PUC1-3 Attachment 1

Accumulated Deferred Federal Income Taxes ("ADIT")

	2001 ADIT	2002 ADIT	2003 ADIT	
Method/Life	1,069,915,582	Not Available	Not Available	
Basis	31,564,455	Not Available	Not Available	
Equity AFUDC and Debt AFUDC	141,162,927	Not Available	Not Available	
Unamortized Loss on Reacquired Debt	3,881,982	3,881,982	3,881,982	Note 1
Final Fuel Balance Underrecovery	17,215,830	-	-	Note 2
Excess Mitigation Liability	(395,956,839)	(345,013,912)	(272,218,922)	Note 3
Total Generation Related ADIT	867,783,937			

Note 1: Amount is frozen at December 31, 2001.
Note 2: Fuel related ADIT is updated as of August 2004 on Schedule 3 in the application.
Note 3: ADIT changed due to interest accrued and EMC refunded.

Attachment to Docket: 30485
Req. # PUC1-3 Page 1 of 1

PUC Docket No. 30485

Workpapers

January 14, 2005

Direct Testimony of Darryl Tietjen

000055

Schedule 1B

Exhibit DT-2
WP DT-2/1

CenterPoint Energy Houston Electric
Securitization
Total Requested Amount
Securitized Life
Expected Case

True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Phase-in Structure

Total Requested Amount	1,493,747,264
Amortization Period	14.00
Rate of Return	8.65%
Weighted Cost of Equity	4.50%
ADFIT Ratio	51.1%
Revenue Related Tax Rate	4.5000%
Allowed a Return on Asset? (Yes/No)	Yes

			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
Period	NPV Period	Year	Unrecovered Asset Balance	ADFIT	Rate Base (a) + (b)	Return (c) * ROR	Return on Equity (c) * WCE	Depreciation Add-Back	Other FIT Adjustments	Taxable Income (e) + (f) + (g)	FIT (h) * Tax Factor	Annual Amortization	Revenue Related Taxes (h) * Tax Factor	COS (d)+(i)+(j)+(k)	PV @ 4.50% PV of (l)
1	1	2005	1,493,747,264	(762,603,663)	731,143,601	63,243,921	32,901,462		-	32,901,462	17,716,172	58,200,688	2,171,496	141,332,277	135,247,493
2	2	2006	1,435,546,576	(732,890,432)	702,656,144	60,779,756	31,619,526		-	31,619,526	17,025,899	63,328,285	2,086,889	143,220,829	131,154,113
3	3	2007	1,372,218,292	(700,559,406)	671,658,886	58,098,404	30,224,650		-	30,224,650	16,274,811	68,907,633	1,994,827	145,275,765	127,308,314
4	4	2008	1,303,310,659	(665,379,952)	637,930,707	55,181,006	28,706,882		-	28,706,882	15,457,552	74,978,533	1,894,654	147,511,749	123,702,382
5	5	2009	1,228,332,125	(627,101,117)	601,231,008	52,006,482	27,055,395		-	27,055,395	14,568,290	81,584,292	1,785,656	149,944,720	120,329,055
6	6	2010	1,146,747,833	(585,449,841)	561,297,992	48,552,276	25,258,410		-	25,258,410	13,600,682	88,772,032	1,667,055	152,582,045	117,181,509
7	7	2011	1,057,975,801	(540,129,004)	517,846,798	44,793,748	23,303,106		-	23,303,106	12,547,820	96,593,025	1,538,005	155,472,604	114,253,347
8	8	2012	961,382,776	(490,815,310)	470,567,466	40,704,086	21,175,536		-	21,175,536	11,402,212	105,103,064	1,397,585	158,606,947	111,538,584
9	9	2013	856,279,713	(437,156,982)	419,122,731	36,254,116	18,860,523		-	18,860,523	10,155,666	114,362,854	1,244,795	162,017,431	109,031,636
10	10	2014	741,916,859	(378,771,247)	363,145,612	31,412,095	16,341,553		-	16,341,553	8,799,298	124,438,450	1,078,542	165,728,385	106,727,308
11	11	2015	617,478,409	(315,241,613)	302,236,796	26,143,483	13,600,656		-	13,600,656	7,323,430	135,401,726	897,643	169,766,283	104,620,781
12	12	2016	482,076,682	(246,114,890)	235,961,792	20,410,695	10,618,281		-	10,618,281	5,717,536	147,330,889	700,807	174,159,928	102,707,609
13	13	2017	334,745,793	(170,897,965)	163,847,828	14,172,837	7,373,152		-	7,373,152	3,970,159	160,311,035	486,628	178,940,658	100,983,701
14	14	2018	174,434,758	(89,054,279)	85,380,479	7,385,411	3,842,122		-	3,842,122	2,068,835	174,434,758	253,580	184,142,584	99,445,320
											156,628,367	1,493,747,264	18,457,955	2,228,712,202	1,604,231,154

WP DT-2/1

000056

Schedule 1B

Exhibit DT-1
WP DT-2/2

CenterPoint Energy Houston Electric
Securitization
Total Requested Amount
Securitized Life
Worst Case
True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Phase-in Structure

Total Requested Amount	1,493,747,264
Amortization Period	14.00
Rate of Return	8.65%
Weighted Cost of Equity	4.50%
ADFIT Ratio	51.1%
Revenue Related Tax Rate	4.5000%
Allowed a Return on Asset? (Yes/No)	Yes

			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
Period	NPV Period	Year	Unrecovered Asset Balance	ADFIT	Rate Base (a) + (b)	Return (c) * ROR	Return on Equity (c) * WCE	Depreciation Add-Back	Other FIT Adjustments	Taxable Income (e) + (f) + (g)	FIT (h) * Tax Factor	Annual Amortization	Revenue Related Taxes (h) * Tax Factor	COS (d)+(i)+(j)+(k)	PV @ 9.00% PV of (l)
1	1	2005	1,493,747,264	(762,603,663)	731,143,601	63,243,921	32,901,462		-	32,901,462	17,716,172	58,200,688	2,171,496	141,332,277	129,862,640
2	2	2006	1,435,546,576	(732,890,432)	702,656,144	60,779,756	31,619,526		-	31,619,526	17,025,899	63,328,285	2,086,889	143,220,829	120,546,106
3	3	2007	1,372,218,292	(700,559,406)	671,658,886	58,098,494	30,224,650		-	30,224,650	16,274,811	68,907,633	1,984,827	145,275,765	112,179,546
4	4	2008	1,303,310,659	(665,379,952)	637,930,707	55,181,006	28,706,882		-	28,706,882	15,457,562	74,978,533	1,894,654	147,511,746	104,501,039
5	5	2009	1,228,332,125	(627,101,117)	601,231,008	52,006,482	27,055,395		-	27,055,395	14,568,290	81,584,282	1,785,856	149,944,720	97,453,780
6	6	2010	1,146,747,833	(585,449,841)	561,297,992	48,552,276	25,258,410		-	25,258,410	13,600,682	88,772,032	1,667,055	152,592,045	90,965,651
7	7	2011	1,057,975,801	(540,129,004)	517,846,798	44,793,746	23,303,106		-	23,303,106	12,547,826	96,593,025	1,538,005	155,472,604	85,048,839
8	8	2012	961,382,776	(490,815,310)	470,567,466	40,704,096	21,175,536		-	21,175,536	11,402,212	105,103,064	1,397,585	158,606,947	79,599,478
9	9	2013	856,279,713	(437,156,982)	419,122,731	36,254,116	18,860,523		-	18,860,523	10,155,666	114,362,654	1,244,796	162,017,431	74,597,326
10	10	2014	741,916,859	(378,771,247)	363,145,612	31,412,095	16,341,553		-	16,341,553	8,799,298	124,438,450	1,078,542	165,728,385	70,005,461
11	11	2015	617,478,409	(315,241,613)	302,236,796	26,143,483	13,600,656		-	13,600,656	7,323,430	135,401,726	897,643	169,766,283	65,790,011
12	12	2016	482,076,682	(246,114,890)	235,961,792	20,410,695	10,618,281		-	10,618,281	5,717,536	147,330,889	700,807	174,158,926	61,919,902
13	13	2017	334,745,793	(170,897,965)	163,847,828	14,172,837	7,373,152		-	7,373,152	3,970,159	160,311,035	486,628	178,940,659	58,366,922
14	14	2018	174,434,758	(89,054,279)	85,380,479	7,385,411	3,842,122		-	3,842,122	2,068,835	174,434,758	253,580	184,142,584	55,104,017
											156,628,367	1,493,747,264	18,457,955	2,228,712,202	1,205,760,418

WP DT-2/2

0000057

0000105

CenterPoint Energy Houston Electric
Expected Securitization Amount
True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Phase-in Structure

Exhibit DT-1
WP DT-2/3

1	Requested Amount	True-up Final Order		1,493,747,264
2	ADFIT Benefit on Applicable Assets	Schedule 4		(520,997,278)
			Sub-total	972,749,986
3	Projected Qualified Cost	Schedule 6		18,000,000
4	Securitization Amount (including ADFIT Benefits)		Total	990,749,986
5	Applicable Assets ADFIT Rate	Schedule 3 Line 11 divided by Line 1		51.1%

000058

CenterPoint Energy Houston Electric
Worst Case Securitization Amount
True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Phase-in Structure

Exhibit DT-2
WP DT-2/4

1	Requested Amount	True-up Final Order	1,493,747,264
2	ADFIT Benefit on Applicable Assets		(520,997,278)
		Sub-total	972,749,986
3	Projected Qualified Cost		18,000,000
4	Securitization Amount (including ADFIT Benefits)	Total	990,749,986

000059

WP DT-2/5

CenterPoint Energy Houston Electric
CSFB Payments
True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Phase-in Structure
June 2005 through July 2019

WP

		Payments: Principal		Payments: Interest		Principal Balance	Over Collateralization Account
0	Jun-05					990,749,986	
1	Jul-05					990,749,986	
2	Aug-05					990,749,986	
3	Sep-05					990,749,986	
4	Oct-05					990,749,986	
5	Nov-05					990,749,986	
6	Dec-05	(7,062,361)	-0 7128%	15,224,805	1 537%	997,812,347	2,500 000
7	Jan-06					997,812,347	
8	Feb-06					997,812,347	
9	Mar-06					997,812,347	
10	Apr-06					997,812,347	
11	May-06					997,812,347	
12	Jun-06	(7 202,530)	0 7218%	15 224,805	1 526%	1,005,014,877	2,500,000
13	Jul-06					1,005,014,877	
14	Aug-06					1,005,014,877	
15	Sep-06					1,005,014,877	
16	Oct-06					1,005,014,877	
17	Nov-06					1,005,014,877	
18	Dec-06	(7,345,495)	-0 7309%	15,224,805	1 515%	1,005,014,877	2,500,000
19	Jan-07					1,012,360,372	
20	Feb-07					1,012,360,372	
21	Mar-07					1,012,360,372	
22	Apr-07					1,012,360,372	
23	May-07					1,012,360,372	
24	Jun-07	(7 491 312)	-0 7454%	15,224,805	1 515%	1,012,360,372	2,500,000
25	Jul-07					1,019,851,684	
26	Aug-07					1,019,851,684	
27	Sep-07					1,019,851,684	
28	Oct-07					1,019,851,684	
29	Nov-07					1,019,851,684	
30	Dec-07	36 483,980	3 6039%	22 864 841	2 259%	1,019,851,684	291,667
31	Jan-08					983,367,704	
32	Feb-08					983,367,704	
33	Mar-08					983,367,704	
34	Apr-08					983,367,704	
35	May-08					983,367,704	
36	Jun-08	23 274,098	2 2821%	22,280,991	2 185%	983,367,704	291,667
37	Jul-08					960,093,607	
38	Aug-08					960,093,607	
39	Sep-08					960,093,607	
40	Oct-08					960,093,607	
41	Nov-08					960,093,607	
42	Dec-08	36 521,849	3 7140%	21,826,356	2 220%	960,093,607	291,667
43	Jan-09					923,571,758	
44	Feb-09					923,571,758	
45	Mar-09					923,571,758	
46	Apr-09					923,571,758	
47	May-09					923,571,758	-
48	Jun-09	25 301 090	2 6353%	21,104,627	2 196%	923,571,758	291,667
49	Jul-09					898,270,668	
50	Aug-09					898,270,668	
51	Sep-09					898,270,668	
52	Oct-09					898,270,668	

CSFB Payment Schedule: Balance BOP	Interest Paid	Interest Shortfall	Principal Paid	OC Acct: Total Funding	OC Acct: Balance EOP
1,393,000,000				-	-
1,393 000 000	-	-	-	-	-
1,393,000 000	-	-	-	-	-
1,393 000,000	-	-	-	-	-
1 393,000,000	-	-	-	-	-
1,393,000,000	-	-	-	-	-
1,402,929,719	21,406 161	-	-	2,500 000	2,500,000
1,402,929 719	-	-	-	-	2,500,000
1 402,929,719	-	-	-	-	2.500.000
1 402 929,719	-	-	-	-	2 500,000
1 402,929,719	-	-	-	-	2,500,000
1 402,929 719	-	-	-	-	2,500,000
1,413,056,617	21,406,161	-	-	2,500,000	5,000 000
1,413 056,617	-	-	-	-	5,000 000
1 413,056,517	-	-	-	-	5 000 000
1 413,056,517	-	-	-	-	5,000,000
1,413,056,517	-	-	-	-	5,000,000
1,413,056 517	-	-	-	-	5,000,000
1 423 384,324	21,406,161	-	-	2 500 000	7,500 000
1 423,384,324	-	-	-	-	7,500,000
1 423,384,324	-	-	-	-	7 500,000
1 423,384,324	-	-	-	-	7,500,000
1,423 384,324	-	-	-	-	7,500,000
1 423 384,324	-	-	-	-	7,500.000
1,433,917,150	21,406,161	-	-	2,500,000	10,000,000
1 433,917,150	-	-	-	-	10,000 000
1,433,917 150	-	-	-	-	10,000,000
1,433,917,150	-	-	-	-	10,000,000
1,433,917 150	-	-	-	-	10,000,000
1,433,917,150	-	-	-	-	10,000 000
1,433,917,150	32,148 094	-	51 296 679	291,667	10,291,667
1,382,620,471	-	-	-	-	10,291,667
1 382,620,471	-	-	-	-	10,291,667
1,382,620,471	-	-	-	-	10,291,667
1,382,620,471	-	-	-	-	10,291,667
1 382,620,471	-	-	-	-	10,291,667
1,382,620,471	31,327,198	-	32,723,511	291,667	10,583,333
1,349,896,960	-	-	-	-	10,583 333
1,349,896,960	-	-	-	-	10 583,333
1,349,896,960	-	-	-	-	10,583,333
1,349,896,960	-	-	-	-	10,583,333
1 349,896,960	-	-	-	-	10,583,333
1,349,896,960	30,587,978	-	51 349,923	291 667	10,875,000
1,298,547 037	-	-	-	-	10,875 000
1 298,547,037	-	-	-	-	10,875 000
1 298,547,037	-	-	-	-	10,875 000
1,298,547,037	-	-	-	-	10,875,000
1,298,547,037	-	-	-	-	10,875,000
1,298,547,037	29,673,223	-	35,573,473	291,667	11,166,667
1,262,973 564	-	-	-	-	11,166,667
1,262,973,564	-	-	-	-	11,166 667
1,262,973,564	-	-	-	-	11,166,667
1 262,973,564	-	-	-	-	11,166,667
1,262,973 564	-	-	-	-	11,166,667
1,262,973,564	28,970,236	-	54,573,884	291 667	11,458 333
1 208,399,901	-	-	-	-	11,458 333
1 208,399,901	-	-	-	-	11,458,333
1,208,399,901	-	-	-	-	11 458,333
1,208 399 901	-	-	-	-	11,458,333
1,208,399 901	-	-	-	-	11,458,333
1 208,399,901	27,891,774	-	38 468 020	291,667	11,750 000
1 169,931,881	-	-	-	-	11 750,000
1,169 931 881	-	-	-	-	11 750,000
1,169 931 881	-	-	-	-	11,750,000
1 169,931,881	-	-	-	-	11,750,000
1 169,931,881	-	-	-	-	11,750 000
1 169,931,881	27,131,686	-	57 698 335	291,667	12 041 667
1,112,233,546	-	-	-	-	12,041,667
1,112,233 546	-	-	-	-	12,041,667
1,112,233,546	-	-	-	-	12,041 667
1,112,233,546	-	-	-	-	12,041,667
1 112,233,546	-	-	-	-	12 041,667
1,112,233,546	25,991 377	-	41,382,778	291,667	12,333,333
1,070,850,768	-	-	-	-	12,333 333
1,070,850,768	-	-	-	-	12,333,333
1 070,850,768	-	-	-	-	12,333 333
1,070,850,768	-	-	-	-	12 333,333
1 070,850,768	-	-	-	-	12,333 333
1,070,850,768	25,173,588	-	60,949,593	291,667	12 625,000
1,009,901 174	-	-	-	-	12,625 000
1 009,901,174	-	-	-	-	12 625,000
1 009,901,174	-	-	-	-	12,625,000
1,009,901,174	-	-	-	-	12,625,000
1,009,901 174	-	-	-	-	12,625,000
1,009,901,174	23,988,128	-	44,434,704	291,667	12,916,667
965,466,471	-	-	-	-	12,916,667
965,466,471	-	-	-	-	12 916 667
965,466 471	-	-	-	-	12,916,667
965,466,471	-	-	-	-	12,916 667
[illegible]				-	12,916 667

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WP DT-2/6

53	Nov-09					898,270,668	
54	Dec-09	38,814,685	4.2027%	20,604,838	2.231%	898,270,668	291,667
55	Jan-10					859,455,983	
56	Feb-10					859,455,983	
57	Mar-10					859,455,983	
58	Apr-10					859,455,983	
59	May-10					859,455,983	
60	Jun-10	27,359,792	3.0458%	19,837,598	2.208%	859,455,983	291,667
61	Jul-10					832,096,191	
62	Aug-10					832,096,191	
63	Sep-10					832,096,191	
64	Oct-10					832,096,191	
65	Nov-10					832,096,191	
66	Dec-10	41,037,060	4.7748%	19,296,926	2.245%	832,096,191	291,667
67	Jan-11					791,059,131	
68	Feb-11					791,059,131	
69	Mar-11					791,059,131	
70	Apr-11					791,059,131	
71	May-11					791,059,131	
72	Jun-11	29,432,869	3.5372%	18,485,970	2.222%	791,059,131	291,667
73	Jul-11					761,626,261	
74	Aug-11					761,626,261	
75	Sep-11					761,626,261	
76	Oct-11					761,626,261	
77	Nov-11					761,626,261	
78	Dec-11	43,349,468	5.4799%	17,904,330	2.263%	761,626,261	291,667
79	Jan-12					718,276,794	
80	Feb-12					718,276,794	
81	Mar-12					718,276,794	
82	Apr-12					718,276,794	
83	May-12					718,276,794	
84	Jun-12	31,603,505	4.1495%	17,047,676	2.238%	718,276,794	291,667
85	Jul-12					686,673,289	
86	Aug-12					686,673,289	
87	Sep-12					686,673,289	
88	Oct-12					686,673,289	
89	Nov-12					686,673,289	
90	Dec-12	45,796,096	6.3758%	16,391,402	2.282%	686,673,289	291,667
91	Jan-13					640,877,193	
92	Feb-13					640,877,193	
93	Mar-13					640,877,193	
94	Apr-13					640,877,193	
95	May-13					640,877,193	
96	Jun-13	33,998,545	4.9512%	15,396,037	2.242%	640,877,193	291,667
97	Jul-13					606,878,648	
98	Aug-13					606,878,648	
99	Sep-13					606,878,648	
100	Oct-13					606,878,648	
101	Nov-13					606,878,648	
102	Dec-13	48,523,709	7.5715%	14,611,589	2.280%	606,878,648	291,667
103	Jan-14					558,354,939	
104	Feb-14					558,354,939	
105	Mar-14					558,354,939	
106	Apr-14					558,354,939	
107	May-14					558,354,939	
108	Jun-14	36,676,794	6.0435%	13,472,415	2.220%	558,354,939	291,667
109	Jul-14					521,678,145	
110	Aug-14					521,678,145	
111	Sep-14					521,678,145	
112	Oct-14					521,678,145	
113	Nov-14					521,678,145	
114	Dec-14	51,486,043	9.2210%	12,611,360	2.259%	521,678,145	291,667
115	Jan-15					470,192,102	
116	Feb-15					470,192,102	
117	Mar-15					470,192,102	
118	Apr-15					470,192,102	
119	May-15					470,192,102	
120	Jun-15	39,512,584	7.5741%	11,402,646	2.186%	470,192,102	291,667

1,208,389,901	27,691,774	-	38,408,020	[illegible]	[illegible]
1,169,931,881	-	-	-	-	11,750,000
1,169,931,881	-	-	-	-	11,750,000
1,169,931,881	-	-	-	-	11,750,000
1,169,931,881	-	-	-	-	11,750,000
1,169,931,881	-	-	-	-	11,750,000
1,169,931,881	27,131,688	-	57,698,335	291,667	12,041,667
1,112,233,546	-	-	-	-	12,041,667
1,112,233,546	-	-	-	-	12,041,667
1,112,233,546	-	-	-	-	12,041,667
1,112,233,546	-	-	-	-	12,041,667
1,112,233,546	-	-	-	-	12,041,667
1,112,233,546	25,991,377	-	41,382,778	291,667	12,333,333
1,070,850,768	-	-	-	-	12,333,333
1,070,850,768	-	-	-	-	12,333,333
1,070,850,768	-	-	-	-	12,333,333
1,070,850,768	-	-	-	-	12,333,333
1,070,850,768	-	-	-	-	12,333,333
1,070,850,768	25,173,588	-	60,949,593	291,667	12,625,000
1,009,901,174	-	-	-	-	12,625,000
1,009,901,174	-	-	-	-	12,625,000
1,009,901,174	-	-	-	-	12,625,000
1,009,901,174	-	-	-	-	12,625,000
1,009,901,174	-	-	-	-	12,625,000
1,009,901,174	23,969,128	-	44,434,704	291,667	12,916,667
965,466,471	-	-	-	-	12,916,667
965,466,471	-	-	-	-	12,916,667
965,466,471	-	-	-	-	12,916,667
965,466,471	-	-	-	-	12,916,667
965,466,471	-	-	-	-	12,916,667
965,466,471	23,046,403	-	64,389,569	291,667	13,208,333
901,076,904	-	-	-	-	13,208,333
901,076,904	-	-	-	-	13,208,333
901,076,904	-	-	-	-	13,208,333
901,076,904	-	-	-	-	13,208,333
901,076,904	-	-	-	-	13,208,333
901,076,904	21,646,914	-	47,802,144	291,667	13,500,000
853,274,760	-	-	-	-	13,500,000
853,274,760	-	-	-	-	13,500,000
853,274,760	-	-	-	-	13,500,000
853,274,760	-	-	-	-	13,500,000
853,274,760	-	-	-	-	13,500,000
853,274,760	20,543,975	-	68,224,605	291,667	13,791,667
785,050,155	-	-	-	-	13,791,667
785,050,155	-	-	-	-	13,791,667
785,050,155	-	-	-	-	13,791,667
785,050,155	-	-	-	-	13,791,667
785,050,155	-	-	-	-	13,791,667
785,050,155	18,942,290	-	51,567,777	291,667	14,083,333
733,482,378	-	-	-	-	14,083,333
733,482,378	-	-	-	-	14,083,333
733,482,378	-	-	-	-	14,083,333
733,482,378	-	-	-	-	14,083,333
733,482,378	-	-	-	-	14,083,333
733,482,378	17,731,651	-	72,389,663	291,667	14,375,000
661,092,715	-	-	-	-	14,375,000
661,092,715	-	-	-	-	14,375,000
661,092,715	-	-	-	-	14,375,000
661,092,715	-	-	-	-	14,375,000
661,092,715	-	-	-	-	14,375,000
661,092,715	16,032,184	-	55,554,913	291,667	14,666,667
605,537,803	-	-	-	-	14,666,667
605,537,803	-	-	-	-	14,666,667
605,537,803	-	-	-	-	14,666,667
605,537,803	-	-	-	-	14,666,667
605,537,803	-	-	-	-	14,666,667
605,537,803	14,727,941	-	76,787,614	291,667	14,958,333
528,750,189	-	-	-	-	14,958,333
528,750,189	-		-	-	14,958,333
528,750,189	-	-	-	-	14,958,333
528,750,189	-	-	-	-	14,958,333
528,750,189	-	-	-	-	14,958,333
528,750,189	12,925,225	-	59,782,518	291,667	15,250,000
468,967,672	-	-	-	-	15,250,000
468,967,672	-	-	-	-	15,250,000
468,967,672	-	-	-	-	15,250,000
468,967,672	-	-	-	-	15,250,000
468,967,672	-	-	-	-	15,250,000
468,967,672	11,522,201	-	81,420,748	291,667	15,541,667
387,566,924	-	-	-	-	15,541,667
387,566,924		-	-	-	15,541,667
387,566,924	-	-	-	-	15,541,667
387,566,924	-	-	-	-	15,541,667
387,566,924	-	-	-	-	15,541,667
387,566,924	9,810,714	-	64,216,341	291,667	15,833,333
323,350,584	-	-	-	-	15,833,333
323,350,584	-	-	-	-	15,833,333
323,350,584	-	-	-	-	15,833,333
323,350,584	-	-	-	-	15,833,333
323,350,584	-	-	-	-	15,833,333
323,350,584	8,046,959	-	86,350,260	291,667	16,125,000
237,000,324	-	-	-	-	16,125,000
237,000,324	-	-	-	-	16,125,000
237,000,324	-	-	-	-	16,125,000
237,000,324	-	-	-	-	16,125,000
237,000,324	-	-	-	-	16,125,000
237,000,324	5,897,290	-	69,086,731	291,667	16,416,667
167,913,593	-	-	-	-	16,416,667
167,913,593	-	-	-	-	16,416,667
167,913,593	-	-	-	-	16,416,667
167,913,593	-	-	-		16,416,667

WP DT-2/7

121	Jul-15					430,679,518		
122	Aug-15					430,679,518		
123	Sep-15					430,679,518		
124	Oct-15					430,679,518		
125	Nov-15					430,679,518		
126	Dec-15	54 614 018	11 0153%	10 475,023	2 228%	430,679,518	291,667	
127	Jan-16					376,065,500		
128	Feb-16					376,065,500		
129	Mar-16					376,065,500		
130	Apr-16					376,065,500		
131	May-16					376,065,500		
132	Jun-16	42,505,177	9 8693%	9,192,859	2 135%	376,065,500	291,667	
133	Jul-16					333,560,323		
134	Aug-16					333,560,323		
135	Sep-16					333,560,323		
136	Oct-16					333,560,323		
137	Nov-16					333,560,323		
138	Dec-16	57 909,264	15 3987%	8 194 990	2 179%	333,560,323	291 667	
139	Jan-17					275,651,058		
140	Feb-17					275,651,058		
141	Mar-17					275,651,058		
142	Apr-17					275,651,058		
143	May-17					275,651,058		
144	Jun-17	45 672,892	13 6925%	6 835 474	2 049%	275,651,058	291,667	
145	Jul-17					229,978,166		
146	Aug-17					229,978,166		
147	Sep-17					229,978,166		
148	Oct-17					229,978,166		
149	Nov-17					229,978,166		
150	Dec-17	61 415,304	22 2801%	5,722,566	2 076%	229,978,166	291,667	
151	Jan-18					168,562,862		
152	Feb-18					168,562,862		
153	Mar-18					168,562,862		
154	Apr-18					168,562,862		
155	May-18					168,562,862		
156	Jun-18	49,136 883	21 3659%	4,194,364	1 824%	168,562,862	291,667	
157	Jul-18					119,425,979		
158	Aug-18					119,425,979		
159	Sep-18					119,425,979		
160	Oct-18					119,425,979		
161	Nov-18					119,425,979		
162	Dec-18	65 866 026	39 0751%	2 971,687	1 763%	119,425,979	291,663	
163	Jan-19					53,559,953		
164	Feb-19					53,559,953		
165	Mar-19					53,559,953		
166	Apr-19					53,559,953		
167	May-19					53,559,953		
168	Jun-19	53,559 953	44 8476%	1,332,734	1 116%	53,559,953	291,663	
169	Jul-19					-	(17,000,000)	
	total	990,749,986		394,958,337			-	
	P&I total	1,385,708,323						
Total CSFB		1 414,810.021						
Deferred Int		29,101,698		29,101,698				
Revised Int				424,060,035				

[illegible]				-	[illegible]
387,566 924	-	-	-	-	15,541 667
387 566,924	-	-	-	-	15,541 667
387,566,924	-	-	-	-	15,541,667
387,566 924	-	-	-	-	15,541,667
387,566,924	9 610,714	-	84,216,341	291,667	15,833,333
323,350,584	-	-	-	-	15,833,333
323,350,584	-	-	-	-	15,833,333
323,350,584	-	-	-	-	15,833 333
323,350 584	-	-	-	-	15,833 333
323,350 584	-	-	-	-	15 833 333
323,350,584	8,045,959	-	86,350 260	291,667	16,125,000
237,000,324	-	-	-	-	16 125 000
237,000,324	-	-	-	-	16,125 000
237,000 324	-	-	-	-	16 125,000
237,000 324	-	-	-	-	16,125 000
237,000.324	-	-	-	-	16,125,000
237,000,324	5 897,299	-	89,086 731	291,667	16,416 667
167,913 593	-	-	-	-	16,416 667
167,913,593	-	-	-	-	16,416,667
167,913 593	-	-	-	-	16,416,667
167,913,593	-	-	-	-	16 416,667
167,913 593	-	-	-	-	16 416,667
167,913,593	4,178,208	-	92,607,999	291 667	16,708,333
75,305 594	-	-	-	-	16,708,333
75,305,594	-	-	-	-	16 708 333
75,305,594	-	-	-	-	16,708,333
75 305,594	-	-	-		16 708,333
75,305,594	-	-	-	-	16,708,333
75,305 594	1 873,834	-	75,305,594	291,667	17,000,000
0	-	-	-	-	17,000,000
	555,313,822	-	1,433,917,159		

Class	Class Sizes	Coupon	P
1	50,000,000.00	3.2006%	
2	363,000,000.00	3.9523%	
3	90,000,000.00	4.3469%	
4	526,000,000.00	4 6953%	
5	364,000,000.00	4.9766%	
6	-	0.0000%	
7	-	0.0000%	
8	-	0.0000%	
9	-	0.0000%	
10	-	0.0000%	
Total Bon(	**1,393,000,000**	**4.4990%**	

Schedule 1B

Exhibit DT-2
WP DT-2/8

CenterPoint Energy Houston Electric
Securitization
Total Requested Amount
Securitized Life
Expected Case
True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Level Structure

Total Requested Amount	1,493,747,264
Amortization Period	14.00
Rate of Return	8.65%
Weighted Cost of Equity	4.50%
ADFIT Ratio	51.1%
Revenue Related Tax Rate	4.5000%
Allowed a Return on Asset? (Yes/No)	Yes

			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
Period	NPV Period	Year	Unrecovered Asset Balance	ADFIT	Rate Base (a) + (b)	Return (c) * ROR	Return on Equity (c) * WCE	Depreciation Add-Back	Other FIT Adjustments	Taxable Income (e) + (f) + (g)	FIT (h) * Tax Factor	Annual Amortization	Revenue Related Taxes (h) * Tax Factor	COS (d)+(i)+(j)+(k)	PV @ 4.36% PV of (l)
1	1	2005	1,493,747,264	(762,603,663)	731,143,601	63,243,921	32,901,462		-	32,901,462	17,716,172	58,200,688	2,171,496	141,332,277	135,428,022
2	2	2006	1,435,546,576	(732,890,432)	702,656,144	60,779,756	31,619,526		-	31,619,526	17,025,899	63,328,286	2,086,889	143,220,829	131,504,477
3	3	2007	1,372,218,292	(700,559,406)	671,658,886	58,098,494	30,224,650		-	30,224,650	16,274,811	68,907,633	1,994,827	145,275,765	127,818,791
4	4	2008	1,303,310,659	(665,379,952)	637,930,707	55,181,006	28,706,882		-	28,706,882	15,457,552	74,978,533	1,894,664	147,511,746	124,364,181
5	5	2009	1,228,332,125	(627,101,117)	601,231,008	52,006,482	27,055,395		-	27,055,395	14,568,290	81,584,292	1,785,656	149,944,720	121,134,282
6	6	2010	1,146,747,833	(585,449,841)	561,297,992	48,552,276	25,258,410		-	25,258,410	13,600,682	88,772,032	1,667,055	152,592,045	118,123,134
7	7	2011	1,057,975,801	(540,129,004)	517,846,798	44,793,748	23,303,106		-	23,303,106	12,547,826	96,593,025	1,538,005	155,472,604	115,325,174
8	8	2012	961,382,776	(490,815,310)	470,567,466	40,704,086	21,175,536		-	21,175,536	11,402,212	105,103,064	1,397,585	158,606,947	112,735,223
9	9	2013	856,279,713	(437,156,982)	419,122,731	36,254,118	18,860,523		-	18,860,523	10,155,666	114,362,854	1,244,795	162,017,431	110,348,477
10	10	2014	741,916,859	(378,771,247)	363,145,612	31,412,095	16,341,553		-	16,341,553	8,799,298	124,438,450	1,078,542	165,728,385	108,160,496
11	11	2015	617,478,409	(315,241,613)	302,236,796	26,143,483	13,600,656		-	13,600,656	7,323,430	135,401,726	897,643	169,766,283	106,167,208
12	12	2016	482,076,682	(246,114,890)	235,961,792	20,410,695	10,618,281		-	10,618,281	5,717,536	147,330,889	700,807	174,159,926	104,364,878
13	13	2017	334,745,793	(170,897,965)	163,847,828	14,172,837	7,373,152		-	7,373,152	3,970,159	160,311,035	486,828	178,940,659	102,750,122
14	14	2018	174,434,758	(89,054,279)	85,380,479	7,385,411	3,842,122		-	3,842,122	2,068,835	174,434,758	253,580	184,142,584	101,319,894
											156,628,367	1,493,747,264	18,457,955	2,228,712,202	1,619,544,362

WP DT-2/8

0000063

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Schedule 1B

Exhibit DT-2
WP DT-2/9

CenterPoint Energy Houston Electric
Securitization
Total Requested Amount
Securitized Life
Worst Case
True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Level Structure

Total Requested Amount	1,493,747,264
Amortization Period	14.00
Rate of Return	8.65%
Weighted Cost of Equity	4.50%
ADFIT Ratio	51.1%
Revenue Related Tax Rate (see note)	4.5000%
Allowed a Return on Asset? (Yes/No)	Yes

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
Period	Year	Unrecovered Asset Balance	ADFIT	Rate Base (a) + (b)	Return (c) * ROR	Return on Equity (c) * WCE	Depreciation Add-Back	Other FIT Adjustments	Taxable Income (e) + (f) + (g)	FIT (h) * Tax Factor	Annual Amortization	Revenue Related Taxes (h) * Tax Factor	COS (d)+(i)+(j)+(k)	PV @ 9.00% PV of (l)
1	2005	1,493,747,264	(762,603,663)	731,143,601	63,243,921	32,901,462		-	32,901,462	17,716,172	58,200,688	2,171,496	141,332,277	129,662,640
2	2006	1,435,546,576	(732,890,432)	702,656,144	60,779,756	31,619,526		-	31,619,526	17,025,899	63,328,285	2,086,889	143,220,829	120,546,106
3	2007	1,372,218,292	(700,559,406)	671,658,886	58,098,494	30,224,650		-	30,224,650	16,274,811	68,907,633	1,994,827	145,275,766	112,179,846
4	2008	1,303,310,659	(665,379,952)	637,930,707	55,181,006	28,706,882		-	28,706,882	15,457,552	74,978,533	1,894,654	147,511,746	104,501,039
5	2009	1,228,332,125	(627,101,117)	601,231,008	52,006,482	27,055,395		-	27,055,395	14,568,290	81,584,292	1,785,656	149,944,720	97,453,790
6	2010	1,146,747,833	(585,449,841)	561,297,992	48,552,278	25,258,410		-	25,258,410	13,600,682	88,772,032	1,667,055	152,592,045	90,985,651
7	2011	1,057,975,801	(540,129,004)	517,846,798	44,793,748	23,303,106		-	23,303,106	12,547,826	96,583,025	1,538,005	155,472,604	85,048,839
8	2012	961,392,776	(490,815,310)	470,567,466	40,704,086	21,175,536		-	21,175,536	11,402,212	105,103,064	1,397,585	158,606,947	79,509,478
9	2013	856,279,713	(437 156,982)	419 122,731	36,254,116	18,860,523		-	18,860,523	10,155,666	114,362,854	1,244,795	162,017,431	74,597,326
10	2014	741,916,859	(378,771,247)	363,145,612	31,412,095	16,341,553		-	16,341,553	8,799,298	124,438,450	1,078,542	165,728,385	70,005,461
11	2015	617,478,409	(315,241,613)	302,236,796	26,143,483	13,600,656		-	13,600,656	7,323,430	135,401,726	897,643	169,766,283	65,790,011
12	2016	482,076,682	(246,114,890)	235,961,792	20,410,695	10,618,281		-	10,618,281	5,717,536	147,330,889	700,807	174,159,926	61,919,902
13	2017	334,745,793	(170,897,965)	163,847,828	14,172,837	7,373,152		-	7,373,152	3,970,159	160,311,035	486,628	178,940,659	58,366,622
14	2018	174,434,758	(89,054,279)	85,380,479	7,385,411	3,842,122		-	3,842,122	2,068,835	174,434,758	253,580	184,142,584	55,104,017
										156,628,367	1,493,747,264	18,457,955	2,228,712,202	1,205,760,418

WP DT-2/9

000064

CenterPoint Energy Houston Electric
Expected Securitization Amount
True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Level Structure

Exhibit DT-2
WP DT-2/10

1	Requested Amount	True-up Final Order		1,493,747,264
2	ADFIT Benefit on Applicable Assets	Schedule 4		(488,882,759)
			Sub-total	1,004,864,505
3	Projected Qualified Cost	Schedule 6		18,000,000
4	Securitization Amount (including ADFIT Benefits)		Total	1,022,864,505
5	Applicable Assets ADFIT Rate	Schedule 3 Line 11 divided by Line 1		51.1%

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CenterPoint Energy Houston Electric
Worst Case Securitization Amount
True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Level Structure

Exhibit DT-2
WP DT-2/11

1	Requested Amount	True-up Final Order		1,493,747,264
2	ADFIT Benefit on Applicable Assets			(488,882,759)
			Sub-total	1,004,864,505
3	Projected Qualified Cost			18,000,000
4	Securitization Amount (including ADFIT Benefits)		Total	1,022,864,505

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WP DT-[illegible] 2/12

CenterPoint Energy Houston Electric
CSFB Payments
True Up Balance (Excluding Capacity Auction, Fuel and Retail Clawback) - Level Structure
June 2005 through July 2019

WP

		Payments					Over Collateralization
		Principal		Interest		Principal Balance	Account
0	Jun-05					1,022,864,505	
1	Jul-05					1,022,864,505	
2	Aug-05					1,022,864,505	
3	Sep-05					1,022,864,505	
4	Oct-05					1,022,864,505	
5	Nov-05					1,022,864,505	
6	Dec-05	10,522,718	1 029%	22,296,727	2 180%	1,022,864,505	10,000,000
7	Jan-06					1,012,341,787	
8	Feb-06					1,012,341,787	
9	Mar-06					1,012,341,787	
10	Apr-06					1,012,341,787	
11	May-06					1,012,341,787	
12	Jun-06	18,410,921	1 800%	22,129 891	2 164%	1,012,341,787	185,185
13	Jul-06					993,930,866	
14	Aug-06					993,930,866	
15	Sep-06					993,930,866	
16	Oct-06					993,930,866	
17	Nov-06					993,930,866	185,185
18	Dec-06	30,180,841	2 981%	21,637,988	2 157%	993,930,866	
19	Jan-07					963,750,025	
20	Feb-07					963,750,025	
21	Mar-07					963,750,025	
22	Apr-07					963,750,025	
23	May-07					963,750,025	
24	Jun-07	20 059,208	2 016%	21,359,473	2 149%	963,750,025	185,185
25	Jul-07					943,690,817	
26	Aug-07					943,690,817	
27	Sep-07					943,690,817	
28	Oct-07					943,690,817	
29	Nov-07					943,690,817	
30	Dec-07	32,027,691	3 323%	21,041,437	2 183%	943,690,817	185 185
31	Jan-08					911,663,126	
32	Feb-08					911,663,126	
33	Mar-08					911,663,126	
34	Apr-08					911,663,126	
35	May-08					911,663,126	
36	Jun-08	21,085,703	2 298%	20,533,642	2 176%	911,663,126	185,185
37	Jul-08					889,977,423	
38	Aug-08					889,977,423	
39	Sep-08					889,977,423	
40	Oct-08					889,977,423	
41	Nov-08					889,977,423	
42	Dec-08	33,888,573	3 717%	20,189,817	2 215%	889,977,423	185,185
43	Jan-09					856,088,850	
44	Feb-09					856,088,850	
45	Mar-09					856,088,850	
46	Apr-09					856,088,850	
47	May-09					856,088,850	
48	Jun-09	23 459,174	2 636%	19,555 064	2 197%	856,088,850	185,185
49	Jul-09					832,629,676	
50	Aug-09					832,629,676	
51	Sep-09					832,629,676	
52	Oct-09					832,629,676	

CSFB Payment Schedule				OC Acct	
Balance BOP	Interest Paid	Interest Shortfall	Principal Paid	Total Funding	Balance EOP
1,405 000 000				-	-
1,405 000,000	-	-	-	-	-
1,405 000 000	-	-	-	-	-
1,405,000,000	-	-	-	-	-
1,405,000 000	-	-	-	-	-
1,405 000 000	-	-	-	-	-
1,405,000 000	30,626,639	-	14,453 936	10,000 000	10,000,000
1,390 546,064	-	-	-	-	10 000,000
1,390,546 064	-	-	-	-	10 000 000
1 390,546,064	-	-	-	-	10,000,000
1,390 546,064	-	-	-	-	10,000 000
1,390 546,064	-	-	-	-	10,000,000
1,390,546,064	30,307,473	-	25 289,121	185 185	10 185,185
1,365,256,943	-	-	-	-	10 185,185
1,365,256,943	-	-	-	-	10,185,185
1,365 256,943	-	-	-	-	10,185,185
1,365,256,943	-	-	-	-	10,185,185
1,365 256 943	-	-	-	-	10 185,185
1 365 256,943	29,906,517	-	41 456 206	185 185	10,370 370
1,323,800,737	-	-	-	-	10 370,370
1,323,800,737	-	-	-	-	10,370,370
1,323 800,737	-	-	-	-	10,370,370
1 323 800,737	-	-	-	-	10 370,370
1,323,800,737	-	-	-	-	10,370,370
1 323,800,737	29,339,233	-	27,553,197	185 185	10 555,556
1,296,247,540	-	-	-	-	10,555,556
1,296,247,540	-	-	-	-	10,555,556
1,296,247,540	-	-	-	-	10,555,556
1,296,247,540	-	-	-	-	10 555,556
1,296,247,540	-	-	-	-	10,555,556
1,296 247 540	28 902,380	-	43,993 027	185,185	10 740,741
1 252,254,513	-	-	-	-	10,740 741
1,252 254,513	-	-	-	-	10 740 741
1 252,254,513	-	-	-	-	10,740 741
1,252,254,513	-	-	-	-	10,740,741
1,252,254,513	-	-	-	-	10 740,741
1,252,254,513	28,204,878	-	29,787,340	185 185	10,925,926
1,222,467 173	-	-	-	-	10 925 926
1,222 467,173	-	-	-		10 925,926
1,222,467,173	-	-	-	-	10 925 926
1,222,467,173	-	-	-	-	10 925,926
1,222,467,173	-	-	-	-	10 925,926
1,222 467 173	27,732,801	-	46,549 122	185,185	11,111,111
1,175 918 050	-	-	-	-	11 111 111
1 175,918,050	-	-	-	-	11 111,111
1,175,918,050	-	-	-	-	11 111,111
1,175,918 050	-	-	-	-	11 111 111
1,175 918,050	-	-	-	-	11 111 111
1 175,918 050	26,660,706	-	32,223 388	185 185	11,296,296
1,143,694,683	-	-	-	-	11 296,296
1,143,694,683	-	-	-	-	11 296,296
1,143 694,683	-	-	-	-	11,296,296
1,143 694,683	-	-	-	-	11,296,296
1,143 694,683	-	-	-	-	11,296,296
1,143 694,683	26,230,264	-	49 414,596	185 185	11 481,481
1,094 280,087	-	-	-	-	11 481,481
1 094,280,087	-	-	-	-	11 481 481
1,094,280 087	-	-	-	-	11,481,481
1,094,280,087	-	-	-	-	11,481,481
1 094 280,087	-	-	-	-	11,481 481
1,094,280,087	25,263,477	-	34 828,121	185 185	11 666,667
1,059,451,966	-	-	-	-	11,666,667
1,059 451,966	-	-	-	-	11 666 667
1,059 451 966	-	-	-	-	11,666 667
1,059,451,966	-	-	-	-	11 666,667
1 059,451,966	-	-	-	-	11 666 667
1 059,451,966	24,562,071	-	52,226,818	185,185	11,851 852
1 007 225,148	-	-	-	-	11,851 852
1,007,225,148	-	-	-	-	11 851,852
1 007,225,148	-	-	-	-	11 851,852
1,007,225 148	-	-	-	-	11,851,852
1,007,225,148	-	-	-	-	11 851 852
1,007,225 148	23,560,263	-	37,449 483	185,185	12,037 037
969,775,665	-	-	-	-	12,037 037
969 775,665	-	-	-	-	12,037 037
969,775,665	-	-	-	-	12 037,037
969,775,665	-	-	-	-	12,037 037
969,775 665	-	-	-	-	12,037,037
969,775,665	22,827,571	-	55 151 898	185,185	12,222,222
914 623,767	-	-	-	-	12 222 222
914,623,767	-	-	-		12 222,222
914,623 767	-	-	-	-	12 222,222
914 623,767	-	-	-	-	12,222 222
914 623,767	-	-	-	-	12 222 222
914 623,767	21,715,097	-	40,226,862	185,185	12,407 407
874,397,105	-	-	-	-	12 407,407
874,397 105	-	-	-	-	12 407,407
874,397 105	-	-	-	-	12,407 407
874 397,105	-	-	-	-	12,407 407
874 397 105	-	-	-	-	12 407 407

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WP DT-2/13

53	Nov-09					832,629,676	
54	Dec-09	35,974,688	4.202%	19,096,090	2.231%	832,629,676	185,185
55	Jan-10					796,654,989	
56	Feb-10					796,654,989	
57	Mar-10					796,654,989	
58	Apr-10					796,654,989	
59	May-10					796,654,989	
60	Jun-10	25,355,480	3.045%	18,392,252	2.209%	796,654,989	185,185
61	Jul-10					771,299,509	
62	Aug-10					771,299,509	
63	Sep-10					771,299,509	
64	Oct-10					771,299,509	
65	Nov-10					771,299,509	
66	Dec-10	38,022,034	4.773%	17,896,176	2.246%	771,299,509	185,185
67	Jan-11					733,277,475	
68	Feb-11					733,277,475	
69	Mar-11					733,277,475	
70	Apr-11					733,277,475	
71	May-11					733,277,475	
72	Jun-11	27,263,877	3.535%	17,152,282	2.224%	733,277,475	185,185
73	Jul-11					706,013,598	
74	Aug-11					706,013,598	
75	Sep-11					706,013,598	
76	Oct-11					706,013,598	
77	Nov-11					706,013,598	
78	Dec-11	40,151,544	5.476%	16,618,870	2.266%	706,013,598	185,185
79	Jan-12					665,862,054	
80	Feb-12					665,862,054	
81	Mar-12					665,862,054	
82	Apr-12					665,862,054	
83	May-12					665,862,054	
84	Jun-12	29,285,712	4.148%	15,808,989	2.239%	665,862,054	185,185
85	Jul-12					636,576,343	
86	Aug-12					636,576,343	
87	Sep-12					636,576,343	
88	Oct-12					636,576,343	
89	Nov-12					636,576,343	
90	Dec-12	42,455,840	6.376%	15,179,643	2.280%	636,576,343	185,185
91	Jan-13					594,120,502	
92	Feb-13					594,120,502	
93	Mar-13					594,120,502	
94	Apr-13					594,120,502	
95	May-13					594,120,502	
96	Jun-13	31,521,052	4.952%	14,267,303	2.241%	594,120,502	185,185
97	Jul-13					562,599,450	
98	Aug-13					562,599,450	
99	Sep-13					562,599,450	
100	Oct-13					562,599,450	
101	Nov-13					562,599,450	
102	Dec-13	44,986,207	7.572%	13,527,410	2.277%	562,599,450	185,185
103	Jan-14					517,613,243	
104	Feb-14					517,613,243	
105	Mar-14					517,613,243	
106	Apr-14					517,613,243	
107	May-14					517,613,243	
108	Jun-14	34,011,331	6.045%	12,471,285	2.217%	517,613,243	185,185
109	Jul-14					483,601,912	
110	Aug-14					483,601,912	
111	Sep-14					483,601,912	
112	Oct-14					483,601,912	
113	Nov-14					483,601,912	
114	Dec-14	47,732,198	9.222%	11,672,813	2.255%	483,601,912	185,185
115	Jan-15					435,869,715	
116	Feb-15					435,869,715	
117	Mar-15					435,869,715	
118	Apr-15					435,869,715	
119	May-15					435,869,715	
120	Jun-15	38,640,120	7.577%	10,552,220	2.182%	435,869,715	185,185

[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
1,059,451,966	-	-	-	-	11,666,667
1,059,451,966	-	-	-	-	11,666,667
1,059,451,966	-	-	-	-	11,666,667
1,059,451,966	-	-	-	-	11,666,667
1,059,451,966	-	-	-	-	11,666,667
1,059,451,966	24,582,071	-	52,226,818	185,185	11,851,852
1,007,225,148	-	-	-	-	11,851,852
1,007,225,148	-	-	-	-	11,851,852
1,007,225,148	-	-	-	-	11,851,852
1,007,225,148	-	-	-	-	11,851,852
1,007,225,148	-	-	-	-	11,851,852
1,007,225,148	23,560,283	-	37,449,483	185,185	12,037,037
969,775,665	-	-	-	-	12,037,037
969,775,665	-	-	-	-	12,037,037
969,775,665	-	-	-	-	12,037,037
969,775,665	-	-	-	-	12,037,037
969,775,665	-	-	-	-	12,037,037
969,775,665	22,827,571	-	55,151,898	185,185	12,222,222
914,623,767	-	-	-	-	12,222,222
914,623,767	-	-	-	-	12,222,222
914,623,767	-	-	-	-	12,222,222
914,623,767	-	-	-	-	12,222,222
914,623,767	-	-	-	-	12,222,222
914,623,767	21,715,097	-	40,226,662	185,185	12,407,407
874,397,105	-	-	-	-	12,407,407
874,397,105	-	-	-	-	12,407,407
874,397,105	-	-	-	-	12,407,407
874,397,105	-	-	-	-	12,407,407
874,397,105	-	-	-	-	12,407,407
874,397,105	20,850,659	-	58,317,065	185,185	12,592,593
816,080,040	-	-	-	-	12,592,593
816,080,040	-	-	-	-	12,592,593
816,080,040	-	-	-	-	12,592,593
816,080,040	-	-	-	-	12,592,593
816,080,040	-	-	-	-	12,592,593
816,080,040	19,697,474	-	43,297,111	185,185	12,777,778
772,782,929	-	-	-	-	12,777,778
772,782,929	-	-	-	-	12,777,778
772,782,929	-	-	-	-	12,777,778
772,782,929	-	-	-	-	12,777,778
772,782,929	-	-	-	-	12,777,778
772,782,929	18,581,162	-	61,792,760	185,185	12,962,963
710,990,169	-	-	-	-	12,962,963
710,990,169	-	-	-	-	12,962,963
710,990,169	-	-	-	-	12,962,963
710,990,169	-	-	-	-	12,962,963
710,990,169	-	-	-	-	12,962,963
710,990,169	17,130,475	-	46,717,742	185,185	13,148,148
664,272,427	-	-	-	-	13,148,148
664,272,427	-	-	-	-	13,148,148
664,272,427	-	-	-	-	13,148,148
664,272,427	-	-	-	-	13,148,148
664,272,427	-	-	-	-	13,148,148
664,272,427	16,033,899	-	65,564,635	185,185	13,333,333
598,707,792	-		-	-	13,333,333
598,707,792	-	-	-	-	13,333,333
598,707,792	-	-	-	-	13,333,333
598,707,792	-	-	-	-	13,333,333
598,707,792	-	-	-	-	13,333,333
598,707,792	14,494,461	-	50,328,629	185,185	13,518,519
548,379,163	-	-	-	-	13,518,519
548,379,163	-	-	-	-	13,518,519
548,379,163	-	-	-	-	13,518,519
548,379,163	-	-	-	-	13,518,519
548,379,163	-	-	-	-	13,518,519
548,379,163	13,312,913	-	69,547,404	185,185	13,703,704
478,831,759	-	-	-	-	13,703,704
478,831,759	-	-	-	-	13,703,704
478,831,759	-	-	-	-	13,703,704
478,831,759	-	-	-	-	13,703,704
478,831,759	-	-	-	-	13,703,704
478,831,759	11,880,173	-	54,139,164	185,185	13,888,889
424,692,595	-	-	-	-	13,888,889
424,692,595	-	-	-	-	13,888,889
424,692,595	-	-	-	-	13,888,889
424,692,595	-	-	-	-	13,888,889
424,692,595	-	-	-	-	13,888,889
424,692,595	10,409,186	-	73,743,140	185,185	14,074,074
350,949,455	-	-	-	-	14,074,074
350,949,455	-	-	-	-	14,074,074
350,949,455	-	-	-	-	14,074,074
350,949,455	-	-	-	-	14,074,074
350,949,455	-	-	-	-	14,074,074
350,949,455	8,677,924	-	58,172,663	185,185	14,259,259
292,776,793	-	-	-	-	14,259,259
292,776,793	-	-	-	-	14,259,259
292,776,793	-	-	-	-	14,259,259
292,776,793	-	-	-	-	14,259,259
292,776,793	-	-	-	-	14,259,259
292,776,793	7,285,189	-	78,182,528	185,185	14,444,444
214,594,264	-	-	-	-	14,444,444
214,594,264	-	-	-	-	14,444,444
214,594,264	-	-	-	-	14,444,444
214,594,264	-	-	-	-	14,444,444
214,594,264	-	-	-	-	14,444,444
214,594,264	5,338,767	-	62,558,055	185,185	14,629,630
152,036,209	-	-	-	-	14,629,630
152,036,209	-	-	-	-	14,629,630
152,036,209	-	-	-	-	14,629,630
152,036,209	-	-	-	-	14,629,630

WP DT-2/14

121	Jul-15					399,229,595	
122	Aug-15					399,229,595	
123	Sep-15					399,229,595	
124	Oct-15					399,229,595	
125	Nov-15					399,229,595	
126	Dec-15	50,631,723	11 616%	9,692,033	2 224%	399,229,595	185,185
127	Jan-16					348,597,872	
128	Feb-16					348,597,872	
129	Mar-16					348,597,872	
130	Apr-16					348,597,872	
131	May-16					348,597,872	
132	Jun-16	39,414,256	9 873%	8,503,370	2 130%	348,597,872	185,185
133	Jul-16					309,183,616	
134	Aug-16					309,183,616	
135	Sep-16					309,183,616	
136	Oct-16					309,183,616	
137	Nov-16					309,183,616	
138	Dec-16	53,686,292	15 401%	7,578,054	2 174%	309,183,616	185,185
139	Jan-17					255,497,324	
140	Feb-17					255,497,324	
141	Mar-17					255,497,324	
142	Apr-17					255,497,324	
143	May-17					255,497,324	
144	Jun-17	42,350,713	13 698%	6,317,680	2 043%	255,497,324	185,185
145	Jul-17					213,146,611	
146	Aug-17					213,146,611	
147	Sep-17					213,146,611	
148	Oct-17					213,146,611	
149	Nov-17					213,146,611	
150	Dec-17	56 918,244	22 277%	5,303,745	2 076%	213,146,611	185,185
151	Jan-18					156,228,367	
152	Feb-18					156,228,367	
153	Mar-18					156,228,367	
154	Apr-18					156,228,367	
155	May-18					156,228,367	
156	Jun-18	45 543,355	21 367%	3,887,444	1 824%	156,228,367	185,185
157	Jul-18					110,685,012	
158	Aug-18					110,685,012	
159	Sep-18					110,685,012	
160	Oct-18					110,685,012	
161	Nov-18					110,685,012	
162	Dec-18	61,042 740	39 073%	2 754,185	1 763%	110,685,012	185 185
163	Jan-19					49,642,272	
164	Feb-19					49,642,272	
165	Mar-19					49,642,272	
166	Apr-19					49,642,272	
167	May-19					49,642,272	
168	Jun-19	49,642,272	44 850%	1,235,253	1 116%	49,642,272	185,190
169	Jul-19					-	(15,000,000)
	total	1,022,864,505		396,851,114			0
	P&I total	1,419,715,619					

[illegible]	-	-	-	-	[illegible]
350 949,455	-	-	-	-	14 074,074
350 949 456	-	-	-	-	14 074,074
350,949,455	-	-	-	-	14 074,074
350 949,455	-	-	-	-	14 074,074
350,949,455	8,877 924	-	58 172,663	185 185	14 259,259
292 776,793	-	-	-	-	14,259,259
292 776,793	-	-	-	-	14,259 258
292 776,793	-	-	-	-	14,259,259
292,776,793	-	-	-	-	14 259,259
292,776,793	-	-	-	-	14 259,259
292 776,793	7,285 189	-	78,182 528	185,185	14 444,444
214 594 264	-	-	-	-	14 444,444
214,594,264	-	-	-	-	14,444,444
214,594,264	-	-	-	-	14 444,444
214,594,264	-	-	-	-	14 444,444
214 594,264	-	-	-	-	14 444,444
214 594,264	5,338,767	-	62,558 055	185,185	14 629,630
152,036,208	-	-	-	-	14,629,630
152,036,208	-	-	-	-	14 629,630
152 036,208	-	-	-	-	14 629,630
152 036,209	-	-	-	-	14,629,630
152,036 209	-	-	-	-	14 629,630
152 036 208	3,763 130	-	83,847 909	185,185	14 814,815
68,188,300	-	-	-	-	14 814,815
68 188,300	-	-	-	-	14 814,815
68 188,300	-	-	-	-	14 814,815
68 188,300	-	-	-	-	14 814,815
68 188,300	-	-	-	-	14 814,815
68 188,300	1,696 735	-	68,188,300	185,185	15 000,000
-	-	-	-	-	15 000,000
	645,112,097	-	1,486,808,000		

Class	Class Sizes	Coupon
1	193,000,000.00	3.1710%
2	280,000,000.00	3.9130%
3	116,000,000.00	4 2978%
4	504,000,000.00	4.6953%
5	312,000,000.00	4.9766%
6	-	0.0000%
7	-	0.0000%
8	-	0.0000%
9	-	0.0000%
10	-	0.0000%
Total Bon	**1,405,000,000**	**4.3597%**

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Docket No. 30485
Public Utility Commission

Workpaper DT-4/1

CenterPoint Energy Houston Electric

	Beginning EMC Balance	Accumulated Credits (Sept 04--May 05 estimated)	Remaining EMCs	ADFIT on Remaining EMCs (flowed to Exhibit DT-4)
Dec-03	(1,131,305,254)	334,847,980	(796,457,274)	(278,760,046)
Jan-04	(1,131,305,254)	349,358,556	(781,946,698)	(273,681,344)
Feb-04	(1,131,305,254)	363,033,543	(768,271,711)	(268,895,099)
Mar-04	(1,131,305,254)	377,485,223	(753,820,031)	(263,837,011)
Apr-04	(1,131,305,254)	391,121,589	(740,183,665)	(259,064,283)
May-04	(1,131,305,254)	406,554,828	(724,750,426)	(253,662,649)
Jun-04	(1,131,305,254)	425,109,206	(706,196,048)	(247,168,617)
Jul-04	(1,131,305,254)	446,850,009	(684,455,245)	(239,559,336)
Aug-04	(1,131,305,254)	469,676,132	(661,629,122)	(231,570,193)
Sep-04	(1,131,305,254)	485,089,941	(646,215,313)	(226,175,359)
Oct-04	(1,131,305,254)	500,503,751	(630,801,503)	(220,780,526)
Nov-04	(1,131,305,254)	515,917,560	(615,387,694)	(215,385,693)
Dec-04	(1,131,305,254)	531,331,369	(599,973,885)	(209,990,860)
Jan-05	(1,131,305,254)	546,745,179	(584,560,075)	(204,596,026)
Feb-05	(1,131,305,254)	562,158,988	(569,146,266)	(199,201,193)
Mar-05	(1,131,305,254)	577,572,797	(553,732,457)	(193,806,360)
Apr-05	(1,131,305,254)	592,986,607	(538,318,647)	(188,411,527)
May-05	(1,131,305,254)	608,400,416	(522,904,838)	(183,016,693)

<u>Estimate of monthly decline in EMCs</u>

Aug-03	(1,131,305,254)	267,830,544	
Sep-03	(1,131,305,254)	288,614,309	-1.84%
Oct-03	(1,131,305,254)	306,070,663	-1.54%
Nov-03	(1,131,305,254)	320,836,361	-1.31%
Dec-03	(1,131,305,254)	334,847,980	-1.24%
Jan-04	(1,131,305,254)	349,358,556	-1.28%
Feb-04	(1,131,305,254)	363,033,543	-1.21%
Mar-04	(1,131,305,254)	377,485,223	-1.28%
Apr-04	(1,131,305,254)	391,121,589	-1.21%
May-04	(1,131,305,254)	406,554,828	-1.36%
Average monthly reduction in EMCs (applied as estimate for Sept '04 thru May '05)			-1.36%

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