

Control Number: 49421



Item Number: 557

Addendum StartPage: 0

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

**APPLICATION OF CENTERPOINT
ENERGY HOUSTON ELECTRIC, LLC
FOR AUTHORITY TO CHANGE
RATES**

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**BEFORE THE STATE OFFICE
OF PUBLIC UTILITY
ADMINISTRATIVE HEARINGS**

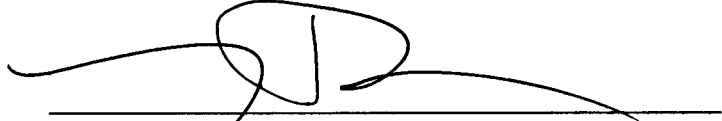
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**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC'S
SECOND REQUEST FOR INFORMATION**

Texas Industrial Energy Consumers ("TIEC") files the following responses to the Second Request for Information ("RFI") to TIEC filed by CenterPoint Energy Houston Electric, LLC ("CEHE"). The request was filed at the Commission and received by TIEC on June 10, 2019. Accordingly, pursuant to the procedural schedule entered in this case, TIEC's response is timely filed. TIEC's responses to specific questions are set forth as follows, in the order of the questions asked. Pursuant to 16 T.A.C. § 22.144(c)(2)(F), these responses may be treated as if they were filed under oath.

Respectfully submitted,

THOMPSON & KNIGHT LLP



Katherine L. Coleman
State Bar No. 24059596
Michael McMillin
State Bar No. 24088034
Diane B. Tran
State Bar No. 24110446
98 San Jacinto Blvd., Suite 1900
Austin, Texas 78701
(512) 469.6100
(512) 469.6180 (fax)

**ATTORNEYS FOR TEXAS INDUSTRIAL
ENERGY CONSUMERS**

557

CERTIFICATE OF SERVICE

I, Diane B. Tran, Attorney for TIEC, hereby certify that a copy of the foregoing document was served on all parties of record in this proceeding on this 14th day of June, 2019 by facsimile, electronic mail and/or First Class, U.S. Mail, Postage Prepaid.



Diane B. Tran

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

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR AUTHORITY TO CHANGE RATES	§ § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
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**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC'S
SECOND REQUEST FOR INFORMATION**

The following questions are directed at Michael P. Gorman.

- 2-1** Admit or deny that Fitch has not downgraded CenterPoint Energy Houston Electric's rating or changed its outlook of CenterPoint Energy Houston Electric as a result of CenterPoint Energy Inc.'s acquisition of Vectren.

RESPONSE:

Admit.

Preparer: Michael P. Gorman
Sponsor: Michael P. Gorman

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

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

**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC'S
SECOND REQUEST FOR INFORMATION**

2-2 Admit or deny that Moody's has not downgraded CenterPoint Energy Houston Electric's rating or changed its outlook of CenterPoint Energy Houston Electric as a result of CenterPoint Energy Inc.'s acquisition of Vectren.

RESPONSE:

Admit.

Preparer: Michael P. Gorman

Sponsor: Michael P. Gorman

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

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

**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC'S
SECOND REQUEST FOR INFORMATION**

2-3 Admit or deny that Fitch analyzes CenterPoint Energy Houston Electric's credit rating on a stand-alone basis.

RESPONSE:

Mr. Gorman cannot admit or deny the question without a clear understanding of what the question refers to as a "stand-alone basis." Within its rating process, Fitch does consider parent and subsidiary rating linkage, as part of its credit rating assessment for utility companies, including CEHE.

In a Fitch report entitled "Parent and Subsidiary Rating Linkage," which states that the Scope includes "the methodology Fitch Ratings uses when assigning new Issuer Default Ratings (IDRs) or reviewing existing IDRs for non-financial companies linked by a parent and subsidiary relationship."¹ Specific "Linkage Strength" assessment, is defined as follows:

Linkage Strength: Fitch analyses [sic] the legal, operational and strategic ties between the parent and its subsidiary.

Legal ties constitute specific, contractual linkage between the parent and subsidiary. The presence of a strong legal tie could outweigh a lack of operational and strategic ties and result in a close linking of ratings. However, Fitch may still assess overall ties as strong, even in the absence of legal ties, if operational and strategic ties are robust.

Operational ties include common decision-making structures, sharing treasury functions and operational integration. The first two are more important when the parent is weaker, because they affect its ability to draw on the stronger subsidiary's resources. Operational integration is more relevant when the subsidiary is weaker, as operational synergies are more important to a stronger parent than the weaker subsidiary's cash flows.

¹*Fitch Ratings Corporates*: "Parent and Subsidiary Rating Linkage," August 31, 2016, page 1, emphasis added.

Strategic ties are relevant when assessing the likelihood of a financially stronger parent supporting its financially weaker subsidiary.²

As outlined in the Linkage Strength above, a subsidiary that has a financially weaker parent company such as CEHE, draws on concerns related to CNP's ability to draw on subsidiary resources, and therefore is a factor considered in setting a bond rating for CEHE.

So while CEHE's bond rating reflects its company-specific risk, there is also a linkage in assigning its bond rating which could result in a bond rating that does not reflect CEHE's truly stand-alone credit profile but rather is impacted by the linkage between CEHE and its parent company, CNP.

The referenced document is provided as Confidential Attachment 2-3.

Preparer: Michael P. Gorman

Sponsor: Michael P. Gorman

²*Id.*

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

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

**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC'S
SECOND REQUEST FOR INFORMATION**

2-4 Admit or deny that Moody's analyzes CenterPoint Energy Houston Electric's credit ratings on a stand-alone basis.

RESPONSE:

Mr. Gorman cannot admit or deny the question without a clear understanding of what is intended by the phrase "stand-alone basis." In assessing CEHE's bond rating, Moody's explicitly states its rating methodologies and score card factors included in its recent bond rating report for CEHE dated June 19, 2018. At page 6 of that report, Moody's goes through several factors applying weights that do reasonably reflect CEHE's stand-alone bond rating but then Moody's introduces a "grid" component to the rating factors it notes a notching adjustment which includes HoldCo Structural Subordination.

That same report notes a factor that could lead to a "downgrade" for CEHE as follows:

CEHE's ratings could be downgraded as a result of a less supportive regulatory environment for T&D's in Texas, a greater reliance on dividends from CEHE to parent CNP, or a sustained weakening of CEHE's credit metrics, including CFO pre-WC to debt below 18% on a sustained basis..³

As indicated as a factor that could lead to a downgrade, is a concern of CEHE's dividend payments to its parent, which is not a stand-alone credit factor. As such, Moody's credit rating report for CEHE does not reflect a complete stand-alone basis bond rating for CEHE but rather reflects HoldCo Structural Subordination Notching, in recognition of CEHE being a source of cash flow available to its parent company.

The referenced document is provided as Confidential Attachment 2-4.

Preparer: Michael P. Gorman
Sponsor: Michael P. Gorman

³*Moody's Investors Service Credit Opinion: "CenterPoint Energy Houston Electric, LLC,"* June 19, 2018, page 2, emphasis added.

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

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

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC'S
SECOND REQUEST FOR INFORMATION**

2-5 Please refer to Mr. Gorman's testimony on page 36 line 9-10. Admit or deny that an FFO to debt ratio in the range of 9%-13% for CenterPoint Energy Houston Electric would result in a downgrade in bond rating from Moody's .

RESPONSE:

Mr. Gorman cannot confirm or deny. The referenced credit metrics are based on Standard & Poor's (S&P) methodologies, not those used by Moody's to produce the FFO/debt ratio range. As such, Mr. Gorman's testimony addresses credit metrics using S&P methodologies, and not those for Moody's.

More specifically, unlike S&P, Moody's does not publish a matrix of FFO/debt credit rating metrics that corresponds with a company's stand-alone business and financial risks.

Further, Moody's report on CEHE provides more specific measures on how it applies such things as financial strength, regulatory framework, ability to recover costs and earn returns, and diversification along with a grid indicated rating notching methodology. Based on this methodology, a somewhat weaker FFO/debt ratio may not be adequate to offset the scores available to CEHE through more supportive regulatory treatment, ability to recover costs, and the strength of CEHE's market service territory. In a Moody's report, "Regulated Electric and Gas Utilities," dated June 23, 2017, it does offer credit metric ranges based on certain credit metrics related to cash flow from operations (CFO) at both a standard grid and a low business risk grid similar to S&P. As shown at page 22 of that document, the CFO to pre-WC/debt ratio is considerably lower for a utility with the low business risk grid relative to the standard grid at both the A and Baa bond rating levels. Within this table, Moody's does not include a metric for FFO/debt and notes that CFO is distinguishable from FFO because CFO captures the changes in long-term regulatory assets and liabilities (*Id.* at 20). Further, Moody's also measures debt differently than S&P because it includes deferred tax within its total capitalization assessment of the utility (*Id.* at 21).

The referenced document is provided as Confidential Attachment 2-5.

Preparer: Michael P. Gorman
Sponsor: Michael P. Gorman

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

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

**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO
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SECOND REQUEST FOR INFORMATION**

The following questions are directed at Charles S. Griffey.

- 2-6** Admit or deny that Fitch has not downgraded CenterPoint Energy Houston Electric's rating or changed its outlook of CenterPoint Energy Houston Electric as a result of CenterPoint Energy Inc.'s acquisition of Vectren.

RESPONSE:

Admit.

Preparer: Charles Griffey

Sponsor: Charles Griffey

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

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

**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC'S
SECOND REQUEST FOR INFORMATION**

2-7 Admit or deny that Moody's has not downgraded CenterPoint Energy Houston Electric's rating or changed its outlook of CenterPoint Energy Houston Electric to negative as a result of CenterPoint Energy Inc.'s acquisition of Vectren.

RESPONSE:

Admit.

Preparer: Charles Griffey
Sponsor: Charles Griffey

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

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

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC'S
SECOND REQUEST FOR INFORMATION**

2-8 Please refer to page 12 lines 11 and 12 of Mr. Griffey's direct testimony. Admit or deny that Fitch rates CenterPoint Energy Houston Electric at two notches above CNP as of April 2019.

RESPONSE:

Admit.

Preparer: Charles Griffey
Sponsor: Charles Griffey

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

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

**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC'S
SECOND REQUEST FOR INFORMATION**

2-9 Please refer to page 22, lines 13-16 of Mr. Griffey's direct testimony. Admit or deny that CenterPoint Energy Houston Electric credit facility does not have a cross-default provision.

RESPONSE:

Deny. CEHE's credit agreement has a default provision associated with a change in control at its parent. In the context of a regulatory ring-fence, Mr. Griffey considers that to be a cross-default provision.

Preparer: Charles Griffey

Sponsor: Charles Griffey