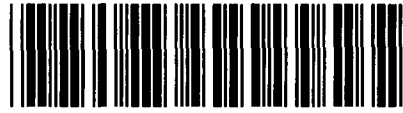


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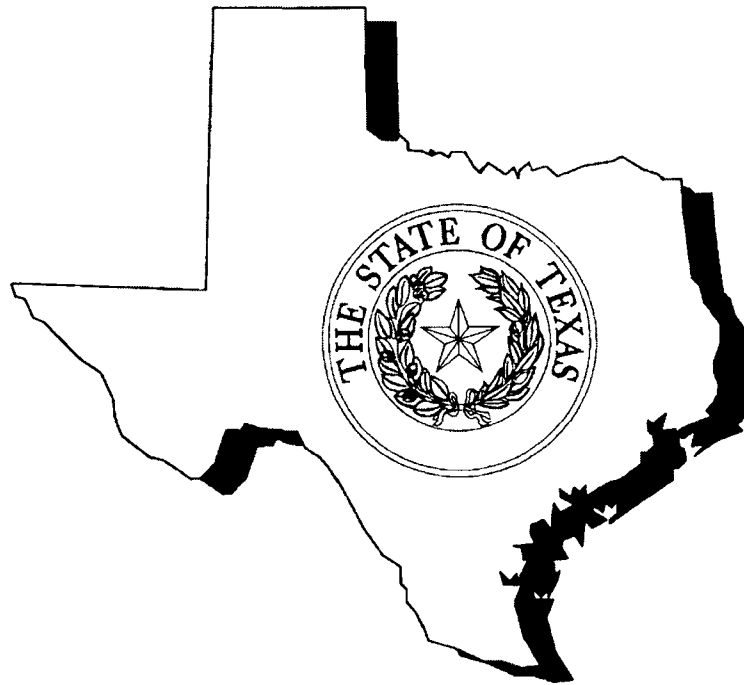
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SOAH DOCKET NO. 473-19-3864
PUC DOCKET NO. 49421

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

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BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS



CROSS-REBUTTAL TESTIMONY OF
BRIAN T. MURPHY
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS

JUNE 19, 2019

000001

580

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1 **I. INTRODUCTION**

2 **Q. Did you offer direct testimony in this proceeding on behalf of Commission**
3 **Staff?**

4 A. Yes, on June 12th.

5 **II. SCOPE OF CROSS-REBUTTAL TESTIMONY**

6 **Q. What is the purpose of your cross-rebuttal testimony?**

7 A. My cross-rebuttal testimony will address some of the recommendations of City of
8 Houston witnesses Kit Pevoto and Scott Norwood. Specifically, I recommend that
9 Ms. Pevoto's proposal to limit the increase to the residential customer charge be
10 rejected; and, I accept Mr. Norwood's proposal that the Commission order the
11 refund of any over-recovered amounts under CEHE's DCRF rates; however, as
12 stated in my direct testimony I recommend that the quantification of any refund
13 amounts be performed in a separate proceeding.

14 **III. RATE DESIGN—RESPONSE TO KIT PEVOTO ON RESIDENTIAL**
15 **CUSTOMER CHARGE**

16 **Q. Appearing on behalf of City of Houston and Houston Coalition of Cities, Kit**
17 **Pevoto testifies that CEHE's proposed 53% increase to the Residential class's**
18 **customer charge is excessive.¹ How do you respond?**

19 A. I disagree with Ms. Pevoto. The Company's cost-based approach to the residential
20 customer charge is reasonable, and Ms. Pevoto's proposal to limit the increase to
21 the residential customer charge is flawed in a number of ways.

¹ Direct Testimony of Kit Pevoto on Behalf of City of Houston and Houston Coalition of Cities at 28 (June 6, 2019).

1 **Q. What is the first flaw in Ms. Pevoto's proposal?**

2 A. The way she presents the issue is misleading and mischaracterizes CEHE's actual
3 proposal. When viewed in its proper context, CEHE's proposal is reasonable and
4 there is no issue to be addressed.

5 As background information for the purpose of framing the issue, the
6 residential rate design for investor-owned transmission and distribution utilities
7 (IOU-TDUs), including CEHE, was standardized by the Commission in Docket
8 No. 22344.² There are four rate components to the generic residential rate design:

- 9 • customer charge;
10 • metering charge;
11 • transmission system charge; and,
12 • distribution system charge.

13 Costs that vary by customer are included in the metering and customer
14 charges. The metering and the customer charges are driven by a customer's
15 presence on the system. When a customer joins the system, the customer will
16 require a meter and all the customer services necessary to track the customer's
17 usage at each meter, bill the customer, and respond to any service issues that arise.
18 Some of these customer-related costs are recovered under a "customer charge," and
19 some are recovered under a "metering charge."

20 In this proceeding, CEHE has proposed to set both the customer charge and
21 also the metering charge at cost. The cost study indicates that the customer-related
22 costs included in the customer charge have increased at the same time that the
23 customer-related costs included the metering charge have decreased. However,

² *Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA Section 39.201 and the Public Utility Commission Subst R 25 344*, Docket No. 22344, Order No. 40 (Nov 22, 2000).

1 under CEHE's cost-based proposal the total customer-related charges to a
2 residential customer would decrease by about 20%, as follows:

3 Table BTM-R1

Customer-related charges	Current	CEHE Proposed	Change-%
Customer charge	\$1.62	\$2.48	+53%
Metering charge	\$3.85	\$1.96	-49%
Total Customer-related	\$5.47	\$4.43	-19%

4
5 A decrease in customer-related charges does not raise any customer-impact
6 concerns. Customer-related charges go down by about 20% under CEHE's
7 proposal, even as the metering charge component is increasing. Ms. Pevoto is
8 picking one component to analyze in isolation without considering the complete
9 picture.

10 **Q. What is the second flaw in Ms. Pevoto's reasoning?**

11 A. When the dollar impacts are small, a percentage increase is not a good indicator of
12 customer impacts. The customer impact of an increase that is high on a percentage
13 basis can still be low when the dollar amount is small. CEHE proposes to increase
14 the customer charge by \$0.86, which is a small increase with no significant
15 customer impacts even as it represents a 53% increase in that one rate component
16 considered in isolation. At the same time, CEHE proposes to decrease the
17 residential metering charge by \$1.89—for a net decrease of \$1.03 in charges that
18 vary by customer. None of these rate changes raises concerns about customer
19 impacts, because the dollar amounts are small.

1 **Q. Ms. Pevoto states that CEHE’s proposed residential customer charge would**
2 **make its customer charge significantly higher than any of the other three large**
3 **ERCOT utilities.³ How do you respond?**

4 A. Ms. Pevoto did not include all IOU-TDUs in her comparative analysis. A more
5 instructive comparison would be to look at current customer-related charges for all
6 IOU-TDUs in ERCOT, and compare them to CEHE’s proposal, as can be seen in
7 the following table:

8 Table BTM-R2

<u>Utility</u>	<u>Regulatory Status</u>	<u>Docket Number</u>	<u>Customer Charge</u>	<u>Metering Charge</u>	<u>TOTAL</u>
CEHE	Proposed	49421	\$2.48	\$1.95 [✓]	\$4.43
TNMP	Settlement-approved	48401	\$1.13	\$6.72 [✓]	\$7.85
CEHE	Commission-adopted	38339	\$1.62	\$3.85 [✓]	\$5.47
ONCOR	Settlement-approved	46957	\$0.90	\$2.52 [✓]	\$3.42
AEP-TCC	Commission-adopted	33309	\$3.19	\$3.55 [✓]	\$6.74
AEP-TNC	Settlement-approved	33310	\$2.94	\$5.24 [✓]	\$8.18
	AVERAGE		\$1.96	\$4.38	\$6.33

9
10 As can be seen in the “TOTAL” column, CEHE’s proposal would make the
11 Company’s customer-related residential charges the second lowest among ERCOT
12 TDUs. The “customer charge” component would be about 25% higher than the
13 peer average of \$1.96, whereas the “metering charge” component would be less
14 than half the peer average of \$4.38. The total customer-related charges of \$4.43
15 would be about 30% lower than the peer average of \$6.33. CEHE’s proposal is not
16 out of proportion relative to the norm.

³ Direct Testimony of Kit Pevoto on Behalf of City of Houston and Houston Coalition of Cities at 28 (June 6, 2019).

1 **Q. For regulated ERCOT TDUs, has the Commission ordered that the residential**
2 **customer charge be set to recover the class's customer-related costs?**

3 A. Yes. In Docket No. 22344, the Commission ordered:

4 The Commission finds that the adoption of a uniform rate design
5 that includes a customer charge is appropriate. *Specifically, the*
6 *customer charge shall be comprised of costs that vary by customer*
7 *such as metering, billing, and customer service.* A customer charge
8 comprised of these elements appropriately tracks cost causation.
9 Additionally, the metering portion of such charges, at a wholesale
10 level, should be separately stated. This will facilitate the unbundling
11 of metering charges when they become a competitive offering.⁴

12
13 Ms. Pevoto's proposal would violate the Commission's order by causing
14 some of the costs that vary by customer to be recovered outside the customer
15 charges, as further discussed below. Note that the Commission acknowledged that
16 the costs that vary by customer include metering, billing, and customer service,
17 which is consistent with the above discussion. The Commission also explained
18 why it broke out metering as a separate charge, separating it from other costs that
19 vary by customer. The expectation was that metering would become a competitive
20 service at some point, provided by the market rather than by a regulated utility.

21 **Q. Under Ms. Pevoto's proposal, where would the costs that vary by customer**
22 **that Ms. Pevoto wants to exclude from the customer charge be recovered?**

23 A. The costs would be recovered under the distribution system charge, which is an
24 energy charge assessed on a kilowatt-hour (kWh) basis.

⁴ *Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA Section 39.201 and the Public Utility Commission Subst. R. 25.344, Docket No. 22344, Order No. 40 at 6 (Nov 22, 2000).* (emphasis added)

1 **Q. Are there any equity issues that arise when customer-related costs are loaded**
2 **into kWh-based rates?**

3 A. Yes. Intra-class subsidies are created under which some customers are winners
4 (paying below-cost charges) and other customer are losers (required to bear costs
5 caused by other customers in the class).

6 **Q. Under Ms. Pevoto's proposal, who would be the winners and who would be**
7 **the losers?**

8 A. Customers who use CEHE's distribution system more efficiently and exhibit higher
9 load factors would be the losers; and customers who use the system less efficiently
10 and exhibit lower load factors would be the winners. Put differently, if
11 implemented, the proposal would punish efficient use of the system, and reward
12 inefficient use of the system.

13 **Q. What is a load factor?**

14 A. It is a measurement of the extent of a customer's use of the system capacity that is
15 dedicated to serve the customer.

16 For example, suppose a residential customer's peak demand on the
17 distribution system were 5 kilowatts (kW); but, on average, the customer used only
18 2.5 kW. The customer's load factor would be $2.5 \text{ kW} \div 5 \text{ kW}$, or 50%. On average,
19 the customer used 50% of the capacity that was made available to meet the
20 customer's peak demand. Now suppose a second residential customer's peak
21 demand were also 5 kW, but this customer's average demand were only 1 kW. This
22 customer's load factor would be $1 \text{ kW} \div 5 \text{ kW}$, or 20%. On average, this second
23 customer used only 20% of the capacity that was made available to meet the
24 customer's peak demand.

1 **Q. How does the intra-class equity issue arise?**

2 A. It arises because under residential rate design, capacity costs that are caused by
3 demands (e.g., kW or kVa) are recovered on an energy (or kWh) basis.

4 To continue the above example, the utility incurs the same capacity costs to
5 serve the two customers, because the utility's capacity costs are driven by customer
6 demands and both customers demanded 5 kW in system capacity. In a month with
7 31 days, the customer with a 50% load factor will consume 1,860 kWh.⁵ The
8 customer with a 20% load factor will consume 744 kWh.⁶ The total kWh of both
9 customers is 2,604 kWh. Suppose the total costs of the capacity to serve the
10 customers is \$1,200 per year, or \$100 per month. Each customer causes \$50 of the
11 costs, or half, because both customers exhibit the same peak demand of 5 kW.

12 Because the costs are recovered on an energy basis, however, the two
13 customers will bear a different share of the costs in rates. The higher load factor
14 customer will be charged 71% of the total costs (1,860 kWh ÷ 2,604 total kWh), or
15 \$71, and the low load factor customer will be charged 29%, or \$29 (744 kWh ÷
16 2,604 kWh).

17 This inequitable situation is a consequence of the fact that, under the
18 residential rate design, capacity costs that are caused by demands are assessed on
19 an energy basis. This inequity is exacerbated when customer costs are loaded into
20 the energy rates, as would occur under Ms. Pevoto's proposal.

⁵ 24 x 31 x 2.5.

⁶ 24 x 31 x 1.

1 **Q. How is the inequity in residential rate design exacerbated when costs that vary**
2 **by customer are loaded into the energy rates?**

3 A. The inequity is exacerbated by increasing the level of costs that are inequitably
4 divided among customers in the class. Continuing the above example, suppose \$50
5 per month in costs that vary by customer are loaded into the energy rates, in addition
6 to the \$100 in capacity costs already being recovered under energy rates. Now, the
7 higher load factor customer is bearing 71% of \$150 rather than 71% of \$100. The
8 level of costs shifted onto him has increased, from \$21 per month to \$31.50 per
9 month.⁷ This further punishes the customer who uses the system more efficiently,
10 and further rewards the customer who uses the system less efficiently.

11 **Q. What happens when inefficient use of the system is rewarded?**

12 A. The system is used wastefully, and overall costs on the system would be expected
13 to increase.

14 **Q. Please quantify the actual level of costs that vary by customer that would be**
15 **loaded into CEHE's residential energy rates if Ms. Pevoto's proposal were**
16 **adopted.**

17 A. Under Ms. Pevoto's proposal, the costs that vary by customer that would be shifted
18 onto and loaded into the energy rates amount to \$20.3 million (26,378,700 bills
19 multiplied by the rate differential of \$0.77). The rate differential is calculated as
20 follows: Ms. Pevoto recommends that the increase in the residential customer
21 charge should be capped at the overall revenue increase flowing to the residential

⁷ 71% x \$150 less \$75.

1 class.⁸ Under Staff's cost study, there is no revenue increase flowing to the
2 residential class, so the customer charge would remain at its current level of \$1.62.
3 Staff's cost study indicates that the costs that vary by customer and are included in
4 the customer charge component (under CEHE's and Staff's cost-based approach)
5 are \$2.39 per bill.⁹ Put differently, \$2.39 is the unit cost for the customer charge,
6 and the rate differential between CEHE's proposal and Ms. Pevoto's proposal is
7 \$0.77 per bill.

8 **Q. Has the Commission recently found that this kind of inequity in residential**
9 **rate design should be mitigated by avoiding the loading of customer costs into**
10 **the residential energy rates?**

11 A. Yes. In Docket No. 43695, the Commission stated in its findings of fact:

12 FoF 341 Increasing the [customer] charge to the Residential
13 Service class will reduce the amount of capacity
14 costs caused by that class being paid by customers
15 with higher load factors that use capacity more
16 efficiently.¹⁰

17
18 The Proposal for Decision in Docket No. 40443 also noted this inequity
19 when recommending approval of an increase to the residential customer charge.
20 stating:

21 If the customer charge remains at \$7.25, then energy charges will be
22 set to collect unrecovered customer-related costs, which causes
23 customers with higher usage and higher load factors bearing some
24 of the costs incurred to serve other residential customers. This

⁸ Direct Testimony of Kit Pevoto on Behalf of City of Houston and Houston Coalition of Cities at 29 (June 6, 2019).

⁹ The share of the total associated with the TDCS function, excluding metering.

¹⁰ *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Order on Re-Hearing (Feb 23, 2016). The Order refers to the "service connection charge" which is a synonym for the customer charge.

1 inequity is lessened by increasing the residential customer charge
2 ...¹¹

3
4 **Q. What is the solution to this problem?**

5 A. The solution is setting the customer and metering charges to recover all the costs
6 that vary by customer, as proposed by CenterPoint and supported by Staff, to
7 mitigate the inequities in the current residential rate design.

8 **IV. RATE RIDERS—RESPONSE TO SCOTT NORWOOD ON DCRF TRUE-**
9 **UP**

10 **Q. Appearing on behalf of City of Houston and Houston Coalition of Cities, Scott**
11 **Norwood recommends that the costs of CEHE's Underground Cable**
12 **Assessment and Life Extension Program and the Major Underground**
13 **Rehabilitation project recovered through CEHE's past DCRF charges be**
14 **refunded to customers along with associated carrying charges as required by**
15 **the PUC's DCRF Rule.¹² Mr. Norwood also recommends that \$2.6 million of**
16 **indirect corporate costs that are not eligible for recovery through the**
17 **Company's DCRF charges, along with associated carrying charges be**
18 **refunded to customers as required by the PUC's DCRF Rule.¹³ How do you**
19 **respond?**

20 A. While I agree with Mr. Norwood that any amounts recovered under CEHE's
21 DCRFs that are found to have been improperly included in the DCRF be refunded
22 to customers, I do not think it is possible to order any specific refund amounts at
23 this time. The calculations of refund amounts cannot be performed until after the

¹¹ *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 40443, Proposal for Decision at 272 (May 20, 2013).

¹² Direct Testimony of Scott Norwood at 20 (June 6, 2019).

¹³ *Id.*, at 21.

1 Commission's Order in this proceeding. For example, the carrying charges
2 referenced by Mr. Norwood cannot be calculated until the expiration date of
3 CEHE's current DCRF charges, which will not occur until the base rates ordered
4 by the Commission in this proceeding take effect.

5 **Q. What do you recommend?**

6 A. Consistent with my position in direct testimony,¹⁴ I recommend that the
7 quantification of any refund amounts arising from CEHE's over-recoveries under
8 its Interim TCOS and DCRF rates be addressed in a separate compliance
9 proceeding that occurs after the Commission's Order in this proceeding.

10 **V. CONCLUSION**

11 **Q. Does this conclude your cross-rebuttal testimony?**

12 A. Yes.

¹⁴ Direct Testimony of Brian T. Murphy at 74 (June 12, 2019).