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

**REBUTTAL TESTIMONY OF**

**CHARLES W. PRINGLE**

**ON BEHALF OF**

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC**

**June 2019**

JSB 1

## **TABLE OF CONTENTS**

I.	INTRODUCTION .....	3
II.	ERRATA FILING .....	4
III.	MEDICARE PART D SUBSIDY .....	5
IV.	ADFIT ASSOCIATED WITH TRANSITION AND RESTORATION CHARGES .....	17
V.	ATTENDANT IMPACTS OF DISALLOWED RATE BASE ITEMS .....	17

1                   **REBUTTAL TESTIMONY OF CHARLES W. PRINGLE**

2                   **I.    INTRODUCTION**

3    **Q.    PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

4    A.    My name is Charles W. Pringle. I am Vice President Tax for CenterPoint Energy  
5           Service Company, LLC. My business address is 1111 Louisiana Street, Houston,  
6           Texas 77002.

7    **Q.    ARE YOU THE SAME CHARLES W. PRINGLE THAT FILED DIRECT**  
8           **TESTIMONY IN THIS DOCKET?**

9    A.    Yes.

10   **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11   A.    The purpose of my rebuttal testimony is to explain changes made to the rate filing  
12           package (“RFP”) due to the Errata filing made on May 20, 2019, (“Errata 1”) of  
13           CenterPoint Energy Houston Electric, LLC (“CenterPoint Houston” or the  
14           “Company”). I rebut positions taken by City of Houston witness Lane Kollen with  
15           regard to the calculation of the regulatory asset relating to the Medicare Part D  
16           Subsidy (as defined later in my rebuttal testimony) and his recommendation to deny  
17           any recovery of the regulatory asset. In addition, I rebut his assertion that my direct  
18           testimony addresses whether the Public Utility Commission of Texas  
19           (“Commission”) considered securitization related excess deferred income taxes  
20           (“EDIT”) in Dockets Nos. 48838, 49049, and 48685. I also rebut the position taken  
21           by Office of Public Utility Counsel (“OPUC”) witness June M. Dively to remove  
22           the return component of the Medicare Part D Subsidy regulatory asset and her  
23           failure to include Texas margin tax in her proposed rider after removing it from  
24           base rates. Additionally, I discuss the need to consider accumulated deferred

1 federal income taxes (“ADFIT”) and EDIT attendant impacts of any Commission  
2 accepted proposed adjustments to any rate base asset or liability items that have  
3 corresponding ADFIT and EDIT balances, including adjustments to capital  
4 projects.

5 **II. ERRATA FILING**

6 **Q. PLEASE DESCRIBE THE TAX CHANGES MADE IN THE ERRATA 1**  
7 **FILING.**

8 A. As discussed in testimony by Company witness Kristie L. Colvin, CenterPoint  
9 Houston included a prepaid pension asset in rate base in its RFP.<sup>1</sup> The prepaid  
10 pension asset is a temporary difference and has a resulting impact on ADFIT,  
11 creating a deferred tax liability. However, in CenterPoint Houston’s initial RFP,  
12 the ADFIT was incorrectly included in rate base as a deferred tax *asset* instead of a  
13 deferred tax *liability*. The ADFIT amount on the pension asset was \$37.016  
14 million. Changing this ADFIT from an asset to a liability decreases rate base by  
15 \$74.032 million. This correction was made on WP II-E-3.5.1a in the Errata 1 filing.

16 **Q. ARE THERE OTHER CHANGES TO ADFIT IN THE ERRATA 1 FILING?**

17 A. Yes. As discussed in the rebuttal testimony of Ms. Colvin,<sup>2</sup> CenterPoint Houston  
18 included carrying costs for the Hurricane Harvey regulatory asset in the Errata 1  
19 filing. Due to an error, carrying costs were not included in the original RFP. This  
20 additional financing cost increased the Hurricane Harvey ADFIT liability by  
21 \$1.836 million. This change is also included in WP II-E-3.5.1a in the Errata 1  
22 filing.

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<sup>1</sup> Direct Testimony of Kristie L. Colvin, Bates page 902:18 - Bates page 904:9.

<sup>2</sup> Rebuttal Testimony of Kristie L. Colvin, Section II.

**III. MEDICARE PART D SUBSIDY**

1

2 **Q. MR. KOLLEN DISAGREES WITH YOUR CALCULATION OF THE**  
3 **REGULATORY ASSET RELATED TO THE MEDICARE PART D**  
4 **SUBSIDY. AFTER REVIEWING HIS TESTIMONY, DO YOU BELIEVE**  
5 **YOU NEED TO MODIFY YOUR CALCULATION?**

6 A. No. As explained in my direct testimony,<sup>3</sup> the Medicare Prescription Drug,  
7 Improvement and Modernization Act of 2003 granted a subsidy that was actuarially  
8 equivalent to Medicare Part D coverage (a “Medicare Part D Subsidy”) to  
9 companies if they provided certain prescription drug benefits to retirees. The  
10 calculation of the Medicare Part D Subsidy regulatory asset arising from the change  
11 in taxation of the subsidy is appropriate as originally calculated by CenterPoint  
12 Houston and as described in my direct testimony.<sup>4</sup>

13 **Q. ON PAGE 28 OF MR. KOLLEN’S DIRECT TESTIMONY, HE STATES**  
14 **THAT \$33.304 MILLION WAS INCLUDED IN RATE BASE<sup>5</sup> FOR THE**  
15 **MEDICARE PART D SUBSIDY REGULATORY ASSET. DO YOU AGREE**  
16 **WITH HIS NUMBER?**

17 A. No. The amount included in rate base in the RFP for the Medicare Part D Subsidy  
18 regulatory asset is \$33.204 million.<sup>6</sup>

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<sup>3</sup> Direct Testimony of Charles W. Pringle, Bates page 1027:9-12.

<sup>4</sup> *Id.* at Bates pages 1028-1030.

<sup>5</sup> Direct Testimony of Lane Kollen at 28:9-10.

<sup>6</sup> Direct Testimony of Charles W. Pringle, Bates page 1041.

1   **Q.   PLEASE DESCRIBE MR. KOLLEN’S TESTIMONY WITH REGARD TO**  
2       **THE MEDICARE PART D SUBSIDY.**

3   A.   As discussed below and in my direct testimony,<sup>7</sup> the Commission in Docket No.  
4       38339 approved the recording of a Medicare Part D Subsidy regulatory asset. Mr.  
5       Kollen lists five errors that he believes were made in CenterPoint Houston’s  
6       calculation of the asset and then recommends denying any recovery of the  
7       regulatory asset. While he lists the five points, he does not give detailed  
8       explanations of, or provide support for, most of them. In the testimony below, I  
9       rebut each of those five points, discuss why Mr. Kollen’s arguments are incorrect,  
10      and explain in detail why his recommendation should be rejected.

11   **Q.   IN MR. KOLLEN’S FIRST POINT HE STATES, “THE COMPANY**  
12       **INCLUDED YEARS 2004 THROUGH 2012, WHICH THE COMMISSION**  
13       **SPECIFICALLY REJECTED IN DOCKET NO. 38339.” DID THE**  
14       **COMMISSION SPECIFICALLY REJECT THOSE YEARS TO BE**  
15       **INCLUDED AS PART OF THE REGULATORY ASSET?**

16   A.   No. The Commission’s order addressed the timing of when it is appropriate to  
17       include the impacts of the Patient Protection and Affordable Care Act (“PPACA”)  
18       and the Health Care and Education Reconciliation Act of 2010 (collectively with  
19       the PPACA, the “Health Care Legislation”) in rates, but it does not state that only  
20       the impact of the law from 2013 forward can be recovered or included in the  
21       computation of the regulatory asset related to the Medicare Part D Subsidy. The  
22       Commission’s final order on rehearing in Docket No. 38339 merely stated that “The

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<sup>7</sup> Direct Testimony of Charles W. Pringle, Bates page 1031:16-20.

1 health care acts do not become effective until January 1, 2013; therefore, it is  
 2 unreasonable for CenterPoint to include in the rates set in this proceeding a future  
 3 increase to CenterPoint's federal income tax expense caused by that legislation."<sup>8</sup>

4 The order further acknowledged that the health care acts effectively  
 5 changed the tax rate applicable to the Medicare Part D Subsidies from 0% to 35%.<sup>9</sup>

6 The order additionally states that "[t]he Commission has permitted the effects of  
 7 changes in tax rates or tax laws to be recovered in rates charged to customers."<sup>10</sup>

8 Mr. Kollen does not address or explain any of these statements in his direct  
 9 testimony.

10 **Q. DO THE EFFECTS OF CHANGES IN TAX RATES THAT THE**  
 11 **COMMISSION HAS HISTORICALLY ALLOWED TO BE RECOVERED**  
 12 **APPLY ONLY PROSPECTIVELY BEGINNING ON THE EFFECTIVE**  
 13 **DATE OF THE INCOME TAX LAW CHANGE?**

14 **A.** No. The Commission allows all periods impacted by a change in tax rates to be  
 15 recovered or refunded in rates. This is evidenced by the recent change in the federal  
 16 tax rate from 35 percent to 21 percent, the result of which is that ADFIT included  
 17 in the revenue requirement in periods prior to the effective date of the federal  
 18 income tax rate change are now being refunded to customers through rates. Similar  
 19 to this impact, the Medicare Part D Subsidy tax change had prospective and  
 20 retrospective impacts that the Commission in Docket No. 38339 recognized should  
 21 be included in the recoverable regulatory asset at issue here.

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<sup>8</sup> *Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates*, Docket No. 38339, Order on Rehearing at Finding of Fact 157A (Jun. 23, 2011).

<sup>9</sup> *Id.* at Finding of Fact 154.

<sup>10</sup> *Id.* at Finding of Fact 155.

1   **Q.   DOES FINDING OF FACT 159A IN THE COMMISSION’S ORDER ON**  
 2       **REHEARING IN DOCKET NO. 38339 AUTHORIZING THE**  
 3       **REGULATORY ASSET RELATED TO THE CHANGE IN TAX RATE BAR**  
 4       **RECOVERY WITH RESPECT TO YEARS 2004 THROUGH 2012?**

5   **A.**   No. Finding of Fact 159A does precisely the opposite. It makes no mention of  
 6       those years, nor does it provide that the recoverable regulatory asset should be  
 7       computed only with respect to years beginning on or after January 1, 2013. The  
 8       finding of fact states:

9               It is appropriate for CenterPoint to monitor and accrue the difference  
 10              between what its rates assume the Medicare Part B [sic] subsidy tax expense  
 11              will be and what CenterPoint is required to pay as a regulatory asset to be  
 12              addressed in CenterPoint’s next rate case.<sup>11</sup>

13       The finding of fact expressly refers to CenterPoint Houston’s “rates.” Despite  
 14       Mr. Kollen’s assertions, there is no reference to “future rates” or otherwise to  
 15       CenterPoint’s “rates that will be established in a rate proceeding after 2012.” The  
 16       finding of fact clearly is referencing CenterPoint’s Houston’s existing rates and the  
 17       rates established by Docket No. 38339. From 2004 until rates go into effect in this  
 18       current proceeding, CenterPoint Houston’s rates have assumed, and continue to  
 19       assume, that Medicare Part D Subsidies are nontaxable. Those rates were based on  
 20       actuarially determined accruals that incorporated future receipts of subsidies that  
 21       would be received well into the future and were assumed to be nontaxable. As  
 22       reflected in Finding of Fact 159A, it is appropriate to include all years impacted by  
 23       the change in taxability of the Medicare Part D Subsidies as part of the calculation

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<sup>11</sup> Docket No. 38339, Order on Rehearing at Finding of Fact 159A.

1 of the regulatory asset since CenterPoint Houston's rates assumed, and still assume,  
2 that Medicare Part D Subsidies are nontaxable.

3 **Q. DOES THE ORDER IN DOCKET NO. 38339 ACKNOWLEDGE THAT**  
4 **THIS CHANGE IN TAX LAW IMPACTED PRIOR PERIODS?**

5 A. Absolutely. The Order acknowledges in Finding of Fact No. 151 that the accrual  
6 basis reduction to income tax expense was not actually realized by CenterPoint  
7 Houston with the following:

8 Only \$5.4 million of the \$28.6 million of Medicare Part D subsidy was  
9 actually received from 2004 through 2009 and the remaining \$23.2 million  
10 of the permanent difference related to amounts that were anticipated to be  
11 received in 2010 and afterwards but nevertheless were required to be  
12 accrued under FASB Statement No. 106.<sup>12</sup>

13 CenterPoint Houston was required to accrue in 2004 through 2009 \$28.6 million  
14 for the Medicare Part D Subsidy. But, from 2004 to 2009, CenterPoint Houston  
15 received only \$5.4 million in cash for the Medicare Part D Subsidy. This \$5.4  
16 million was non-taxable. The remaining \$23.2 million was an actuarially  
17 determined estimate of future payments. The majority of these estimated amounts  
18 were forecasted to be received after January 1, 2013, when they would be subject  
19 to tax. Therefore, the Commission recognized that the Company's rates assumed  
20 these accrued amounts, including actuarially determined estimates of future  
21 payments, were all nontaxable. The Commission also recognized that the Health  
22 Care Legislation made the receipts fully taxable after 2012.<sup>13</sup> The Order further  
23 acknowledged that only the cash receipts received in years 2010 through 2012

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<sup>12</sup> Docket No. 38339, Order on Rehearing at Finding of Fact 151.

<sup>13</sup> *Id.* at Finding of Fact 152.

1 would be nontaxable<sup>14</sup>. The Order, therefore, clearly recognizes all the years for  
 2 which the regulatory asset was requested, the need for a regulatory asset to reflect  
 3 the prior accruals in those years of Medicare Part D Subsidies relating to periods in  
 4 which the subsidies became taxable, and the authorization of recording a regulatory  
 5 asset for those amounts. Mr. Kollen's assertion that the regulatory asset is only  
 6 authorized for periods 2013 and forward is simply an incorrect interpretation of the  
 7 Order.

8 **Q. WHAT IS MR. KOLLEN'S SECOND POINT RELATED TO THE**  
 9 **CALCULATION OF THE MEDICARE PART D SUBSIDY REGULATORY**  
 10 **ASSET?**

11 A. Mr. Kollen's states that "the Company failed to offset the temporary difference  
 12 reflected in the income tax expense allowed in rates in Docket No. 38339 by the  
 13 changes in the temporary differences each year 2013 through 2018."<sup>15</sup>

14 **Q. DO YOU AGREE WITH MR. KOLLEN'S SECOND POINT?**

15 A. No. Mr. Kollen's testimony does not provide enough detail to identify which  
 16 temporary difference he is referencing when stating it was not properly reflected in  
 17 the calculation, but in any case, there was no such failure in CenterPoint Houston's  
 18 calculation. The required FAS 106 temporary differences were recorded (as  
 19 explained in my direct testimony<sup>16</sup>) in the first quarter of 2010 and properly  
 20 reflected in the ADFIT in CenterPoint Houston's books and records. The FAS 106  
 21 temporary differences have no impact on the computation of the regulatory asset in

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<sup>14</sup> *Id.* at Finding of Fact 153.

<sup>15</sup> Direct Testimony of Lane Kollen at 29:20-22.

<sup>16</sup> Direct Testimony of Charles W. Pringle, Bates page 1029:19-23.

1 subsequent periods, as the subsidies are subject to tax and the deferred amounts are  
2 reflected as required under ASC 740. For the Medicare Part D Subsidy balance, a  
3 temporary difference was only established for the difference in the accrued  
4 permanent benefit as of the first quarter of 2010 and the anticipated cash receipts  
5 for 2010, 2011 and 2012 since those receipts would remain nontaxable. But after  
6 2012, the temporary difference ceases to exist because the Medicare Part D Subsidy  
7 becomes taxable. Mr. Kollen's testimony appears to assume that a temporary  
8 difference exists related to cash receipts received after 2012. Mr. Kollen's  
9 representation of the accounting treatment is factually incorrect, as no temporary  
10 difference can exist after January 1, 2013 for those amounts.

11 **Q. MR. KOLLEN'S THIRD POINT IS THAT THE COMPANY "FAILED TO**  
12 **UPDATE THE MEDICARE PART D SUBSIDY BASED ON ACTUARIAL**  
13 **REPORTS FOR THOSE YEARS"**<sup>17</sup> **(2013 THROUGH 2018). DO YOU**  
14 **AGREE THAT NOT HAVING ACTUARIAL REPORTS USING THE WITH**  
15 **AND WITHOUT SUBSIDY METHODOLOGY IN 2013 THROUGH 2018 IS**  
16 **A FLAW IN THE COMPANY'S CALCULATION?**

17 **A.** No. The Commission's Order authorizes CenterPoint Houston to accrue a  
18 regulatory asset for "what its rates assume the Medicare Part B [sic] subsidy tax  
19 expense will be and what CenterPoint is required to pay as a regulatory asset."<sup>18</sup> It  
20 is known that any accrued cash received after January 1, 2013, has been and will be  
21 subject to a tax rate of either 35% or 21% instead of the 0% included in rates. The  
22 amount of subsidy reflected in rates is also known. For all of these reasons, the

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<sup>17</sup> Direct Testimony of Lane Kollen at 29:22-23.

<sup>18</sup> Docket No. 38339, Order on Rehearing at Finding of Fact 159A.

1 regulatory asset is readily computed, and an actuarial report using the with and  
2 without subsidy methodology is entirely unnecessary. Further, the Commission's  
3 Order does not state that CenterPoint Houston must continue to compute the  
4 actuarial amount for hypothetical purposes.

5 **Q. WHAT IS MR. KOLLEN'S FOURTH POINT?**

6 A. Mr. Kollen asserts that CenterPoint Houston "failed to offset of the actual cash  
7 subsidies received from the federal government in each of those years in the same  
8 manner that it did in years 2004 through 2012."<sup>19</sup> He is referencing 2013 through  
9 2018.

10 **Q. IS MR. KOLLEN'S FOURTH POINT VALID?**

11 No, it is not. Cash receipts of the Medicare Part D Subsidy starting in 2013 are  
12 taxable and therefore do not change the computation for the regulatory asset. The  
13 regulatory asset represents the recovery of a tax expense that equals the difference  
14 between (i) accrued benefits to ratepayers provided in rates (as a reduction to tax  
15 expense) and (ii) the amount of tax expense benefit actually realized by CenterPoint  
16 Houston for the cash received while those amounts were not subject to tax for years  
17 2004 through 2012. The cash receipts for 2013 through 2018 (when the receipts  
18 are taxable) have no impact on the computation of the regulatory asset.

19 **Q. PLEASE DISCUSS MR. KOLLEN'S FIFTH DISAGREEMENT WITH THE**  
20 **CALCULATION OF THE REGULATORY ASSET.**

21 A. Mr. Kollen's fifth point is that CenterPoint Houston "failed to remove the portion  
22 capitalized to CWIP."<sup>20</sup>

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<sup>19</sup> Direct Testimony of Lane Kollen at 29:23-24 & 30:1.

<sup>20</sup> *Id.* at 30:2-3.

1 **Q. DO YOU AGREE WITH MR. KOLLEN’S FIFTH CRITICISM OF THE**  
 2 **CALCULATION?**

3 A. No. Income tax expense is not capitalized to Construction Work in Progress  
 4 (“CWIP”). While pension expense is capitalized to CWIP, the regulatory asset at  
 5 issue here is related to income tax expense associated with the Medicare Part D  
 6 Subsidy. CenterPoint Houston’s request is to recover a reduction in income tax  
 7 expense that was provided to ratepayers in the Company’s cost of service but that  
 8 was ultimately not realized as a result of the change in tax law. The income tax  
 9 expense amount was part of CenterPoint Houston’s cost of service and not  
 10 capitalized as CWIP, and therefore no reduction should be made.

11 **Q. DO YOU AGREE WITH MR. KOLLEN’S RECOMMENDATION THAT**  
 12 **THE “COMMISSION DENY RECOVERY OF THIS REGULATORY**  
 13 **ASSET IN RATE BASE AND THE RELATED AMORTIZATION**  
 14 **EXPENSE”?**

15 A. No. Mr. Kollen states that this denial should be made “due to the Company’s failure  
 16 to comply with the methodology for the regulatory asset specified in the Order in  
 17 Docket No. 38339, and due to its failure to provide the information necessary to  
 18 correctly calculate the regulatory asset in this proceeding.”<sup>21</sup> For the reasons  
 19 discussed in my direct testimony and my rebuttal testimony above, CenterPoint  
 20 Houston correctly computed the regulatory asset authorized by the Commission’s  
 21 Order in Docket No. 38335, and Mr. Kollen’s points of disagreement are in error.

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<sup>21</sup> *Id.* at 30:20-21 & 31:1-2.

1   **Q.   MR. KOLLEN RECALCULATED THE AMOUNT OF MEDICARE PART**  
2       **D SUBSIDY AS PART OF HIS DIRECT TESTIMONY ON “AS ADJUSTED**  
3       **WP II-E-3.15.2.”   DO YOU AGREE WITH HIS RECOMPUTED**  
4       **ADJUSTMENT?**

5   A.   No. Mr. Kollen’s recomputed Medicare Part D Subsidy regulatory asset has  
6       significant flaws and does not reflect the correct tax treatment or tax accounting.  
7       For example, as discussed in detail above, Mr. Kollen improperly reduces the  
8       amount for cash receipts in years 2013 through 2018, years in which the Medicare  
9       Part D Subsidy receipts are taxable. In addition, he reflects that a portion of the tax  
10      expense would have been capitalized to CWIP, which is inappropriate for the  
11      reasons discussed above.

12   **Q.   DOES MS. DIVELY ASSERT IN HER DIRECT TESTIMONY THAT THE**  
13       **COMMISSION IN DOCKET NO. 38339 PERMITTED THE**  
14       **COMPUTATION OF THE MEDICARE PART D SUBSIDY ONLY WITH**  
15       **RESPECT TO YEARS AFTER 2012?**

16   A.   No. In her direct testimony, Ms. Dively states that the Commission “did authorize  
17       CenterPoint Houston to continue to record as a regulatory asset the difference  
18       between what their rates assumed the Medicare Part B [sic] subsidy tax expense  
19       would be and the amount that the Company was actually required to pay. The  
20       Commission stated that the regulatory asset should be addressed in CenterPoint  
21       Houston’s next rate case, which is this case.”<sup>22</sup> By referring to CenterPoint Houston  
22       being able to “continue to record” the regulatory asset, Ms. Dively appears to

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<sup>22</sup> Direct Testimony of June M. Dively at 17:18.

1 correctly interpret the Commission's Order in Docket No. 38339 that the regulatory  
2 asset is to be computed by reference to all years from and after 2004.

3 **Q. DOES MS. DIVELY IN HER DIRECT TESTIMONY ASSERT THAT**  
4 **CENTERPOINT HOUSTON INCORRECTLY COMPUTED THE**  
5 **MEDICARE PART D SUBSIDY REGULATORY ASSET?**

6 A. No, she does not. She instead proposes a different treatment of the regulatory asset  
7 than CenterPoint Houston's proposal.

8 **Q. PLEASE DISCUSS MS. DIVELY'S TREATMENT OF THE MEDICARE**  
9 **PART D SUBSIDY REGULATORY ASSET.**

10 A. While Ms. Dively does not adjust the calculation of the base amount of the  
11 regulatory asset provided by CenterPoint Houston, she moves the amount of the  
12 regulatory asset from base rate to Rider MEDD to be recovered over five years.<sup>23</sup>  
13 In Rider MEDD she also completely removes the return component of the  
14 regulatory asset. CenterPoint Houston witness Ms. Colvin addresses the overall  
15 topic of riders and recovery periods in her rebuttal testimony.<sup>24</sup> I will address the  
16 topic of why this regulatory asset should earn a rate of return.

17 **Q. DID CENTERPOINT HOUSTON PRE-FUND THE MEDICARE PART D**  
18 **SUBSIDY REGULATORY ASSET?**

19 A. Yes. CenterPoint Houston's rates since 2004 have included an assumption that  
20 Medicare Part D Subsidy receipts will be nontaxable. With the change in tax law  
21 arising from the Health Care Legislation, CenterPoint Houston has established a  
22 regulatory asset for what its rates have historically assumed the tax expense will be

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<sup>23</sup> *Id.* at 18:10-11.

<sup>24</sup> Rebuttal Testimony of Kristie L. Colvin, Section III,C. and Section VII.

1 (that is, \$0) and what CenterPoint Houston is required to pay. This regulatory asset  
2 has been pre-funded by CenterPoint Houston over multiple years.

3 **Q. WHY SHOULD THE COMPANY BE ALLOWED A RATE OF RETURN**  
4 **ON THE MEDICARE PART D SUBSIDY REGULATORY ASSET?**

5 A. As discussed above, CenterPoint Houston has pre-funded this regulatory asset. This  
6 has resulted in a significant amount of funds CenterPoint Houston has yet to  
7 recover. Including a rate of return on this regulatory asset is appropriate and should  
8 be allowed by the Commission.

9 **Q. ARE THERE OTHER ASPECTS OF MS. DIVELY'S ADJUSTMENT THAT**  
10 **YOU DISAGREE WITH?**

11 A. Yes. When Ms. Dively removes the Medicare Part D Subsidy regulatory asset from  
12 base rates, she makes an adjustment to remove Texas margin tax from the base rate  
13 revenue requirement associated with lost revenue. However, no such offsetting  
14 increase with respect to Texas margin tax is included on the revenue she includes  
15 in her proposed Rider MEDD. If her rider were adopted, an increase for Texas  
16 margin tax should be included in the rider to make the Company whole.

**IV. ADFIT ASSOCIATED WITH TRANSITION  
AND RESTORATION CHARGES**

**Q. MR. KOLLEN STATES IN HIS TESTIMONY “DO YOU AGREE WITH MR. PRINGLE THAT THE COMMISSION CONSIDERED THIS EDIT IN DOCKETS NOS 48848 [SIC], 49049, AND 48685?<sup>25</sup> DID YOU MAKE THE ASSERTION IN YOUR DIRECT TESTIMONY THAT THE COMMISSION CONSIDERED SYSTEM RESTORATION AND TRANSITION EDIT IN THESE DOCKETS?**

**A.** No. I did not assert that in my direct testimony. In my direct testimony I discuss ADFIT not EDIT. In my direct testimony I state “ADFIT amounts associated with securitized competitive transition and system restoration charges have been excluded from this filing as they have already been considered in previous proceedings.”<sup>26</sup>

**V. ATTENDANT IMPACTS OF DISALLOWED RATE BASE ITEMS**

**Q. ARE STAFF AND INTERVENOR WITNESSES PROPOSING ADJUSTMENTS TO CENTERPOINT HOUSTON’S CAPITAL?**

**A.** Yes, multiple witnesses are proposing adjustments to CenterPoint Houston’s capital.

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<sup>25</sup> Direct Testimony of Lane Kollen at 58:5-6.

<sup>26</sup> Direct Testimony of Charles W. Pringle, Bates page 1017:3-6.

1   **Q.   DO CITY OF HOUSTON WITNESS SCOTT NORWOOD AND OPUC**  
2       **WITNESS KARL NALEPA PROPOSE SUCH ADJUSTMENTS TO**  
3       **CAPITAL INVESTMENTS INCLUDED IN CENTERPOINT HOUSTON'S**  
4       **PRIOR DCRF FILINGS?**

5   A.   Yes. Both Mr. Norwood and Mr. Nalepa make proposals to adjust CenterPoint  
6       Houston's capital investments. CenterPoint Houston witnesses Randal M. Pryor  
7       and Martin W. Narendorf explain why these investments are prudent and should be  
8       allowed, while Ms. Colvin explains why the accounting for these investments is  
9       appropriate.<sup>27</sup> To the extent that the Commission removes any of these investments  
10      from the Company's request I address below the attendant ADFIT and EDIT  
11      impacts that must be considered.

12   **Q.   PLEASE EXPLAIN WHY ADFIT AND EDIT MUST BE ADJUSTED IF**  
13       **CAPITAL OR OTHER RATE BASE ITEMS ARE ADJUSTED.**

14   A.   Any capital asset added since the last rate case that has a net book basis that is  
15       different than the net tax basis also has an associated ADFIT balance. If that asset  
16       was added before 2018 the ADFIT was initially established using the 35% income  
17       tax rate. With the enactment of the legislation referred to as the Tax Cuts and Jobs  
18       Act of 2017, that tax rate has been lowered to 21%. The resulting EDIT associated  
19       with those assets is included as a rate base component in this current proceeding  
20       and was also included in rate base in CenterPoint Houston's most recent DCRF  
21       filing. Therefore, both ADFIT and EDIT must be considered when adjusting

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<sup>27</sup> Rebuttal Testimony of Kristie L. Colvin, Section V.

1 capital or any other rate base item with a net book basis that is different than net  
2 tax basis.

3 **Q. DOES MR. NALEPA, FOR EXAMPLE, MENTION THESE ATTENDANT**  
4 **IMPACTS IN HIS TESTIMONY?**

5 A. Partially. Mr. Nalepa does recognize that ADFIT is an attendant impact, but he fails  
6 to mention that EDIT also needs to be considered.<sup>28</sup>

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 A. Yes, it does.

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<sup>28</sup> Direct Testimony of Karl Nalepa at 40:2-4.

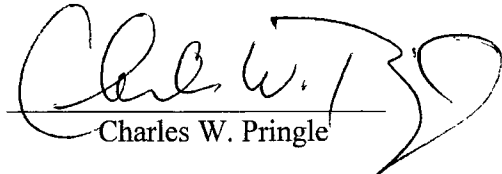
STATE OF Texas §  
COUNTY OF Harris §

**AFFIDAVIT OF CHARLES W. PRINGLE**

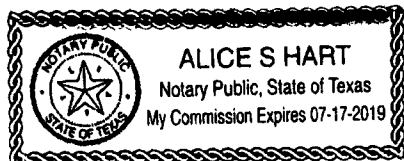
BEFORE ME, the undersigned authority, on this day personally appeared Charles W. Pringle who having been placed under oath by me did depose as follows:


1. "My name is Charles W. Pringle. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
2. I have prepared the foregoing Rebuttal Testimony and the information contained in this document is true and correct to the best of my knowledge."

Further affiant sayeth not.

  
Charles W. Pringle

SUBSCRIBED AND SWORN TO BEFORE ME on this 7<sup>th</sup> day of  
June, 2019.



  
Notary Public in and for the State of Texas

My commission expires: 07/17/2019