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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
KELLY C. GAUGER
ON BEHALF OF
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

June 2019

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REBUTTAL TESTIMONY OF KELLY C. GAUGER

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND CURRENT POSITION.

A. My name is Kelly C. Gauger. I am the Vice President, Audit Services for CenterPoint Energy Service Company, LLC.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony in this proceeding on April 5, 2019 on behalf of CenterPoint Energy Houston Electric, LLC (“CenterPoint Houston” or “the Company”), a wholly-owned subsidiary of CenterPoint Energy, Inc. (“CNP”).

II. PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the portions of direct testimony of Karl Nalepa, filed on behalf of the Office of Public Utility Counsel (“OPUC”), recommending that certain storm restoration costs addressed in the Hurricane Harvey EOP Expense Validation Review (the “Audit”) be removed from the Hurricane Harvey regulatory asset in this case. Company witness Kristie L. Colvin addresses the portion of Mr. Nalepa’s testimony regarding known and measurable changes relating to the Hurricane Harvey Regulatory Asset.

**III. RECOMMENDED DISALLOWANCES OF HURRICANE HARVEY
STORM RESTORATION COSTS**

Q. MR. NALEPA TESTIFIES THAT \$9.505 MILLION IN EXPENSES SHOULD BE REMOVED FROM THE HURRICANE HARVEY REGULATORY ASSET BECAUSE THE COSTS WERE INCORRECT OR NOT ADEQUATELY DOCUMENTED. DO YOU AGREE WITH HIS TESTIMONY?

A. No, I do not. Mr. Nalepa has mischaracterized the Audit findings as “incorrect,” and has ignored other portions of the audit that conclude the expenses are valid and reasonable. In addition, he improperly “grosses up” Audit findings to the entire population of certain cost categories, which is inappropriate when judgmental sampling techniques have been utilized, as was the case with the Audit.

Q. ARE STORM COSTS LIKE THE ONES INCLUDED IN THE HURRICANE HARVEY REGULATORY ASSET RECOVERABLE?

A. Yes. These types of costs are recoverable under PURA §§ 36.401–406.

Q. IN GENERAL, HOW DID THE COMPANY RESPOND TO HURRICANE HARVEY?

A. As noted in the Audit, in an effort to restore service as quickly and safely as possible, CNP officially activated its Emergency Operations Plan (“EOP”) on August 24, 2017, the day before Hurricane Harvey made landfall. The EOP was deactivated on September 7, 2017.

1 **Q. WHAT STEPS WERE TAKEN TO ENSURE THAT HURRICANE**
2 **HARVEY EXPENSES WERE REASONABLE?**

3 A. First, it is important to remember that CNP already has a solid foundation of internal
4 controls in place to ensure compliance with Sarbanes Oxley requirements,
5 including internal controls for invoice validation/approval and expense reporting
6 processes, which were particularly relevant to the Hurricane Harvey response
7 effort. In addition to that, a validation team was assembled for the major storm-
8 related spend areas to ensure that storm-related expenses were properly validated,
9 accounted for, and approved prior to authorizing payment. Many of the individuals
10 that were included in the validation team are tenured employees with extensive
11 knowledge of the business, and most have been involved in prior storm restoration
12 events. Lastly, the Audit was performed as an additional layer of review to provide
13 additional assurance that Hurricane Harvey storm restoration costs were reasonable
14 and adequately supported.

15 **Q. WHAT WAS THE OVERALL CONCLUSION OF THE AUDIT?**

16 A. Overall, Audit Services concluded that the EOP expense validation effort provided
17 reasonable justification for Hurricane Harvey-related expenses. Audit Services
18 noted that EOP activities were effective and executed in a timely and safe manner
19 to restore service for CNP customers impacted by Hurricane Harvey. Additionally,
20 EOP activities were adequately supported by CNP Senior Management and
21 supporting staff. As I mentioned in my Direct Testimony and as is typical in most
22 audit engagements, Audit Services recommended several process improvement

1 opportunities to strengthen existing EOP-related controls and procedures and
2 increase process efficiencies.

3 **Q. WITH THAT BACKGROUND IN MIND, ARE THERE SPECIFIC**
4 **EXPENSES THAT MR. NALEPA RECOMMENDS EXCLUDING THAT**
5 **YOU DISAGREE WITH? IF SO, PLEASE EXPLAIN.**

6 A. I will walk through the various categories of expense that Mr. Nalepa takes issue
7 with in his testimony. Although certain items lacked *full* documentation, sufficient
8 documentation did exist to conclude that these expenses were incurred in support
9 of Hurricane Harvey storm restoration efforts and were valid and appropriate.

10 **Hotel Expenses**

11 Five invoices totaling \$218,796 did not have complete or consistent documentation;
12 however, the documentation was sufficient to determine that the expenses were
13 valid and appropriate. Specifically, in most cases the Company had hotel folios
14 that allowed Audit Services to match up dates of stay during the Hurricane Harvey
15 EOP response effort against invoices, and CNP's use of reserved room blocks
16 further allowed Audit Services to confirm that hotel expenses were (i) related to
17 those blocks, (ii) incurred during the response period, and (iii) charged at agreed-
18 upon room rates. Therefore, these hotel invoices should not be excluded.

19 **Catering and Logistics**

20 Mr. Nalepa states that a \$2 million "invoice" had services that were procured and
21 paid for by the same manager in violation of Company policy and had incomplete
22 documentation. However, as stated on page 8 of the Audit, only the \$50,000 initial
23 payment on the \$2 million contract was paid by the EOP Staging Site Manager,

1 which was necessary for the caterer to start providing services (i.e., meals) to crews
2 supporting storm restoration efforts. The \$50,000 initial payment lacked an
3 itemized receipt but was supported with a Company credit card receipt and was
4 approved within the OnePay system by the EOP Staging Site Manager's direct
5 supervisor. The remaining payments of \$1.95 million were validated and approved
6 by other members of management. Moreover, in most instances the remaining
7 \$1.95 million of payments were supported by documentation confirming the
8 number of meals and services received.

9 In addition, Mr. Nalepa misstated a catering expense of \$3.4 million as
10 having "no supporting documentation." That is not true. As stated on page 9 of
11 the Audit, Audit Services noted "a lack of *complete* documentation;" however, the
12 invoice from that caterer had sufficient supporting documentation to determine that
13 the expenses were valid and appropriate. Specifically, the invoice was supported
14 by an original proposal with itemized descriptions of the meals and related services
15 to be provided and there were email communications from CNP management
16 during the Hurricane Harvey EOP response effort requesting that the caterer
17 provide items identified in the original proposal.

18 Mr. Nalepa states that a third invoice of \$957,344 had "inconsistently
19 applied contract rates and lacked documentation on a portion of the expenses." But,
20 as stated on page 9 of the Audit, of the total \$957,344, only \$68,550 did not have
21 adequate supporting documentation due to contract rates being inconsistently
22 applied to this portion of the payment. Therefore, it is not reasonable to exclude

1 the entire amount of this particular invoice from the Hurricane Harvey storm
2 restoration costs. At most, only \$68,550 should be excluded.

3 Mr. Nalepa states that “vendor agreements” for a \$1.52 million invoice were
4 not signed when the services were rendered by the vendor. That is not accurate.
5 Vendor agreements were signed; however, related daily vendor delivery
6 confirmation forms (referred to as daily vendor agreement forms) were not signed
7 on the same day that services were rendered. These delivery confirmation forms,
8 which are merely to acknowledge receipt of the catered meals, were signed by
9 individuals with knowledge of the services rendered while the restoration efforts
10 were still ongoing. On this record, it would be unreasonable to exclude any portion
11 of this \$1.52 million invoice.

12 **EOP OnePay Expenses**

13 Although five invoices totaling \$128,283 lacked *complete* itemized documentation,
14 Audit Services was able to validate the expense by (i) reviewing the Company
15 credit card receipt documented in the OnePay system, (ii) confirming that the
16 services provided by these vendors were relevant to the Hurricane Harvey storm
17 restoration efforts, and (iii) confirming that the services provided were approved by
18 each individual’s manager. This is sufficient documentation to confirm the charges
19 were valid and appropriate and should therefore remain in the Hurricane Harvey
20 regulatory asset.

1 **Q. ARE THERE OTHER FACTORS THAT INFORM THE**
2 **REASONABLENESS OF THE HURRICANE HARVEY STORM**
3 **RESTORATION EXPENSES?**

4 A. Yes. It is important to keep in mind the context in which the expenses were
5 incurred—namely, in response to a crisis situation where the primary focus is on
6 restoring power to our customers as quickly and safely as possible. Despite a
7 thorough and thoughtful planning process, decisions must sometimes be made
8 quickly in the EOP context—for example, to provide meals to crews actively
9 engaged in storm restoration efforts—and it is not reasonable to expect that every
10 piece of documentation that you might have under “business as usual”
11 circumstances will be obtained within this shortened timeframe. The many levels
12 of review both during and after Hurricane Harvey served to ensure that by and large
13 only valid and appropriate costs were recorded. Audit Services did not identify any
14 expenses that had no documentation and was able to conclude that, in the vast
15 majority of cases, the expenses incurred were valid, appropriate, and logical based
16 on available documentation.

17 **Q. UPON FURTHER REVIEW, ARE THERE ANY ITEMS WITH WHICH**
18 **YOU AGREE WITH MR. NALEPA SHOULD BE EXCLUDED?**

19 A. Yes. Upon further review, we agree that \$3,496 of hotel invoices with unresolved
20 discrepancies should be excluded from the requested amount of storm restoration
21 costs. Additionally, we agree that \$5,937 of hotel occupancy taxes were charged
22 and paid even though these had been suspended by the Governor during the
23 Hurricane Harvey relief efforts, and should be removed. Lastly, the \$68,550

1 described above related to catering expenses with inconsistent contract rate
2 documentation should be removed.

3 **Q. MR. NALEPA EXTRAPOLATES OR “GROSSES UP” THE AUDIT**
4 **FINDINGS TO ARRIVE AT A TOTAL AMOUNT HE CLAIMS SHOULD**
5 **BE EXCLUDED. DO YOU AGREE WITH THAT? IF NOT, PLEASE**
6 **EXPLAIN.**

7 A. No. Extrapolation or “gross up” is not appropriate in this case. Extrapolation is
8 performed only when a statistical sample is reviewed. The sample transactions
9 reviewed by Audit Services were not selected statistically, but rather non-
10 statistically, using a form of non-statistical sampling called judgmental sampling
11 with the objective of providing risk-based assurance that expenses were valid and
12 appropriate.

13 Per the Institute of Internal Auditors Practice Advisory 2320-3 (Audit
14 Sampling), “In forming an audit opinion or conclusion, auditors frequently do not
15 examine all available information, as it may be impractical and valid conclusions
16 can be reached using audit sampling. When using statistical or non-statistical
17 sampling methods, the auditor should design and select an audit sample, perform
18 audit procedures, and evaluate sample results to obtain sufficient, reliable, relevant,
19 and useful audit evidence.”

20 The non-statistical methodology used to test the cost categories selected for
21 the Hurricane Harvey EOP expense review focused on (i) testing to ensure the
22 invoice/cost validation process functioned as designed, and (ii) maximizing the
23 number of large invoices selected while still testing some smaller invoices.

1 Statistical sampling, by contrast, is typically used in populations with voluminous
2 transactions sharing *uniform* attributes. Testing in that circumstance is focused on
3 identifying compliance with a specific set of attributes or established criteria, and
4 any exceptions identified are straightforward and can be extrapolated to the entire
5 population. Statistical sampling was not utilized in this Audit due to the limited
6 number of transactions in certain of the cost categories, as well as the non-uniform
7 nature of the expenses—i.e. hotels, catering, etc., which required judgment to be
8 applied in selecting the sample of transactions to be tested and evaluating the
9 appropriateness of the expense and the related documentation.

10 As stated earlier, the objective of the Audit was to provide additional
11 assurance that Hurricane Harvey storm restoration costs were reasonable and
12 adequately supported, not to specifically identify a dollar value or error rate of any
13 exceptions. For this reason, Mr. Nalepa's proposed recommendation to
14 "extrapolate" any audit findings in the Hurricane Harvey EOP expense review is
15 not appropriate. Finally, it is important to keep in mind that although minor
16 exceptions were noted during the Audit primarily related to inconsistent or
17 incomplete documentation, in the vast majority of cases, the existing
18 documentation was adequate to provide a reasonable justification for the
19 expenditure.

20 IV. CONCLUSION

21 Q. OVERALL, WHAT DO YOU RECOMMEND?

22 A. I recommend that the requested amount of Hurricane Harvey storm restoration
23 expenses be recovered, less the three amounts described above for hotel occupancy
24 taxes, unresolved hotel invoice discrepancies, and catering expenses in the amount

1 of \$5,937, \$3,496 and \$68,550, respectively, for a total of \$77,983. To disallow
 2 expenses solely because there was a lack of 100% complete documentation is not
 3 reasonable, particularly where the Audit, which concerned expenses incurred by
 4 CenterPoint Houston in responding to a community crisis, showed that sufficient
 5 documentation was available to confirm the validity and appropriateness of the vast
 6 majority of the reviewed expenses, and that established expense control processes
 7 were followed.

8 As is typical in most audits, there are improvement opportunities noted that
 9 will strengthen the control environment and increase efficiency of the overall
 10 process. CenterPoint Houston has a very comprehensive system of processes and
 11 controls in place to capture and accurately report storm-related costs, as has been
 12 demonstrated in past proceedings, particularly Hurricane Ike. With each storm,
 13 lessons learned are studied and incorporated into existing processes to enhance the
 14 overall effort.

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

16 **A. Yes.**

STATE OF TEXAS §

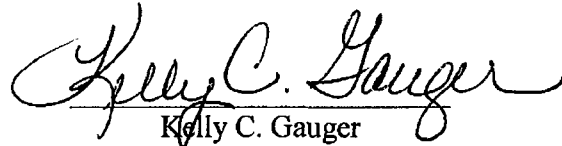
COUNTY OF HARRIS §

AFFIDAVIT OF KELLY C. GAUGER

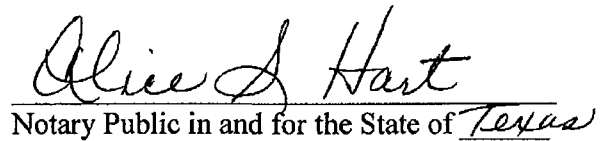
BEFORE ME, the undersigned authority, on this day personally appeared Kelly C. Gauger who having been placed under oath by me did depose as follows:

1. "My name is Kelly C. Gauger. 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.


Kelly C. Gauger

SUBSCRIBED AND SWORN TO BEFORE ME on this 19th day of June, 2019.


Notary Public in and for the State of Texas

My commission expires: 07/17/2019

