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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

GEORGE C. SANGER

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

June 19, 2019

597

TABLE OF CONTENTS

REBUTTAL TESTIMONY OF GEORGE C. SANGER

I. INTRODUCTION

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

A. My name is George Sanger and I am an Associate Partner in the Retirement and Investments Consulting practice with Aon Consulting ("Aon"), a global human capital consulting firm. I have been the lead actuary for the CenterPoint Energy, Inc. ("CNP") plans as further detailed below for 15 years. My business address is 9500 Lakeside Boulevard, The Woodlands, Texas 77381.

Q. WHAT SERVICES DOES AON PROVIDE FOR CNP?

A. Aon provides actuarial services for CNP including the CNP Retirement Plan ("Pension Plan"), which provides pension benefits, and the CNP Postretirement Medical Plan ("PRM"), which provides retiree medical benefits.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND BUSINESS EXPERIENCE.

A. I earned a Bachelor of Science degree in mathematics with an actuarial science concentration from the University of Texas at Austin. I am a Fellow of the Society of Actuaries and an Enrolled Actuary for the Joint Board for the Enrollment of Actuaries, for which I am compliant with continuing education requirements. I have been employed by Aon and its predecessor companies since 1997. I joined the CNP account in 1998 and have provided actuarial services, including actuarial valuations and plan design consulting, for that entire period. Over my tenure at Aon, I have also provided actuarial services for additional utilities in Texas and Oregon.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN A REGULATORY PROCEEDING?

A. Yes. I testified in The Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas For Authority to Increase Rates for Natural Gas Utility Service in Minnesota, Docket No. G-8 008/GR-13-316; as well as; the Statement of Intent of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas to Increase Rates in the Houston Division and Texas Coast Division, GUD No. 10567.

Q. WAS THIS REBUTTAL TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes.

Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

A. I am presenting testimony on behalf of CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston" or the "Company") with regard to its request to include a Prepaid Pension Asset in rate base and its requested treatment of the Benefit Restoration Plan ("BRP") and Postretirement Regulatory Liability.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. In my rebuttal testimony, I demonstrate that the Prepaid Pension Asset should be added to the Company's rate base and refute comments by Lane Kollen that there would be a double-counting of return if the Prepaid Pension Asset is included in rate base. I also demonstrate that this treatment is the fair approach for both ratepayers and the Company. Finally, I refute that the Postretirement Regulatory

Liability should be subtracted from rate base and clarify points of confusion introduced by Mr. Kollen concerning the BRP/Postretirement Regulatory Liability.

Q. HOW DOES YOUR REBUTTAL TESTIMONY RELATE TO THE REBUTTAL TESTIMONY OF OTHER WITNESSES WHO ARE COVERING RELATED TOPICS?

A. References to the topics of the Pension Plan and PRM are also included in the direct and rebuttal testimonies of Company witness Kristie L. Colvin.

Q. DO YOU INCLUDE A GLOSSARY OF KEY PENSION TERMINOLOGY REFERENCED IN YOUR REBUTTAL TESTIMONY?

A. Yes. Please refer to the appendix at the end of my rebuttal testimony for brief definitions of pension terminology used in my testimony.

II. PREPAID PENSION ASSET

Q. WHAT IS THE PREPAID PENSION ASSET?

A. The Prepaid Pension Asset is defined to be the accumulation of past plan Contributions minus the accumulation of Pension Expense recorded over the same period.

Q. HAS THE DEFINITION OF PREPAID PENSION ASSET AND ITS RELATED CALCULATION CHANGED OVER THE YEARS?

A. No. Despite changes in pension disclosure requirements and balance sheet recognition over the past years, the Prepaid Pension Asset has always been computed as the accumulation of Contributions less the accumulation of Pension Expense. To elaborate on that a little further, prior to 2006, the Prepaid Pension Asset was directly disclosed in CNP's financial statements; however, beginning in

2006, after related disclosure requirements were reorganized,[1] this amount was no longer required to be disclosed.

Q. IF THE VALUE OF THE PREPAID PENSION ASSET IS NOT DISCLOSED, HOW IS THAT VALUE KNOWN?

A. Aon includes the Prepaid Pension Asset amount in the certified annual reports provided to the Company.

Q. WHAT IS THE BASIS OF THE COMPANY'S REQUEST FOR ADDING THE PREPAID PENSION ASSET TO RATE BASE?

A. The fact that Contributions have exceeded Pension Expense is the basis of the Company's requested inclusion in rate base. CNP, on behalf of the Company, has made significant prepayments to the Pension Plan prior to the recovery from ratepayers.

Q. WHY IS THE PREPAID PENSION ASSET DEFINITION THAT YOU CITED ABOVE DIFFERENT THAN THE CALCULATION REFERRED TO BY MR. KOLLEN?

A. There is an alternate method by which the Prepaid Pension Asset can be calculated; however, it may be confusing for those not as familiar with pension accounting and actuarial practice. The Prepaid Pension Asset can also be calculated by summing the Funded Status and the Accumulated Other Comprehensive Income ("AOCI") as described by Mr. Kollen in his direct testimony. Both methods result in the same mathematical outcome. Think of the Funded Status and AOCI as tracking two parts of the Prepaid Pension Asset. Beyond that, no further understanding of terminology

[1] SFAS 158 instituted several changes in disclosure and treatment of balance sheet liability but did not change either the calculation of Pension Expense nor the Prepaid Pension Asset.

such as Funded Status and AOCI is needed to understand the meaning of the Prepaid Pension Asset.

Q. MR. KOLLEN DISCUSSES OTHER BALANCE SHEET ITEMS WITH RESPECT TO THE PREPAID PENSION ASSET. IS THIS NECESSARY TO THE UNDERSTANDING OF THE PREPAID PENSION ASSET?

A. Certainly not. Mr. Kollen refers to balance sheet items such as shareholder equity and regulatory asset; however, these do not affect the value of the Prepaid Pension Asset.

Q. SHOULD THE PREPAID PENSION ASSET BE ADDED TO RATE BASE?

A. Yes. CNP, on behalf of the Company, has been required to pay Contributions to the Pension trusts well in advance of its cost recovery in rates.

Q. WOULD RETURN ON UNRECOGNIZED LOSSES BE DOUBLE-COUNTED IF THE PREPAID PENSION ASSET IS INCLUDED IN THE RATE BASE AS CLAIMED BY MR. KOLLEN?[2]

A. No. Mr. Kollen is needlessly complicating this issue. When CNP, on behalf of the Company, contributes to the pension plan, Unrecognized Loss is not impacted. Unrecognized Loss occurs when Plan experience differs from actuarial assumptions, such as asset return or rates of retirements differing from expectations. This experience is not immediately recognized in Pension Expense but is instead deferred ("Unrecognized or Unrealized") and amortized into future Pension Expense over several years. The Unrecognized Loss will be the same regardless of the magnitude of the Contributions that are made to the Plan. Subsequently, the

[2] Direct Testimony of Lane Kollen at 19, lines 3-5.

amortization of Unrecognized Loss in Pension Expense is unaffected by the prepayment of Contributions. There would be no double-counting of return on the prepaid Contributions.

Q. DO YOU AGREE WITH THE AMOUNT OF THE PREPAID PENSION ASSET INCLUDED IN MR. KOLLEN'S DIRECT TESTIMONY?

A. Yes, I agree that $170.369 million is the Prepaid Pension Asset as of December 31, 2018. Aon, the Plan's actuary, calculates this amount and provides it to the Company on an annual basis. For instance, the December 31, 2018 Prepaid Pension Asset can be found on page 8 of the Aon 2018 Retirement Plan Actuarial Valuation Report (CNP Retirement Plan AV 2018.pdf (confidential)), as provided with the Company's rate filing package. The Retirement Plan Actuarial Valuation Report also displays the changes in the Prepaid Pension Asset during 2018 due to Contributions and Pension Expense recorded in 2018.

Q. WHY HAVE CONTRIBUTIONS TO THE PENSION PLAN EXCEEDED PENSION EXPENSE?

A. U.S. Federal law, namely the Employee Retirement Income Security Act of 1974 (ERISA), defines the minimum amount of Contributions that companies must make to their U.S. pension plans. Minimum required Contributions are not based on Pension Expense but are instead determined based upon a separate set of rules that are designed to rapidly fund underfunded pension plans. For the Company, these required Contributions have exceeded the Pension Expense, due to requirements to fund the plan with cash faster than the Pension Expense accruals as calculated under Accounting Standards Codification (ASC) Topic 715.[3]

Q. MR. KOLLEN ALLEGES THE COMPANY IS NOT CHARGED A RETURN BY CNP. IS THAT RELEVANT TO WHETHER THE COMPANY SHOULD BE PERMITTED TO INCLUDE THE PREPAID PENSION ASSET IN RATE BASE?

A. No. Even though the Company is not "charged" a return by CNP, the Company has been penalized for prepayments to the Pension Plan. CNP has been obligated by federal law to prepay cash to the Pension Plan in advance of cost recovery. Essentially, CNP has been forced to make a loan to the Pension Plan. The loan is forced to be interest-free. The resulting earnings on the prepayment amount in the Plan's trust serves to reduce both Pension Expense and related cost recovery.[4] There is no net profit impact for the Company. The return the Company would have earned from prepaid Contributions is instead offset by a reduction in cost recovery. Without compensatory return on the Prepaid Pension Asset in rate base, the Company experiences the negative consequences of forgoing a return on cash paid into the pension trust without experiencing the corresponding benefit that results from including the Prepaid Pension Asset in rate base.

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[3] ASC 715 is the accounting standard issued by the Financial Accounting Standards Board which includes the Generally Accepted Accounting Principles that apply to pension and postretirement medical plans.

[4] One component of Pension Expense is expected return on assets. In fact, this reduces Pension Expense because expected return on plan assets offsets other Pension Expense components. Contributions to the plan increase plan assets and therefore increase the expected return on assets. This reduces Pension Expense. Cost recovery is reduced because cost recovery is based on Pension Expense.

Q. IS INCLUSION OF THE PREPAID PENSION ASSET IN RATE BASE FAIR TO BOTH RATEPAYERS AND THE COMPANY?

A. Yes. First, consider the hypothetical case where Contributions always equal Pension Expense (and therefore cost recovery). In this case, there would never be a Prepaid Pension Asset. Cost recovery is passed directly to the Pension Plan, thereby reducing subsequent Pension Expense and cost recovery with the expected asset return on the Contributions. There is neither a windfall nor a detriment to the Company or the ratepayers.

On the other hand, when CNP, on behalf of the Company, is required to make additional Contributions in excess of Pension Expense, as is currently the case, a Prepaid Pension Asset is established. If the Prepaid Pension Asset is not added to rate base, ratepayers benefit from asset return on capital that was not yet provided by ratepayers, because the Pension Expense is reduced by expected return on *all* plan assets, including the prepaid Contributions. This outcome is unfair to the Company. In this case, inclusion of the Prepaid Pension Asset in rate base ensures the Company earns a return on the prepaid portion of plan assets during the time periods in which a Prepaid Pension Asset exists.

Q. HOW DO YOU RESPOND TO MR. KOLLEN'S TESTIMONY THAT THE COMPANY HAS NOT PREVIOUSLY REQUESTED INCLUSION OF THE PREPAID PENSION ASSET IN RATE BASE?[5]

A. Mr. Kollen's testimony is not relevant on this point. Whether the Company previously requested this treatment in the past does not change the fact that

[5] Direct Testimony of Lane Kollen at 18, lines 5-6.

inclusion of the Prepaid Pension Asset in rate base is appropriate in this proceeding. In addition, the Company is not seeking uncollected return on the Prepaid Pension Asset prior to December 31, 2018.

III. ACCRUED POSTRETIREMENT COST

Q. WHAT IS THE ACCRUED POSTRETIREMENT COST?

A. Similar to the calculation of the Prepaid *Pension* Asset, a Prepaid *Postretirement* Asset is the accumulated PRM Contributions less accumulated PRM Expense. If this result is a negative number, representing accumulated expense in excess of accumulated Contributions, then this amount is called the Accrued Postretirement Cost.

Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDATION THAT THE $146.689 MILLION "POSTRETIREMENT BENEFIT REGULATORY LIABILITY" AS OF DECEMBER 31, 2018 BE SUBTRACTED FROM RATE BASE IF THE PREPAID PENSION ASSET IS ADDED TO RATE BASE?[6]

A. No. For clarity, in Mr. Kollen's direct testimony, the $146.689 million Accrued Postretirement Cost is incorrectly referred to as the postretirement benefit regulatory liability or the $146.689 million regulatory liability. As explained below, for the Company PRM, the Accrued Postretirement Cost consists of items that have not, and will not, be recovered in rates. The Company's rate base should not be reduced by an Accrued Postretirement Cost that has not been recovered in rates. There is no ratepayer prepayment in this case. Only if the Company seeks

[6] Direct Testimony of Lane Kollen at 27, lines 8-10.

recovery of these amounts and that request is approved, at that point, it would be appropriate to exclude these items from rate base.

Q. HOW DO YOU DETERMINE WHETHER THESE PREPAID ASSETS AND ACCRUED COSTS SHOULD BE INCLUDED IN RATE BASE?

A. The key is whether the Contributions to these plans have been paid prior to recovery from ratepayers, or, conversely, whether ratepayers have paid the Company prior to the Contribution of those amounts into the plans.

Q. PLEASE EXPLAIN WHY THE PREPAID PENSION ASSET SHOULD BE ADDED TO RATE BASE, WHILE THE ACCRUED POSTRETIREMENT COST SHOULD NOT BE SUBTRACTED FROM RATE BASE.

A. As discussed above in my testimony as relates to the Pension Plan, the Contributions have been paid to the Pension Plan well in advance of Pension Expense. These prepaid contributions will be recovered from ratepayers in the future.

As relates to PRM, the Company recovers PRM Expense in rates and directly contributes amounts recovered through rates into the PRM trusts.[7] There is no prepayment by ratepayers or the Company.

Q. WHAT DOES THE COMPANY'S ACCRUED POSTRETIREMENT COST REPRESENT?

A. The Accrued Postretirement Cost consists of (1) PRM Expense that was accrued but unrecovered prior to the establishment of the PRM trusts in 1995. In other words, PRM costs recovered in rates was less than PRM expenses incurred for these

[7] There are no federal requirements to pre-fund retiree medical benefits, but it is allowed. The Company established irrevocable external postretirement medical trusts on December 1, 1995 to pre-fund future Company postretirement medical benefits as required by 16 Tex. Admin. Code § 25.231(b)(1)(II)(v).

years. (2) one-time, non-expense adjustments for government PRM subsidies and (3) one-time corporate transactions related to electricity deregulation in Texas, as required under ASC 715. These events are unique to the PRM. These components were not recovered from ratepayers and the Company has not requested such recovery.

Q. WILL THE ACCRUED POSTRETIREMENT COST BE RECOVERED FROM RATEPAYERS IN THE FUTURE?

A. No. Because cost recovery is now based on PRM expense and amounts recovered through rates are directly contributed to the already established PRM trusts, there will be no resulting future prepayment. Any existing Accrued Postretirement Cost will not be recovered unless the Company explicitly seeks its recovery and is approved for such. The Company has not included this request in this rate proceeding.

IV. BRP PENSION AND POSTRETIREMENT REGULATORY LIABILITY

Q. SHOULD RATE BASE BE REDUCED BY THE $68.522 MILLION BRP PENSION AND POSTRETIREMENT REGULATORY LIABILITY AS ARGUED BY MR. KOLLEN?

A. No. There appears to be confusion by Mr. Kollen on what this amount is. In my testimony, I clarify what this amount is and why it should not be subtracted from rate base.

Q. WHAT DOES THE $68.522 MILLION REPRESENT?

A. The $68.522 million represents the negative $69.297 million unrecognized gain associated with the PRM, netted with the positive $0.744 million unrecognized loss associated with the Deferred Compensation Plan ("DCP") as of December 31,

2018. The BRP is not part of this calculation. Furthermore, the $0.744 million is not a component of the PRM. Therefore, we should focus solely on the $69.297 million unrecognized gain for the PRM.

Q. SHOULD THE $69.297 MILLION BE SUBTRACTED FROM RATE BASE?

A. No. Determining the rate base treatment of the $69.297 million is redundant, because it is already a part of the $146.689 million Accrued Postretirement Cost previously discussed. This is illustrated in the Retiree Medical Actuarial Report (CNP Postretirement AV 2018.pdf (confidential)) on page 39 of 75 as provided in the Company's rate filing package. For ease of reference, I have included a snapshot of the relevant page below:

Accounting Requirements—Postretirement Medical and Life Plan

Assets: 12/31/2018

Reconciliation of ASC 715 Funded Status as of December 31, 2018 (000s)

[redacted]

Division		Cost Center	Accumulated Postretirement Benefit Obligation 12/31/2018	Plan Assets	Funded Status	Unrecognized Prior Service Cost	Unrecognized Net Loss (Gain)	Transition Obligation	(Accrued) Prepaid Postretirement Cost
003A	CE Houston Electric	101452	$ (176,645)	$ 99,253	$ (77,392)	$ (52,680)	$ (16,617)	$ 0	$ (146,689)

Sum = $69.297 million

Furthermore, for the same reason the unrealized losses of $370.442 million in the Pension Plan are not being advocated by Mr. Kollen or the Company to be added to rate base, the unrealized gains of $69.297 million in the PRM should not be subtracted from the rate base.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

APPENDIX – TERMINOLOGY USED IN THIS TESTIMONY

Accumulated Other Comprehensive Income (AOCI)

The AOCI is a balance sheet item and is an adjustment to shareholder equity that is equal to the plan's accumulated unrecognized loss plus the accumulated unrecognized prior service cost. Unrecognized losses and prior service costs resulting from increases in plan cost result in a reduction to shareholder equity. Unrecognized gains and prior service costs resulting from decreases in plan cost result in an increase to shareholder equity.

Contributions

Under U.S. federal law (the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 as subsequently amended), benefits paid from a tax-qualified pension plan are required to be funded by an irrevocable and dedicated trust. These laws specify the minimum amounts companies must contribute to the trust. The plan's actuary calculates these minimum required Contributions using a set of rules that is not dependent on Pension Expense.

While the objective of Pension Expense is equitable allocation of future benefit costs to periods of active employment as well as financial user comparability, minimum required Contributions target rapid funding of currently unfunded pension obligations on behalf of plan participants. Also, while Pension Expense may become negative, Contributions may be no less than zero, or more practically, Contributions may not be returned to the company until every benefit owed by the Plan is paid. Even in that case, significant excise tax applies to any surplus reverted to the company.

Funded Status

The Funded Status compares plan assets to the Projected Benefit Obligation. This is performed as of a measurement date, which is typically at the end of each fiscal year. This represents the balance sheet liability for the plan.

Pension Expense

The Pension Expense is the allocation of pension benefit costs to the current fiscal year on a company's financial income statement. Even though pension benefits are payable after termination from employment, Pension Expense is mostly accrued during an employee's active tenure so that it aligns with other compensation costs of the employee. Plan experience that differs from actuarial assumptions is not immediately recognized and is instead amortized to reduce annual volatility. Pension Expense is calculated by the plan's actuary.

Pension Expense is determined on an annual basis and consists of the following components:

Service Cost: Present value of the incremental pension benefits earned by employees during the fiscal year

Plus: Interest Cost: Interest on the Projected Benefit Obligation during the fiscal year. The interest rate used in the calculation of the Interest Cost is based on the discount rate used to determine the Projected Benefit Obligation.

Less: Expected Return on Plan Assets: Expected return on plan assets during the fiscal year based on long-term plan asset return expectations.

Plus: Amortization of Unrecognized Loss: Losses resulting from plan experience differing from actuarial assumptions as well as assumption changes are not immediately recognized in Pension Expense. Instead, only a portion of accumulated Unrecognized Loss is included in the Pension Expense during the fiscal year based on amortization periods specified by the accounting standard. A plan may experience gains as well as losses. If a plan has accumulated more gains than losses, then this component is a reduction to expense.

Plus: Amortization of Unrecognized Prior Service Cost: The impact of plan changes is not immediately recognized in expense. Instead, only a portion of Unrecognized Prior Service Cost is amortized and included in Pension Expense each fiscal year until the prior service cost is fully recognized. A plan change may reduce plan costs, and in this case, the amortization of prior service cost is a reduction to expense.

Certain events may accelerate recognition of expense including (1) curtailments resulting from a significant reduction in workforce or a significant reduction in pension accruals, or (2) significant settlement payments from the plan such as lump sum payments. These events have not been common for the Pension Plan.

Postretirement Medical Plan Expense

Postretirement Medical Plan Expense consists of the same components as Pension Expense calculated for the postretirement medical plan benefits.

Prepaid Pension Asset or Accrued Pension Cost

The Prepaid Pension Asset is the accumulation of Contributions to the plan less the accumulation of Pension Expense over the same period. While this amount is no longer required to be disclosed on the balance sheet, the Pension Plan's actuary develops it annually by adding the contributions and subtracting the expense for the fiscal year from the Prepaid Pension Asset that existed at the end of the prior year. The Prepaid Pension Asset is also mathematically equivalent to the sum of the Funded Status and the AOCI. If the Prepaid Pension Asset is a negative number, because accumulated Pension Expense has exceeded accumulated Contributions, it is called the Accrued Pension Cost instead. Many U.S. pension plans currently have a Prepaid Pension Asset because companies have funded losses that have occurred over the last twenty years at a faster rate than they have been required to be recognized in Pension Expense. These losses primarily occurred due to decreasing interest rates which increased the Projected Benefit Obligation, as well as the impact of recessions in 2001 and 2007-2009 on plan assets.

Prepaid Postretirement Asset or Accrued Postretirement Cost

The Prepaid Postretirement Asset is the accumulation of Contributions to the postretirement medical plan less the accumulation of Postretirement Expense over the same period. If the Prepaid Postretirement Asset is a negative number, because accumulated Postretirement Expense has exceeded accumulated Contributions, it is called the Accrued Postretirement Cost instead.

Projected Benefit Obligation

The Projected Benefit Obligation is the present value of accrued plan benefits.

Regulatory Asset

For rate-regulated companies, a regulatory asset offsets the impact of AOCI for balance sheet purposes because the AOCI is expected to be recovered in customer rates in later periods. However, this offset does not impact Pension Expense because it does not impact the amortizations of the accumulated unrecognized loss and prior service cost.

STATE OF Texas §
§
COUNTY OF Harris §

AFFIDAVIT OF GEORGE C. SANGER

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

1. "My name is George C. Sanger. 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.

George C. Sanger

SUBSCRIBED AND SWORN TO BEFORE ME on this 18th day of June, 2019.

Alice S. Hart

Notary Public in and for the State of Texas

My commission expires: 07/17/2019

ALICE S HART
Notary Public, State of Texas
My Commission Expires 07-17-2019