

Control Number: 49421



Item Number: 598

Addendum StartPage: 0

SOAH DOCKET NO. 473-19-3864

PUC DOCKET NO. 49421

2019 JUN 19 PM 2:15

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

BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE HEARINGS

REBUTTAL TESTIMONY

OF

JOHN R. HUDSON

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

June 2019

5918

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1                                   **REBUTTAL TESTIMONY OF JOHN HUDSON**

2                                   **I.    INTRODUCTION**

3    **Q.    PLEASE STATE YOUR NAME AND POSITION.**

4    A.    My name is John R. Hudson. I am Director of Market Operations for CenterPoint  
5           Energy Houston Electric, LLC (“CenterPoint Houston” or the “Company”).

6    **Q.    ARE YOU THE SAME JOHN R. HUDSON WHO SUBMITTED DIRECT**  
7           **TESTIMONY IN THIS PROCEEDING ON BEHALF OF CENTERPOINT**  
8           **HOUSTON?**

9    A.    Yes.

10   **Q.    WAS THIS REBUTTAL TESTIMONY PREPARED BY YOU OR UNDER**  
11          **YOUR DIRECT SUPERVISION?**

12   A.    Yes.

13                                   **II.   PURPOSE**

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

15   A.    This testimony rebuts the testimony of Office of Public Utility Counsel witness  
16          Karl Nalepa regarding the Company’s recovery of Smart Meter Texas (“SMT”)  
17          expenses. Specifically, Mr. Nalepa proposes reducing CenterPoint Houston’s  
18          recovery of SMT expenses by approximately \$256,000. These costs relate to  
19          change orders under the Joint Development and Operations Agreement (“JDOA”)  
20          and are based on the Company’s experience with large information technology  
21          (“IT”) projects. The JDOA provides that IBM can charge CenterPoint Houston for  
22          additional expenses for work outside of the scope contemplated under the contract.  
23          CenterPoint Houston is required to participate in the SMT portal, and is not in a  
24          position to change the contract or limit the work performed by IBM. These costs

are reasonable and necessary costs associated with CenterPoint Houston's participation in the development and operation of the SMT portal.

### **III. CENTERPOINT HOUSTON'S SMT COSTS**

**Q. WHAT TYPES OF EXPENSES DOES CENTERPOINT HOUSTON INCUR RELATED TO SMT?**

A. The vast majority of expenses that CenterPoint Houston incurs related to the development and operation of SMT are related to the various contracts or service agreements it has to develop, operate, and maintain the portal. One of the primary contracts with IBM is for hosting SMT 2.0, to which Oncor Electric Delivery Company, AEP Texas, and Texas-New Mexico Power Company are also parties. The parameters for the SMT 2.0 portal are set by the Public Utility Commission of Texas ("Commission") and were most recently established as the result of a contested proceeding in Docket No. 47472. Under the hosting contract, there are set amounts to be charged to the participating utilities on a yearly basis. Another IBM contract covers the maintenance of the Oracle software used for the portal. However, the hosting and maintenance contracts also allow for change requests in the event there is required work outside of the set scope within the contract. There are also smaller maintenance and professional services contracts or arrangements, pursuant to which CenterPoint Houston incurs costs.

**Q. WHAT EXPENSES DID CENTERPOINT HOUSTON REQUEST TO RECOVER ASSOCIATED WITH THE SMT PORTAL?**

A. CenterPoint Houston seeks to recover all of its costs associated with the various contracts and service agreements as well as a small amount of expenses associated

1 with employee travel and meals incurred related to the development, deployment,  
2 and operation of SMT 2.0.

3 **Q. WHY WAS IT APPROPRIATE FOR CENTERPOINT HOUSTON TO**  
4 **RECOVER COSTS ASSOCIATED WITH CHANGE REQUESTS?**

5 A. These costs are based on the expenses CenterPoint Houston believes it will incur  
6 because of explicit language in the IBM contracts that allow for change requests,  
7 and based on our experience with large IT projects. Large IT projects, like the SMT  
8 2.0 rebuild are complicated and there are invariably unforeseen issues that have to  
9 be addressed. IT companies such as IBM know this, and include a change request  
10 contract provision that contemplates additional charges for any expanded work or  
11 work outside of the scope of the contract.

12 **Q. IS MR. NALEPA CORRECT THAT CENTERPOINT HOUSTON SHOULD**  
13 **NOT BE ALLOWED TO RECOVER THESE COSTS?**

14 A. No. The costs that CenterPoint Houston seeks to recover are for change requests  
15 that will occur under the contracts. Based on CenterPoint Houston's experience  
16 administering the large IT projects, these change orders will undoubtedly occur  
17 going forward. In addition, these will be costs that CenterPoint Houston cannot  
18 avoid given that it is required to participate in the SMT 2.0 portal and be a party to  
19 the IBM contracts.

1   **Q.    ARE THE COSTS THAT CENTERPOINT HOUSTON HAS REQUESTED**  
2       **TO RECOVER RELATED TO THE OVERSIGHT OF THE JDOA AND**  
3       **SMT PORTAL REASONABLE AND NECESSARY?**

4   **A.**    Yes. These costs are necessary to implement a program that is required by the  
5       Commission. These costs are reasonable and necessary and the Commission should  
6       reject Mr. Nalepa's proposed reduction to the Company's requested recovery, and  
7       approve CenterPoint Houston's full requested amount.

8   **IV. CONCLUSION**

9   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

10  **A.**    Yes.


STATE OF TEXAS       §  
                                  §  
COUNTY OF HARRIS   §

**AFFIDAVIT OF JOHN R. HUDSON**

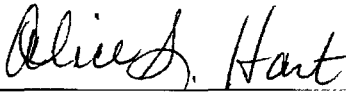
BEFORE ME, the undersigned authority, on this day personally appeared John R. Hudson who having been placed under oath by me did depose as follows:

1.     “My name is John R. Hudson. 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.

  
John R. Hudson

SUBSCRIBED AND SWORN TO BEFORE ME on this 17<sup>th</sup> day of June, 2019.

  
Notary Public in and for the State of Texas

My commission expires: 07-17-2019

