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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

ELLEN LAPSON

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

June 2019

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	**Meaning**
Cash Flow Leverage Metrics	Ratios used by credit rating agencies to assess debt leverage by comparison of the level of debt and debt-like liabilities with a measure of operating cash flow, FFO, or EBITDA. These include among others such ratios as: FFO/Total Debt; CFO pre WC/Debt; Debt/EBITDA or Lease-Adjusted Debt/ EBITDAR
CenterPoint Houston	CenterPoint Energy Houston Electric, LLC
CFO	Cash flow from operations derived from the statement of cash flows (S&P and Moody's); the base upon which Moody's calculates CFO pre-WC
CFO pre WC	Cash flow from operations as derived from the statement of cash flows, but excluding changes in short-term working capital accounts (Moody's)
CFO pre WC/Debt	Ratio of Cash from Operations Pre-Working Capital to Total Debt (Moody's)
CFO pre WC -Dividends/Debt	Ratio of Cash from Operations Pre-Working Capital minus Dividends to Total Debt (Moody's)
CNP	CenterPoint Energy, Inc.
Commission	Public Utility Commission of Texas
Company	CenterPoint Energy Houston Electric, LLC (also CenterPoint Houston)
CRA	Credit rating agency or credit rating agencies
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
EBITDAR	Earnings Before Interest, Taxes, Depreciation, Amortization and Lease Rental Expense (Fitch)
EFH	Energy Future Holdings Corporation, formerly owner of Oncor

Acronym/Defined Term	Meaning
FFO Adjusted Leverage (Fitch)	(Debt adjusted for leases) divided by (Operating Cash Flow plus Interest Expense, adjusted for lease rentals) (a Fitch level ratio)
Fitch	Fitch Ratings
Free Cash Flow	CFO pre WC less capital expenditures and dividends paid (Fitch)
LDC	Gas distribution utility company
LBO	Leveraged Buyout
LT Debt	Long-Term Debt
Moody's	Moody's Investors Service
Oncor	Oncor Electric Delivery, LLC
ROE	Return on Equity
S&P	Standard & Poor's
SACP	Stand-alone credit profile (a partial component of S&P's final credit rating of entities that are subsidiary companies and whose formal ratings are produced using S&P's consolidated rating methodology)
TCJA	Tax Cuts and Jobs Act of 2017
TDU	Transmission and distribution utility

REBUTTAL TESTIMONY OF ELLEN LAPSON

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ellen Lapson, CFA. My business address is 370 Riverside Drive, New York, New York 10025.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the founder and principal of Lapson Advisory, a private company that is a division of Trade Resources Analytics, LLC. Through Lapson Advisory, I provide independent consulting services relating to the financial strength of utilities and infrastructure companies. I advise client companies on access to capital and debt markets. I frequently testify as an expert witness relating to utility finance and utility capital market matters. Also, I develop and teach executive seminars and professional training about utility investment analysis, credit evaluation, and corporate finance.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I am a Chartered Financial Analyst ("CFA") and earned a Master of Business Administration from New York University (Stern School of Business) with a specialization in Accounting. I have worked in the capital markets with particular focus on financing or analyzing the finances of regulated public utilities for the past 49 years. The list of my professional qualifications appears in Exhibit R-EL-1.

Q. **WHAT IS YOUR ROLE IN THIS PROCEEDING?**

A. I am appearing as a rebuttal witness on behalf of CenterPoint Energy Houston Electric LLC ("CenterPoint Houston" or "Company") as a financial expert, specifically on the topics of financial strength and integrity, capital structure, and the appropriate type and forms of intercompany separation and legal and financial protections.

Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS ("COMMISSION") OR OTHER UTILITY REGULATORY COMMISSIONS?**

A. Yes. I have filed written testimony before this Commission in the following proceedings:

- *Joint Application of Oncor Electric Distribution LLC, Sharyland Distribution & Services, LLC, Sharyland Utilities LP, and Sempra Energy for Regulatory Approvals,* Docket No. 48929, on behalf of Sharyland Utilities LP;
- *Application of Texas-New Mexico Power to Change Retail Rates,* Docket No. 48401, on behalf of TNMP;
- *Application of Entergy Texas, Inc. to Change Retail Rates,* Docket No. 48371, on behalf of Entergy Texas, Inc.;
- *Application of Southwestern Public Service for Authority to Change Rates*, Docket No. 47527, in Supplemental Direct Testimony on behalf of Southwestern Public Service Co.;
- *Application of Oncor Electric Delivery LLC for Authority to Change Rates*, Docket No. 46957, on behalf of Oncor; and
- *Application of Entergy Texas, Inc. to Amend its Certificate of Convenience and Necessity to Construct Montgomery County Power Station in Montgomery County*, Docket No. 46416, on behalf of Entergy Texas, Inc.

I have also provided testimony as a financial expert in other state jurisdictions and at the Federal Energy Regulatory Commission since founding Lapson Advisory in 2012, as summarized in Exhibit R-EL-1.

Q. PLEASE EXPLAIN THE BASIS FOR YOUR EXPERTISE IN MATTERS RELATING TO UTILITY FINANCIAL STRENGTH AND FLEXIBILITY AND CAPITAL STRUCTURE.

A. Before founding Lapson Advisory in January 2012, I was a Managing Director and prior to that a Senior Director of a credit analysis and ratings team at Fitch Ratings ("Fitch"), a prominent credit rating agency ("CRA") in the U.S. market. The group established and maintained the credit ratings of investor-owned electric, gas, and water utilities. For seventeen years in those roles at Fitch, I performed credit evaluations and supervised other analysts to rate hundreds of electric, gas and water utilities. Also, I supervised and wrote the credit rating criteria applied in the investor-owned electric, gas, and water sector including utility ring-fencing criteria. While at Fitch, I was a member and then the committee chair of the Criteria Committee that oversaw Fitch's global corporate rating criteria, including its policies on the credit effects of corporate structure and financial credit ratios. I followed the credit criteria and policies of the two other large rating agencies, especially those relating to the utility sector.

Prior to joining Fitch Ratings, I was employed for 20 years from 1974 to 1994 in commercial banking and investment banking at a predecessor of J.P. Morgan, Inc. (Chemical Bank and Chemical Securities.) My specialty was structuring transactions for regulated utilities, utility holding companies, and project financed energy and natural resource projects, often including bankruptcy-remote special purpose funding entities, partnership structures, and limited liability companies.

Since founding Lapson Advisory, I have served as an expert witness in regulatory proceedings including rate cases in 2018 regarding the impact of the Tax Cut and Jobs Act ("TCJA") on utility cash flow and credit ratings. I have also been an expert witness in several merger proceedings of electric or gas utilities on the topic of financial protection and the effect of corporate structure and governance upon the utilities' future viability and financial strength.[1]

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. I will rebut the direct testimony of Texas Industrial Energy Consumers ("TIEC") witnesses Mr. Charles Griffey and Mr. Michael Gorman; Office of Public Utility Counsel ("OPUC") witness Ms. Anjuli Winker; Texas Coast Utilities Coalition ("TCUC") witness Mr. J. Randall Woolridge; and Commission Staff witnesses Mr. Jorge Ordonez and Mr. Darryl Tietjen.

In particular I will address issues with intervenor and Staff testimony, including:

- Messrs. Gorman, Griffey and Tietjen give a distorted picture of the effect of CenterPoint Houston's affiliation with its parent CenterPoint Energy Inc ("CNP") and overstate those risks;

[1] In this Rebuttal Testimony, the term "corporate" in the context of "corporate structure", "corporate separation", or "corporate group" refers not only to entities structured as corporations but also to partnerships, limited partnerships, limited liability companies ("LLCs"), and related forms of enterprise ownership.

- The exclusive reliance by Messrs. Gorman and Griffey on financial ratios and ratings of Standard & Poor's ("S&P") is misleading, and a more accurate picture of CenterPoint Houston's financial status is provided by examining the ratings and ratios of Moody's and Fitch Ratings.
- CenterPoint Houston currently has prudent financial protections, and there is appropriate corporate separation of CenterPoint Houston from its parent CNP and affiliates; and
- CenterPoint Houston's sound Moody's Invest Service ("Moody's") and Fitch credit ratings currently enable the utility to carry out its responsibilities to customers and provide reliable and safe service to the public. The capital structure recommendations of the witnesses Gorman, Woolridge and Ordonez combined with their low return on equity ("ROE") recommendations will undermine the Company's sound financial condition and access to long-term capital and cause CenterPoint Houston to revert to the weak credit status that it had in the past.

II. INTERCOMPANY RISKS AND CREDIT RATINGS

Q. WHAT ARE INTERCOMPANY RISKS?

A. As it has been discussed in this case, Mr. Griffey, Mr. Gorman, and Mr. Tietjen in their direct testimony to the potential risks of a subsidiary company due to ownership by a parent and its relationships with sister companies within the same ownership group. Intercompany risks could also relate to the risks for a parent of its relationship to its subsidiaries. Broadly speaking, the risks are of two sorts: (1) risks that the resources, assets, and business of a company will be diminished due to transfers of assets to related entities or that the company will become liable for the obligations of the related entities, impairing the company's ability to carry out its business; or (2) the possibility that the company will be drawn into bankruptcy with another related entity, even though the company itself is solvent. Mr. Griffey and Mr. Gorman use the term "affiliation risks" to refer to those risks.[2]

Q. IN WHAT CONTEXT ARE INTERCOMPANY RISKS CONSIDERED?

A. These risks are considered in the overall investment evaluation of a company. A credit ratings agency ("CRA") typically considers such risks in the evaluation of what credit rating to assign to a company. This evaluation determines whether or to what extent the rating assigned to a company is separate from the ratings of a parent or other companies in the corporate group.

Q. IN WHAT WAY DO MESSRS. GORMAN AND GRIFFEY ADDRESS SUCH INTERCOMPANY RISKS.

A. Mr. Gorman and Mr. Griffey assert that CenterPoint Houston's investment status is negatively affected by affiliation with its parent CenterPoint Energy Inc. ("CNP"). To support that point, their direct testimony draws almost exclusively upon evidence from the ratings of S&P, one of three CRAs that evaluate CenterPoint Houston, without giving proper attention to the ratings of two other agencies, Moody's Investors Service ("Moody's") and Fitch.

Q. HOW DOES STAFF WITNESS MR. TIETJEN APPROACH THE TOPIC OF INTERCOMPANY RISKS?

A. Mr. Tietjen asserts that CNP is a large corporation with several subsidiaries, and "to the degree that there are aspects of operational and financial intermingling or interdependency among the various entities, the effect of financial instability or

[2] In accounting the term "affiliate" refers to entities that are minority-owned or are not controlled by the owner. However, it can also be understood in the broader sense to refer to companies that have any intercompany relationships, including majority ownership and control.

weakness in one entity could affect not only CenterPoint as parent but other subsidiaries as well."[3]

Q. DO YOU AGREE WITH THE TIEC AND STAFF WITNESSES ON THESE POINTS?

A. No. The TIEC witnesses overstate the risks of CNP and the supposed adverse impacts of CenterPoint Houston's affiliation with CNP. Fixed income investors evaluate CenterPoint Houston on its's own financial strength, not based on the rating of its parent company. Both Moody's and Fitch rate CenterPoint Houston primarily on its separate financial condition; their current ratings of CenterPoint Houston do not reflect any addition or reduction of the rating due to affiliation with CNP. S&P ratings are quite different due to S&P's consolidated rating methodology. However, S&P's approach is unlikely to have affected the marketability or cost of CenterPoint Houston's debt, because: (1) two out of three CRAs are consistent in rating CenterPoint Houston at ratings of A3 and A-, both equivalent to A-; and (2) investors favor research on U.S rate-regulated utilities that focuses on the individual business and financial condition of the entities rather than a consolidated group approach.

Mr. Tietjen incorrectly states that CenterPoint Houston is affected by operational or financial intermingling. CenterPoint Houston's avoidance of such operational or financial intermingling is not through a mere coincidence, but through prudent management. CNP has in fact carefully managed its relationships with its subsidiaries in a manner to avoid the very type of operational and financial

[3] Direct Testimony of Darryl Tietjen at 5:17-6:13.

intermingling or interdependency among CenterPoint Houston and its sister companies and between the parent and CenterPoint Houston.

Q. IN WHAT WAY DO WITNESSES GORMAN, GRIFFEY, AND TIETJEN OVERSTATE CNP'S RISKINESS ?

A. In my opinion, these three witnesses place excessive focus on the recent transaction in which CNP acquired Vectren Corporation, a utility holding company in Indiana. Messrs. Gorman and Griffey mischaracterize the risks of the transaction to CNP (and to CenterPoint Houston by association).

For example, Gorman mischaracterizes the acquisition of Vectren a leveraged acquisition and errs in calculating the amount of leverage employed.[4] In fact, CNP issued concurrent offerings on October 1, 2018 of $1.9 billion of common stock and $0.978 billion of Depositary Shares representing interest in Series B Mandatory Convertible Preferred Stock (a form of equity).[5] Additionally, on August 22, 2018, CNP issued $800 million of Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock,[6] which received 50% equity credit from each of Moody's, Fitch and S&P.[7] As such, the aggregate amount of equity in the transaction funding is $3.2 billion, not $1.9 billion as Gorman

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[4] See Gorman Direct at 22:16-20 and at 27:10).

[5] Exhibit R-EL-2, Press release, "CenterPoint Energy Closes Concurrent Upsized Public Offerings of $2.8 Billion in Net Proceeds", October 1, 2018.

[6] Exhibit R-EL-2, Press release, "CenterPoint Energy announces closing of Series A Perpetual Preferred Stock Offering", August 22, 2018.

[7] Exhibit R-EL-2, Press release, "Moody's assigns Baa3 rating to CenterPoint Energy's Series A Preferred Stock, " August 14, 2018; Press release "Fitch Rates CenterPoint Energy's Series A Preferred Stock 'BB+'" August 14, 2018; S&P Press release "CenterPoint Energy Inc.'s $500 Million Preferred Stock Rated 'BBB', on CreditWatch Negative," August 14, 2018

incorrectly asserts.[8] Equity sources provide 53% of the equity purchase price, or [redacted] of the total transaction value, not 22.4%, as Gorman states. In fact, the leverage employed is roughly consistent with CNP's overall capital structure, not a "leveraged transaction" as Gorman asserts.

Further, Vectren is not a risky business. It is primarily comprised of utility businesses, including lower-risk gas distribution companies ("LDCs"). The Vectren merger diversifies CNP regulatory jurisdiction risk and increases stable utilities as a percentage of the total business portfolio, as is noted by all three CRAs in their reports on the Vectren merger.

Regarding the Vectren acquisition, Fitch says:

[redacted]

Moody's says:

[redacted]

[8] Gorman Direct at 22:16-20.

[9] Fitch Ratings, "CenterPoint Energy Inc," November 2, 2018. See CenterPoint Houston Rate Filing Package, Schedule II-C-2.10 (attachments).

[redacted]

Even S&P noted that the Vectren acquisition was favorable to business risk:

[redacted]

While the immediate result of the transaction and transaction funding was a credit downgrade of CNP of a single notch by Moody's and S&P and reaffirmation of the existing rating by Fitch, all three agencies continue to rate CNP at either BBB+ (S&P) or the equivalent of BBB (Moody's and Fitch). The facts do not support the opposing witnesses' claims that the transaction represents an unreasonable risk.

Q. DOES THE TERM "LEVERAGED ACQUISITION" OR "LEVERAGED BUY-OUT" HAVE A SPECIFIC MEANING IN THE FINANCIAL COMMUNITY?

A. Yes. A leveraged buy-out or LBO is the acquisition of another company using a significantly high amount of borrowed money, and the assets of the company being acquired are typically pledged as collateral for the loan. There may be a ratio as high as 90% debt to 10% equity employed in the acquisition. Because of the high debt-to-equity ratio, the bonds issued to fund the buy-out are typically not investment grade. The iconic leveraged acquisition in the electric utility industry

[10] Moody's Investors Service, "Moody's Downgrades CenterPoint Energy, Inc. to Baa2 with Stable Outlook", January 28, 2019. See CenterPoint Houston Rate Filing Package, Schedule II-C-2.10 (attachments).

[11] Standard & Poor's, "CenterPoint Energy Inc. and Subsidiaries Ratings Lowered to BBB from BBB+, Outlook Stable", February 1, 2019. See CenterPoint Houston Rate Filing Package, Schedule II-C-2.10 (attachments).

was the 2007 purchase of TXU Corp. by a consortium of private equity funds using $40 billion of debt financing to fund a $45 billion acquisition. If Messrs. Gorman and Tietjen mean to suggest any parallel between that transaction and the merger of CNP and Vectren earlier this year that is misplaced, there is no parallel.

Q. WHAT IS YOUR RESPONSE TO GORMAN AND GRIFFEY'S ASSERTION THAT CENTERPOINT HOUSTON'S INVESTMENT STATUS IS NEGATIVELY IMPACTED BY CNP?

A. I disagree with Gorman and Griffey's assertions. While it is the case that S&P's consolidated ratings analysis assigns a single combined issuer credit rating to CenterPoint Energy Inc. and CenterPoint Houston, Fitch and Moody's conduct an individual analysis of the Company which results in ratings for CenterPoint Houston that clearly distinguish between the utility subsidiary company and its parent company.

Mr. Gorman and Mr. Griffey several times note that CenterPoint Houston rating was downgraded in reaction to CNP's Vectren transaction.[12] However, Messrs. Gorman and Griffey are only referring to a single credit rating agency; only S&P's credit rating of CenterPoint Houston was downgraded. Two other agencies, Moody's and Fitch, did not lower CenterPoint Houston's ratings in response to the Vectren transaction. CenterPoint Houston is not greatly impacted by the business or financial risks of CNP as Gorman (and to a lesser extent, Griffey) assert, because Moody's did not lower CenterPoint Houston's ratings when it lowered the ratings of CNP, while Fitch affirmed the ratings of both CNP and CenterPoint Houston.

[12] Examples are: Gorman Direct at 22:21-22 and 27:10-12, and Griffey Direct at 11:7-8.

Furthermore, throughout Mr. Gorman's Direct Testimony, he errs by focusing only on S&P and giving no weight whatsoever to Moody's and Fitch ratings, which are more consistent with an individualized evaluation of CenterPoint Houston. Mr. Gorman's exclusive reliance upon S&P ratings is inconsistent with the actual practice of knowledgeable investors in the capital markets. CenterPoint Houston has ratings from three agencies, as acknowledged by Mr. Griffey[13] and Ms. Winker[14].

S&P is alone among the three major CRAs in imposing the rating of a corporate group upon a utility subsidiary company. In my many years of experience in the debt capital market, and meeting with major investors and teaching classes on credit, I have observed that the S&P consolidated rating methodology is inconsistent with the way that the personnel of major U.S. institutional investors (that is, mutual fund and pension fund managers, insurance companies, trust departments of banks, private investment fund managers) and bankers, and commercial counterparties analyze and understand their investments or exposures to U.S. rate-regulated electric and gas utilities.

The Moody's and Fitch ratings are 2 notches higher than the ratings of CNP by those two agencies, unlike S&P which gives the same issuer credit rating to CenterPoint Houston and CNP. [15]

[13] Griffey Direct at 8:9-11.

[14] Winker Direct at 14, Table 2.

[15] Contrary to Mr. Griffey at 12:11-12 , who asserts that Fitch's rating of CenterPoint Houston is only one notch higher than that of its parent CNP.

Table 1: Issuer and Issue Credit Ratings and Notching

	Current Ratings	Unsecured Debt	Secured Bonds
Standard & Poor's (1)			
CNP	BBB+, STABLE	BBB	--
CenterPoint Houston	BBB+, STABLE	--	A
Notching (4)	0 notches		
Note: CenterPoint Houston SACP(1)	*a+*	--	--
Moody's (2)			
CNP	Baa2, STABLE	Baa2	--
CenterPoint Houston	A3, STABLE	--	A1
Notching (4)	+2		
Fitch Ratings (3)			
CNP	BBB, STABLE	BBB	--
CenterPoint Houston	A-, STABLE	--	A+
Notching (4)	+2		
Ratings as of June 10, 2019			

(1) Issuer Credit Rating; SACP is "stand-alone credit profile", a component in the final rating.

(2) Senior Unsecured Rating

(3) Issuer Default Rating

(4) "Notching" signifies the number of rating categories between the rating of the subsidiary and the lower rating of its parent holding company.

Table 1 above illustrates the relationships among the various ratings and the notching differential between each agency's rating of CenterPoint Houston and the same agency's rating of CNP. As Mr. Griffey correctly observes, CenterPoint Houston has a "split rating"; [16] that is, the ratings differ and are not all at the equivalent level.

[16] Griffey Direct at 8:9.

Q. PLEASE EXPLAIN HOW KNOWLEDGEABLE INVESTORS INTERPRET THE AGENCIES' RATINGS WHEN THERE ARE SUCH SPLIT RATINGS?

A. In my experience, knowledgeable investors typically use one of several methods to reconcile differences among the ratings assigned to a company by different CRAs. When there are ratings by three agencies, as is the case for CenterPoint Houston, they may consider either the preponderance of two out of three ratings or the middle of three ratings. In this case, either of these two methods would result in an A- rating for CenterPoint Houston, as shown in Exhibit R-EL-3, based upon the Moody's and/or Fitch rating, and the S&P rating of BBB+ would be disregarded. An alternate approach is to use a simple point system to translate each rating into a number and then calculate the average rating, translating back from the average numerical score to the nearest rating. In the case of CenterPoint Houston, that would place its average rating at approximately A-, the same as the Moody's and Fitch ratings (also shown in Exhibit R-EL-3.)

Q. MR. GORMAN'S TESTIMONY REFERS TO A STAND-ALONE RATING BY S&P THAT HE ASSERTS IS THE "CRITICAL ELEMENT" FOR THE COMMISSION'S CONSIDERATION.[17] WHAT IS YOUR RESPONSE?

Contrary to Mr. Gorman's testimony, the ratings that best identify the stand-alone credit condition of CenterPoint Houston are the ratings by Moody's (A3) and Fitch (A-). Both of these agencies form their ratings by means of a stand-alone credit evaluation of the Company; their reports on CenterPoint Houston indicate that there

[17] Gorman Direct at 27:18-21.

is no reduction or suppression because of consolidation or affiliation with CNP or any sister companies. Mr. Gorman points to a component of the rating process that S&P publishes and refers to as its Stand-Alone Credit Profile ("SACP"), which is 'a+' for CenterPoint Houston. He asserts that comparing this unofficial S&P rating with the BBB+ issuer credit rating published by S&P for CenterPoint Houston proves that CenterPoint Houston's credit standing has been harmed by affiliation with CNP. [18] However, investors do not commonly use the 'a+' SACP component rating to which he refers, and only a minority of investors are even aware of it. In summary, Mr. Gorman's assertions regarding the little-known S&P SACP should be disregarded.

Q. PLEASE SUMMARIZE YOUR RESPONSE TO MESSRS. GORMAN, GRIFFEY AND TIETJEN REGARDING INTERCOMPANY AFFILIATION RISKS AND CREDIT RATINGS.

A. The Commission should disregard the testimony of Mr. Gorman, Mr. Griffey, and Mr. Tietjen on the topic of affiliation risks. Mr. Gorman draws false conclusions about the supposed riskiness of CenterPoint Houston's ownership by CNP based in large measure on his misconception that S&P's consolidated rating methodology is the appropriate and only credit methodology. Unlike Mr. Gorman, investors are not wedded to S&P. Moody's and Fitch's ratings of CenterPoint Houston are not currently affected by those agencies' ratings of CNP. The CenterPoint Houston ratings are supported by the agencies' stand-alone view of CenterPoint Houston's

[18] Gorman Direct at 27:7-26.

financial condition along with their assurance that CNP and CenterPoint Houston are separated by prudent financial management policies and practices.

III. RING-FENCING

A. Background on Protective Mechanisms

Q. WHAT DO YOU MEAN BY RING-FENCING?

A. The term "ring-fencing" describes methods used to separate and protect one enterprise or business activity from invasion, contagion, or harm due to mingling with other businesses or activities.

Q: HOW IS RING-FENCING TYPICALLY APPLIED?

A. Ring-fencing typically serves one of two purposes:

1. When a financial sponsor bundles together a portfolio of loans or mortgages in structures that can be financed by issuing loans or securities, ring-fencing mechanisms separate the bundled loan assets from the bankruptcy risk of the transaction's sponsor or the seller of the assets. This provides the opportunity to achieve funding justified by the quality of the underlying assets rather than the credit of the sponsor or seller. Ring-fencing is used by the financial service industry in this context in banking, leasing, real estate development and ownership , shipping, and transportation.
2. Ring-fencing structures are also used in the context of corporate finance to protect a company from financial risks associated with its parents, sister companies, or subsidiaries.

In either case, the purpose of the ring-fence is to protect the asset portfolio or business so that the portfolio or business can sustain its viability without interruption from adverse effects from the potential financial distress of other related entities.

Q. WHY IS RING-FENCING USED IN THE UTILITY CONTEXT?

A. Most retail and integrated electric utilities have an obligation to reliably operate and maintain their systems for existing customers, and expand systems to meet customer growth. All of these activities require access to funding. Thus, it is important for the utility to retain access to its own resources including its bank accounts, accounts receivable, and the ability to draw under its credit arrangements, even if its parent or a sister company is under stress. Also, most utilities must seek outside sources of capital from the debt capital market. Without adequate ring fencing, the utility's credit worthiness and access to the debt capital market could be impaired if its parent is in default or bankruptcy. Ring-fencing has been used to protect utilities from risky parents or sister companies to ensure the utility can continue to operate and serve its current and future customers.

Q. DO THE WITNESSES MESSRS TIETJEN, GORMAN, AND GRIFFEY ACKNOWLEDGE CENTERPOINT HOUSTON'S CURRENT FORMS OF SEPARATENESS?

A. Yes, to a degree. Mr. Tietjen lists and acknowledges CenterPoint Houston's array of safeguarding practices and procedures in place, although he prefers to categorize them as a foundation for his additional recommended protections.[19] Messrs. Gorman and Griffey give scant weight to the robust set of measures that CenterPoint Houston has in place to sustain its individual credit strength and

[19] Tietjen Direct at 12:15 – 13:23.

viability and insulate it from exposure to CNP and affiliates. Mr. Gorman asserts that CenterPoint Houston's credit rating is primarily driven by its affiliation risk with CNP and that "[t]here are limited financial separations between the financial standing of CenterPoint Houston and its parent company, CNP." [20]

According to Mr. Griffey:

> [CenterPoint Houston] ...does not have a ring-fence similar to what has been adopted for other utilities. In the case of Oncor, the Commission has maintained a ring-fence through both governance and financial conditions. CenterPoint Houston does not have governance separation from CNP, although it does voluntarily maintain some degree of separateness in financial attributes.[21]

In fact, CenterPoint Houston does have ring-fencing that is similar to that of many or indeed, most other U.S. rate-regulated electric and gas utilities and addresses the important concerns of corporate separation. Most utilities in the U.S. regulated electric and gas sector implement numerous forms of ring-fencing, but only a small minority of utilities have complex ring-fencing commitments and conditions of the sort that are in place for Oncor Electric Delivery Company, LLC ("Oncor") or are recommended by Mr. Tietjen.

B. Evaluating CenterPoint Houston's Existing Protections

Q. WHAT METHODOLOGY DO YOU USE WHEN YOU EVALUATE CENTERPOINT HOUSTON'S CURRENT RING-FENCE?

A. To evaluate an entity's ring-fencing, I apply a systematic approach using a checklist that evolved from the work that I did at Fitch as a leader in the utility rating group. Each rating agency maintains an internal checklist that its analysts use to assess the

[20] Gorman Direct at 27:7-10.

[21] Griffey Direct at 16:9-14.

Each rating agency maintains an internal checklist that its analysts use to assess the effectiveness of utility ring-fencing practices. Each agency employs its own standards and criteria, but there is quite a bit of commonality among the agencies when it comes to ring-fencing standards, since the standards are based on experience drawn from prior defaults and bankruptcies and from bankruptcy court precedents. For use in my consulting practice, I combined and harmonized the elements that Moody's and Fitch employed in their separate checklists to create a master list of ring-fencing practices and policies that I now use in my ratings advisory work.

The master checklist is based on the understanding that a company that is to be safeguarded must have two types of protection: 1) assurance that the protected company maintains access to its own assets, both physical and financial, and funding sources, despite the financial distress or bankruptcy of its parent or affiliate; and 2) practices and policies that reduce or eliminate the risk of the protected company being drawn into the bankruptcy of a bankrupt sister company or parent.

Consequently, the master checklist has two tracks: Track I contains practices that allow a company to preserve its own identity, to remain viable, to fund itself and defend its own assets and liabilities even if a parent or affiliate is in distress; and Track II contains practices that protect a company from involuntary consolidation with its parent or affiliate in a bankruptcy proceeding. Fortunately, some practices do double duty, helping in both Tracks I and II. The elements in Tracks I and II appear in Exhibit R-EL- 4, pages 1 and 2.

Q. WHAT ARE THE ELEMENTS THAT MAKE UP TRACK I?

A. Track I includes all the factors that allow a subsidiary company within an ownership group (called "the Protected Company" in Exhibit R-EL-4) to preserve its independent viability in the event of the financial distress of its parent or other companies in its group.

Within Track I, I identify four categories of measures. These are:

IA. Prevent the diversion of Protected Company's assets, by having a separate legal identity, separate bank accounts and asset accounts, with no commingling of assets. Fixed assets needed to carry out the business should be in the Protected Company's own name. Transfers of goods, services, and supplies with other members of the group should be conducted on an arm's length basis. The Protected Company should not lend to parents or sister companies.

IB. The Protected Company should maintain its own access to funding and to sources of liquidity. This entails having a separate credit agreement, and drawing under the credit agreement should be available despite the default of the company's parent or sister companies. The default by a parent or sister company should not trigger a cross default or cross acceleration of the Protected Company's debt. Independent access to funding is enhanced if the company is an accepted issuer of debt in its own name in the public or private debt market and maintaining a credit rating can be helpful to achieve that objective.

IC. The Protected Company is insulated from the liabilities of its parent and sister companies. It does not guarantee the debt or obligations of other members of its group. The other members of the group never represent to the public or to counterparties that the Protected Company is responsible for the obligations of other group members. (Often, there is some potential joint liability on the part of the Protected Company as a member of a consolidated tax return or as a participant in a pension plan with other companies in its group, which may be acceptable depending upon the circumstances.)

ID. The Protected Company protects its viability by maintaining limited leverage and preserving its individual solvency.

Q. PLEASE EXPLAIN THE ELEMENTS OF TRACK II.

A. Track II involves avoiding the involuntary consolidation of Protected Company in the bankruptcy of its parent or a sister company. Several of the practices that were important in Track I to maintain the company's separate financial viability are also necessary to avoid involuntary consolidation due to substantive consolidation. In an extreme case, a company might be vulnerable to substantive consolidation along with its bankrupt parent or sister company if the resources, assets and liabilities of the two companies are so entangled and poorly documented that it is difficult for the court to untangle them. Keeping good books and records and maintaining separate books of account are important protections. The Protected Company should never represent to creditors of the parent or sister company that the Protected Company is responsible for its affiliate's obligations. Additional elements are listed in the exhibit.

Q. WHAT WAS THE RESULT OF YOUR ANALYSIS OF CENTERPOINT HOUSTON USING THE MASTER CHECKLIST?

A. Employing the master checklist shown in the exhibit, I analyzed CenterPoint Houston's practices and compared them with the practices and policies that contribute to a robust ring-fence. The results of that analysis are presented in the Exhibit R-EL-4 on pages 3-5.

I concluded that CenterPoint Houston's practices provide an adequate degree of separation from its parent CNP and CNP's affiliates. These practices would prevent CenterPoint Houston from being subject to an involuntary bankruptcy, and CenterPoint Houston could maintain access to funding and liquidity despite the financial distress of CNP or any of the Company's affiliates. CenterPoint Houston has resources of its own and the capability to sustain its business on an individual basis. Furthermore, CNP and CenterPoint Houston deal with one another in a very prudent manner, observing necessary legal formalities to maintain separation. CNP has never "looted" the resources of CenterPoint Houston, a specter that Mr. Griffey raises in his direct testimony[22] without any basis in experience or fact.

I find support for this conclusion from the ratings issued by Moody's and Fitch. They carry out their own review of the intercompany practices and policies of CNP and its subsidiaries as a component in their rating process. Moody's and Fitch each assign to CenterPoint Houston ratings that are two notches higher than those it assigns to CNP. That indicates the degree of confidence that those two rating agencies have in CenterPoint Houston's viability on its own and its insulation from its parent and sister companies.

C. Protective Measures Recommended by Staff and TIEC Witnesses

Q. MR. TIETJEN ASSERTS THAT THE COMMISSION HAS SUFFICIENT AUTHORITY TO ORDER CENTERPOINT HOUSTON TO ADOPT A SET OF MANDATORY RING-FENCING COMMITMENTS. WHAT IS YOUR RESPONSE?

A. Mr. Tietjen lists four prior Sale-Transfer-Merger proceedings in which the Commission ordered protective ring-fencing measures. He also acknowledges that this is a rate case and not a Sale-Transfer-Merger proceeding. Nonetheless, he

[22] Griffey Direct at 13:7-12.

asserts that the Commission has broad authorities and can issue such orders in a ratemaking proceeding.[23] But in fact the authority to order such protections in any type of proceeding is not at all clear. In each of the four listed Sale-Transfer-Merger proceedings in which the Commission issued orders that included protective elements, the ring-fencing commitments were a product of a consensual settlement agreement. I would note that all four involved Oncor. That hardly proves that the Commission could have imposed such an order without the consent of the affected utility.

Q. HOW DOES MR. TIETJIN JUSTIFY THE REASON FOR IMPOSING MANDATORY RING-FENCING COMMITMENTS UPON CENTERPOINT HOUSTON IN THE CONTEXT OF A RATE PROCEEDING, AND WHAT IS YOUR RESPONSE?

A. Mr. Tietjen claims that a parent's activities "...can affect certain of the regulated utility's rate-related elements such as capital structure and cost of capital (both equity costs and debt costs). If these circumstances lead to a higher cost of providing service for the regulated it is possible - or likely - that the utility in its next rate proceeding will request that ratepayers bear the higher costs."[24]

I question Mr. Tietjen's logic. If the situation he describes in this passage ever occurs and the utility then seeks to recover its higher costs in a ratemaking proceeding, the Commission would have full authority to review the utility's claims and to reject the recovery of any costs it finds to be unreasonable. Despite that,

[23] Tietjen Direct at 8:4 – 9:32.

[24] Tietjen Direct at 12:02-12:06.

Mr. Tietjen recommends that the Commission should go outside of precedents and beyond its clear regulatory authorities to order the utility to adopt ring-fencing mechanisms, all in order to avoid a hypothetical risk to ratepayers that the Commission could address by exercising its clear regulatory mandate to review the reasonableness of the utility's costs for recovery in rates.

Q. A SECOND RATIONALE FOR IMPOSING MANDATORY RING-FENCING COMMITMENTS UPON CENTERPOINT HOUSTON INVOKED BY MR. TIETJEN INVOLVES THE BANKRUPTCY OF ENERGY FUTURE HOLDINGS. PLEASE EXPLAIN HIS ASSERTION.

A. Mr. Tietjen asserts that the success of Oncor in remaining outside of bankruptcy during the bankruptcy of its parent Energy Future Holdings Corp. ("EFH") and Oncor's ability to sustain itself as a going concern despite its parent's condition provides abundant proof of the value and benefits of a stringent set of mandatory protective commitments.

Q. DO YOU AGREE WITH MR. TIETJEN?

A. No, I find serious flaws in Mr. Tietjen's logic. The first is that the Commission now has more direct means available to prevent a recurrence of a bankruptcy similar to EFH which would have forestalled the need for stringent ring-fencing to protect the utility subsidiary, had those statutory powers been in effect in 2007. When a consortium of private equity firms acquired TXU Corp. in 2007, the Commission did not have explicit statutory authority permitting it to reject the transfer. Given its lack of such authority, implementing ring-fencing at Oncor (through conditions accepted by EFH as a part of a regulatory settlement) was the only means available to protect the public interest at that time. Subsequent amendments added PURA §§ 39.262 and 39.915. With these in place, the Commission now has the means to reject a transaction that would change the control of a utility (or a utility's parent) if the transaction was deeply speculative and carried high financial risks, as was the case of the EFH transaction in 2007.

Mr. Tietjen's stretches the point considerably when he tries to characterize the EFH transaction as one in which bankruptcy was a remote and unanticipated possibility in 2007. He asserts:

> It is important to keep in mind the reasonable assumption that, at the time of the Commission's order in Docket No.34077, interested parties did not place a material probability on a future EFH bankruptcy. Indeed, had the assessment been otherwise, I believe it is reasonable to conclude that the 2007 leveraged buyout (LBO) of TXU Energy which was (and is) the largest LBO transaction in history -- would never have taken place. [25]

This is not an accurate characterization of the situation in 2007. The private equity purchasers of TXU Energy (Texas Pacific Group, KKR, and Goldman Sachs Capital Partners) invested approximately $4 billion of equity to fund the transaction amount of $45 billion, funding a mere 9% of the total transaction with equity. At the time of the acquisition, the senior bonds issued by EFH to fund the transaction were rated by Moody's at B2, a deeply speculative rating, and additional rated or unrated debt was issued at various intermediate holding companies, including at Energy Future Competitive Holdings, whose ratings at issuance were Ca by Moody's, a rating that is not only deeply speculative but also indicative of a high likelihood of default. The possibility of default and bankruptcy within the EFH

[25] Tietjen Direct at 16: 12-26.

group was certainly recognized in the financial market in 2007. With the current protections offered by PURA §§ 39.262 and 39.915, the Commission could avail itself of the opportunity to reject the transaction.

Q. DO YOU SEE ANOTHER FLAW IN MR. TIETJEN'S ASSERTIONS REGARDING THE SUCCESS OF THE RING-FENCING EXPERIENCE AT ONCOR?

A. Yes. While it is true that Oncor remained outside of bankruptcy, sustained itself as a going concern, and avoided other harms while EFH was in bankruptcy, Mr. Tietjen provides no evidence that the stringent ring-fencing conditions in effect at Oncor were necessary and essential to keep Oncor out of its parent's bankruptcy or to preserve it as a going concern. My study of bankruptcy experiences among investor owned utilities and their parent companies in the U.S. indicates that voluntary and prudent ring-fencing methods would have been similarly effective.

I am not aware of a single case of the involuntary or voluntary bankruptcy consolidation of a solvent rate-regulated U.S. investor-owned electric or gas utility that had third-party debt since the Great Depression of the 1930s – that is, over 80 years. Let me give an example of a bankruptcy that occurred slightly prior to the formation of EFH. In December 2001, Enron Corp. owned an electric utility, Portland General Electric, and four FERC-jurisdictional pipeline companies. The Portland General utility had some ring-fencing provisions, but they were fewer and less rigorous than those implemented at Oncor; Enron's pipeline subsidiaries did not have rigorous ring-fencing, but they observed all legal requirements to preserve their separate corporate identities, kept separate books and records, did not have any intercompany guaranties, and each was funded with individual debt to third-party creditors. Not one of these entities was consolidated in the bankruptcy of Enron, either voluntarily or by an involuntary petition from Enron creditors. This is not because Enron's creditors were timid; far from it. But no creditor of Enron brought any motion to consolidate the utility or pipeline subsidiaries in the bankruptcy of Enron or claimed that the electric utility or pipeline subsidiaries were liable for Enron's obligations. Instead, the creditors expected to realize greater recoveries from the value of the utility subsidiaries sooner or later by keeping those solvent subsidiaries out of bankruptcy.

In summary, I think that simple practices like those already employed by CenterPoint Houston are an effective form of protection.

Q. DO YOU AGREE WITH MR. GRIFFEY THAT THE VOLUNTARY NATURE OF CENTERPOINT HOUSTON'S CURRENT RING-FENCING REQUIRES CHANGE TO FORMAL REGULATORY COMMITMENTS?

A. No. According to Mr. Griffey, despite the many provisions of the existing CenterPoint Houston ring-fence provisions, these provisions are voluntary and subject to change: "That situation could change in the future , however, so if the Commission is going to require ring-fencing it should formalize the provisions already in place." [26]

However, I note that CNP has proven to be a very stable influence on its subsidiaries and has carried out prudent management of CenterPoint Houston and other utility subsidiaries. During a profound capital market disruption following

[26] Griffey Direct at 23:13-16.

September 2008 and during 2009, CNP and CenterPoint Houston continued to follow their prudent practices during what was an intense period of financial market distress.

Investors express their confidence in CNP and CenterPoint Houston management and the companies' prudent practices by buying CenterPoint Houston's bonds. Moody's and Fitch express their confidence by rating CenterPoint Houston's issuer ratings two notches above the CNP's rating. They do so as a result of their study and evaluation of the policies and practices in effect at CNP and its subsidiaries, and based on their observation of the companies' behavior over a period of years.

Q. PLEASE DESCRIBE THE PROTECTIVE MECHANISMS THAT MR. TIETJEN RECOMMENDS THE COMMISSION SHOULD IMPOSEUPON CENTERPOINT HOUSTON.

A. Mr. Tietjen introduces a list of thirteen proposed commitments.[27] On the whole, I do not think that any of these commitments should be imposed on CenterPoint Houston because they are unnecessary for the Company to maintain the appropriate level of separateness, which it already enjoys. Several of commitments are things that CenterPoint Houston already does (or has a similar voluntary mechanism in place), including: 1, 7, 8, 9, 10, and 11. However, there are a few of these commitments that deserve a more detailed response:

> 2. <u>*Credit Ratings and Dividends*</u>. *CenterPoint Houston will make an effort to keep its credit ratings at all three major agencies at or above the current credit ratings if the rating of CenterPoint Houston's senior debt at any one of three agencies falls below BBB+, then CenterPoint Houston will suspend*

[27] Tietjen Direct at 14:15 to 15:34.

> *payments of dividends and distributions, except for contractual tax payments.* [28]

It is unreasonable to expect any company to pledge to keep its credit ratings at their current level, because the Commission's actions in setting the capital structure, ROE, and many other cost recovery mechanisms have so much influence on the credit rating. A commitment to do so on the part of CenterPoint Houston, even on a 'soft' or 'best efforts' basis, would seem to also require a symmetrical commitment by the Commission to set rates in a manner to result in the opportunity to maintain credit ratings at the current level.

> *3.* *<u>Debt-Equity-Ratio Commitment</u>. A commitment to limit debt to an amount no higher than the debt-to-equity ratio authorized by the Commission. The Company will not make a dividend or distribution if doing so would cause the debt to exceed the authorized debt-to-equity ratio. Neither CNP nor any of its affiliates will issue any stock or ownership interest that supersede the foregoing obligations of CenterPoint Houston.*

The first part of this commitment outlines a practice that CenterPoint Houston already generally follows. However, I do not understand the last sentence of the commitment.

> *4.* *<u>ROE Commitment</u>. If CenterPoint Houston's issuer credit rating is not maintained as investment grade by S&P, Moody's, and Fitch, CenterPoint Houston will not use its below-investment grade ratings to justify an argument in favor of a higher regulatory ROE.*

This commitment is incomprehensible. If CenterPoint Houston's credit rating downgrade was caused by the way the Commission set the Company's rates and therefore the rating fell below investment grade, it would violate the Company's rights to a fair and reasonable return if it could not use its low credit ratings as an

[28] Note: The senior debt rating of BBB+ or equivalent would correspond to an unsecured or issuer credit rating of BBB- (S&P and Fitch) and Baa3 (Moody's). See Table 1.

argument in favor of a higher regulatory ROE. Beyond the important point that the imposition of this commitment may violate CenterPoint Houston's right to make whatever argument it chooses, Mr. Tietjen seems to forget that the Commission is likewise entitled to reject the argument if it has a reasonable basis to do so.

> *5. Stand-Alone Credit Rating. Except as may be otherwise ordered by the Commission, CNP shall take the actions necessary to ensure that CenterPoint Houston has a stand-alone credit rating.*

I don't know what Mr. Tietjen means by "stand-alone." If he means that CenterPoint Houston will have at least one rating in its own individual name, this is something the Company already does (indeed, it has three ratings in its own name), and an additional commitment is not necessary.

> 12. *Non-Consolidation Legal Opinion. CNP will obtain a non-consolidation legal opinion that provides that, in the event of a bankruptcy of CNP or any of its affiliates, a bankruptcy court will not consolidate the assets and liabilities of CenterPoint Houston with CNP or any of its affiliates.*

CenterPoint Houston has no need for a non-consolidation opinion because it would not realize any appreciable benefits. I address this topic further below.

> 13. *No Bankruptcy Cost Commitment. CenterPoint Houston will not seek to recover any costs associated with ta bankruptcy of CNP or any of its affiliates.*

This commitment is unnecessary. If the Company were ever to make such a request in a rate proceeding, the Commission has the authority it needs to deny such recovery.

Q. DOES MR. GRIFFEY RECOMMEND ANY PROTECTIVE MEASURES THAT HE BELIEVES SHOULD BE FORMAL REGULATORY COMMITMENTS OF CENTERPOINT HOUSTON?

A. Yes. In particular, Mr. Griffey identifies three measures as necessary to safeguard CenterPoint Houston from harm. These are: a limit on dividends from CenterPoint Houston to CNP based on the Company's credit rating; a non-consolidation opinion; and eliminating an event of default in CenterPoint Houston's revolving credit agreement and loans tied to a Change of Control (that is, sale or transfer of CenterPoint Houston or CNP ownership to a different owner.)

Q. BOTH MR. GRIFFEY AND MR. TIETJEN RECOMMEND DIVIDEND STOPPER COMMITMENTS. WHAT IS YOUR RESPONSE TO THEIR PROPOSALS REGARDING A FORMAL DIVIDEND STOPPER?

A. Mr. Griffey is not specific about how a limit on dividends would work. He doesn't suggest any triggering mechanism, so I presume that he has not given it serious thought. Mr. Tietjen recommends three separate dividend limits, one relating to 100% of net income, another to credit rating downgrades (any one agency downgrade to a rating that is the equivalent of a BBB- or Baa3 unsecured or issuer rating), and a stop on paying dividends if the payment would cause the debt ratio to exceed the debt-to-equity ratio authorized by the Commission for ratemaking. Currently, CenterPoint Houston is limited by a negative covenant in its Revolving Credit Agreement that prevents it from issuing dividends if its ratio of debt to total capital exceeds 65%.[29] CNP actually manages the dividends that CenterPoint

[29] Griffey Direct at 20, Figure 2.

Houston pays to CNP in a manner so as to approximately match the authorized regulatory capital structure.

In fact, there is a strong economic incentive for CNP to retain equity at CenterPoint Houston approximately equal to the Commission's authorized regulatory capital structure, on the reasonable presumption that the Commission will provide a just and reasonable return on invested equity. Similarly, it is against CNP's economic interest to maintain more equity at CenterPoint Houston than the amount that is authorized to earn a return on equity.

Mr. Griffey asserts "[g]iving the upstream parent full access to a utility's revenues during periods of financial distress can allow the utility to be "looted" to pay debtors and shareholders, which could prevent the utility from making investments and paying expenses necessary to provide reliable utility service."[30] However, in point of fact, there was a profound capital market disruption from September 2008 through 2009, during which time CNP and CenterPoint Houston continued to follow their prudent practices with regard to CenterPoint Houston dividends, and there is no evidence that CNP "looted" CenterPoint Houston for cash during that period of capital market stress.

Given the exemplary conduct of CNP with regard to CenterPoint Houston dividend payments, there hardly seems to be a need for such punitive provisions. The stoppers proposed by Mr. Tietjen seem to be far out of proportion to any real or imagined risk.

[30] Griffey Direct at 13:7-12.

Q. BOTH MR. GRIFFEY AND MR. TIETJEN RECOMMEND A NON-CONSOLIDATION OPINION. WHAT IS YOUR RESPONSE?

A. Mr. Griffey correctly observes: "CenterPoint Houston does not have a non-consolidation legal opinion with respect to CNP or other affiliates, except that it does have such opinions with regard to the issuers of its securitization bonds."[31] Griffey later goes on to assert that "[a] non-consolidation opinion provides some assurance as to the validity of CenterPoint Houston's financial separation and puts the parent's creditors on notice that they cannot access the assets of the utility."[32] Mr. Griffey seems to have unrealistic notions about what a non-consolidation opinion can do. Mr. Tietjen provides no explanation for why he believes a non-consolidation opinion is of vital importance.

In my professional experience, a non-consolidation opinion is absolutely essential for a structured special purpose entity that is formed in order to issue securities to the public to fund its purchase of a portfolio of auto loans or mortgages, or in the case of CenterPoint Houston, to monetize regulatory assets. It would be impossible or impractical to attempt to issue bonds for an entity of that sort without a non-consolidation opinion.

However, CenterPoint Houston has issued billions of dollars of bonds to the public without a non-consolidation opinion, because investors have no concerns about the legitimate existence of CenterPoint Houston and are not fearful about the consolidation of CenterPoint Houston in the bankruptcy of its parent of affiliates.

[31] Griffey Direct at 20, Figure 2.

[32] Griffey Direct at 22: 10-12.

Given that, the non-consolidation opinion would not add any meaningful benefit to CenterPoint Houston's operations or financial activities.

Mr. Griffey asserts that "[i]n financially challenging times, ring-fencing is essential to prevent a utility from being incorporated into the bankruptcy proceeding with its parent or affiliates."[33] I presume that he is referring to the incorporation of an otherwise solvent utility into a consolidated bankruptcy proceeding. Mr. Griffey seems to be operating on the basis of poetic license and without a grasp of bankruptcy experience or historical precedents. In fact, there is not a single known case of the involuntary or voluntary consolidation of a solvent rate-regulated U.S. investor-owned electric or gas utility that had debt to third-parties in the bankruptcy of its parent since the Great Depression of the 1930s – more than 80 years without any such occurrence. There is a strong economic reason why this is the case. Solvent utilities have considerable value as going concerns, and bankruptcy proceedings chew up value that would otherwise be available for the restructuring and reorganization of the debtor.

Q. WHAT IS YOUR RESPONSE TO MR. GRIFFEY'S PROPOSAL REGARDING THE EVENT OF DEFAULT IN CNP'S CREDIT AGREEMENT?

A. Mr. Griffey observes correctly that CenterPoint Houston's credit agreement and debt instruments have no cross-default provisions with CNP, but he notes that a Change of Control of CenterPoint Houston would constitute an Event of Default in

[33] Griffey Direct at 13: 6-7.

those agreements.[34] Despite his repeated statement that there are no "cross-default provisions" between CNP and CenterPoint Houston, Mr. Griffey characterizes this event of default as a "cross default" and points out that this condition should be eliminated.[35]

First, I disagree that this event of default provision is a "cross-default" provision. A cross-default is a situation in which the default by one entity constitutes an Event of Default in the debt of the second entity. Unlike a cross-default, which would have immediate adverse effect upon a company's liquidity, a Change of Control cannot happen overnight. Mr. Griffey fails to note the time frame involved in the occurrence of a Change of Control and the remedies available during that period.

For the sake of argument, if CNP were to enter into an agreement to sell or transfer itself or CenterPoint Houston to another owner, the transfer could not occur immediately. It would require several regulatory approvals, including most importantly approval by the Commission. In my experience, the transaction negotiations would take several months and the regulatory approvals would take at least six months, and it is also possible that the Commission would impose certain conditions or reject the transaction altogether. There would be more than sufficient time for CenterPoint Houston to negotiate to amend or terminate and replace the agreement.

[34] Griffey Direct at 19, Figure 2.

[35] Griffey Direct 21-22.

These Change of Control provisions allow the lenders or creditors a seat at the table to determine whether to continue the relationship with the new owners, then an opportunity to reconsider the amount and pricing of their future exposure in the event that a Change of Control were to materially change the nature or the circumstances of the borrower. Typically the lenders receive a fee for agreeing to an amendment or waiver. If the proposed change of control would result in a new parent company that was acceptable to the bank group, the proposed buyer may also satisfy the Commission's financial review; on the other hand, if the bankers find the proposed buyer so undesirable that they would be unwilling to amend the credit facility and continue as lenders, then I think it is unlikely that the Commission would be satisfied with the financial qualifications and would be likely to reject the transaction. In summary, I do not find this provision in the CenterPoint Houston credit agreement to be troubling.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION FOR THE COMMISSION REGARDING ANY OF THE ADDITIONAL RING-FENCING MEASURES PROPOSED BY TIEC AND STAFF?

A. I do not recommend that the Commission adopt any of the proposals from TIEC or Staff. First, I have not previously seen a utility commission impose ring-fencing within the context of a rate case. So if the Commission were to do it in this case, it would be very unusual if not unprecedented. The Commission's authority to impose such an order is subject to some question. Furthermore, CenterPoint Houston's voluntary measures provide an adequate insulation of CenterPoint Houston from its parent and affiliate. To that point, Moody's Credit Outlook issuer comment published on June 17, 2019 states tha[redacted] See Exhibit R-EL-5 (Confidential). Therefore the Commission should reject these proposals.

IV. CAPITAL STRUCTURE AND FINANCIAL STRENGTH

Q. WHY IS CAPITAL STRUCTURE SUCH AN IMPORTANT FACTOR IN A UTILITY'S FINANCIAL HEALTH AND STABILITY?

A. The utility sector is capital intensive, and utilities must make on-going capital investments in order to serve customers' evolving needs and meet reliability and safety standards. Long-term debt is an important source of funding in this sector, because it is less costly than equity and makes utility services more affordable for customers. But when an excessive amount of debt financing is employed in relation to equity financing, the utility's net cash flows after meeting operating expenses will be volatile and unstable. In that case, lenders and bondholders will be less willing to commit their capital for long-terms and at low costs. Over a few years, excessive leverage can degrade the utility's financial stability and resilience.

Q. DOES THE UTILITY'S AUTHORIZED CAPITAL STRUCTURE AFFECT THE UTILITY'S KEY CREDIT RATIOS AND CREDIT RATINGS?

Yes. Fixed income investors, bankers, and credit rating agencies use a variety of financial ratios to assess a company's financial resilience and the likelihood of timely payment of obligations. The ratio of debt-to-total capital or equity-to-total

[36] Exhibit R-EL-5, Moody's Credit Outlook, June 17, 2019 [Confidential].

capital is a type of financial ratio that is commonly applied to gauge leverage, but other financial metrics that use a cash flow measure in relationship to debt have become increasingly important as indicators of financial health. (For convenience, I call these Cash Flow Leverage Metrics.[37]) The level of debt in the capital structure is a significant driver of the resulting cash flow leverage ratios, and thus very important in the determination of credit ratings and in fixed income investors' investment decisions For utilities whose rates are determined by cost-of-service ratemaking, a capital structure with more equity produces greater cash flow, hence producing more favorable ratios, while it also reduces the debt balance, another factor in the key credit ratios , and reduces the amount of debt, the other factor in the ratio. Capital structure and return on equity (ROE) are material factors driving the amount of cash flow measured by the rating agencies and by analysts.

Q. MR. MCRAE'S DIRECT TESTIMONY EXPRESSES THE VIEW THAT THE COMPANY'S CURRENT CAPITAL STRUCURE WILL NOT SUSTAIN THE COMPANY'S CURRENT CREDIT RATINGS AND WOULD RESULT IN CREDIT DOWNGRADES. DO YOU AGREE?

A. Yes, I agree. I tested the credit ratios that result from continuing the current capital structure of 45% equity and 55% long-term debt for the years 2020 – 2022, the period when the new rates determined in this case will be in effect, against the standards of Moody's and Fitch to determine whether the financial ratios produced would be consistent with the current A3 and A- ratings of each of those agencies.

[37] Ratios used by credit rating agencies to assess debt leverage by comparison of the level of debt and debt-like liabilities with a measure of operating cash flow or EBITDA.

For this analysis, I used a 10% ROE, consistent with financial forecasts presented by CenterPoint Houston in its application, Schedule 5_6. Had I used a forecast based on a lower ROE in the range of 9% to 9.45%, the range recommended by the various opposing intervenor and Staff witnesses, the outcomes would have been even less favorable. The ratio analysis is shown in Exhibit R-EL-6 on pages 1-2.

Moody's: The analysis reveals that the important cash flow credit metrics for that agency (and in particular, the ratio Moody's calls "CFO preWC to Debt") would be inconsistent with Moody's standards for the A category and more consistent with a rating in the Baa category. Moody's late-2018 credit report on CenterPoint Houston identified that a condition for retaining the current rating is a ratio of CFO preWC to Debt of 17% or greater; the scenario with 45% equity and a 10% ROE produces a ratio of 16 to 16.3% in each 2020-2022; with a lower ROE the ratio would be lower still. I concluded that the financial ratios for 2020 onward indicate a likely downgrade to the rating of Baa1.

Fitch: In the forecast scenario, the most important Cash Flow Credit Metrics (that is, the leverage ratios Fitch calls "Debt to EBITDAR" and "FFO Adjusted Leverage") would be inconsistent with Fitch's benchmarks for the A-rating and would be more consistent with a rating in the BBB to BB category. In its May 2019 credit report on the Company, Fitch states that a ratio of Adjusted FFO to Debt of greater than 4 times would be a cause of downgrade; in the scenario with 45% equity and 10% ROE, this ratio is 4.75-4.85 times in the forecast years, and thus would not support the current rating. I concluded that Fitch would be likely to downgrade the Company to BBB+ or BBB based on these credit ratios, with a tendency on the lower side if the ROE were below the 10% rate used in the forecast.

S&P: Applying S&P's credit methodology on a stand-alone basis to CenterPoint Houston with S&P's low volatility benchmarks, those ratios that S&P identifies as its core credit metrics would be consistent with a SACP of 'a', one notch lower than the current indicative SACP of 'a+'. It is important to note that the SACP is not a formal S&P credit rating; it is a component used in S&P's consolidated group rating methodology.

Reconciling three split ratings: Using the "middle of three" or "predominant rating" approach to reconcile split ratings as shown in Exhibit R-EL-3, the impact for investors would be that CenterPoint Houston's unsecured issuer credit rating could no longer be grouped in the A category and would be categorized in the BBB rating category (probably upper to middle BBB.)

Q. WHAT ARE THE RECOMMENDATIONS OF THE WITNESSES MS. WINKER AND MESSRS GORMAN, WOOLRIDGE, AND ORDONEZ REGARDING CAPITAL STRUCTURE AND RETURN ON EQUITY ("ROE")?

A. The witnesses not only recommend greater leverage than CenterPoint Houston's requested capital structure of 50% debt and 50% equity, but three witnesses recommend increasing the leverage relative to CenterPoint Houston's current capital structure of approximately 55% debt, 45% equity. Only Ms. Winker's recommendation approximates the current capital structure adopted by the Commission's order in Docket No. 38339.

The following table summarizes the recommendations of the opposing witnesses regarding capital structure and ROE.

TABLE 2 Witnesses' Capital Structure and ROE Recommendations

Party	Witness	Long-term Debt %	Equity %	ROE %
OPUC	Winker	54.5	45.5	9.15
TIEC	Gorman	60.0	40.0	9.25
TCUC	Woolridge*	60.0	40.0	9.00
Staff	Ordonez	60.0	40.0	9.45

* Mr. Woolridge's alternate recommendation is 55.48% long-term debt, 0.9% short-term debt, and 43.62% long-term debt.

Q. PLEASE SUMMARIZE THE RECOMMENDATIONS BY MESSRS WOOLRIDGE AND GORMAN.

A. In his Direct Testimony, Mr. Gorman asserts that CenterPoint Houston's proposed ratemaking capital structure is unreasonable for several reasons, including:

- CenterPoint Houston's approved regulatory capital structure has supported its credit rating and financial integrity for many years.
- CenterPoint Houston's ratemaking capital structure is in line with predictable and consistent ratemaking practices used by the Commission in setting overall rates of return for low-risk electric TDUs that operate within ERCOT.
- CenterPoint Houston's approved capital structure has allowed CenterPoint Houston to support its capital investment projects while providing reliable service. [38]

After Mr. Gorman's stirring endorsement of the appropriateness of the 55% debt/ 45% equity capital structure established in Docket No. 38339, it is surprising to see him reverse course to recommend a capital structure of 60% debt and 40% equity, the same capital structure that placed CenterPoint Houston in a weak financial

[38] Gorman Direct at 29:1-13.

condition prior to the order in Docket No. 38229. Mr. Woolridge similarly observes in his direct testimony that a capital structure of 55% debt and 45% equity caused healthy credit ratings and access to capital markets for CenterPoint Houston, and he also made the about-face to recommend a 60/40 capital structure.[39]

Messrs. Gorman and Woolridge propose various justifications for recommending the use of greater leverage, but a common theme is that the after-tax cost of debt is cheaper than the pre-tax revenues needed to support equity. [40] In the near-term, as leverage is added, the trade-off of greater leverage may appear favorable to customers in the form of lower prices. The fallacy of this rationale is that higher leverage in the mid-term to long-term will erode the utility's financial viability and resilience. Maintaining the utility's viability and ability to attract capital provides a benefit to its customers that goes beyond the trade-off of lower revenue requirements in the near-term.

Q. WHAT IS THE LIKELY CREDIT IMPACT OF MS. WINKER'S RECOMMENDATIONS?

A. OPUC witness Anjuli Winker recommends a capital structure of 54.5% long-term debt and 45.5% equity, a capital structure that is close to that approved the Commission in Docket No. 38339 and also close to CenterPoint Houston's existing capital structure.[41] Her recommended ROE of 9.15% is 85 basis points lower than the ROE that has been in effect for CenterPoint Houston. While I did not prepare a

[39] Woolridge Direct at 21:5-11.

[40] Griffey Direct at 8:13-16 and Woolridge Direct at 22:11-16.

[41] Winker Direct at 43:5-8.

separate model to test the impact of her recommendation on CenterPoint's chief credit ratios and the indicative impact on credit ratings, I presume that it would be similar to or somewhat less favorable than the outcomes I discussed above based upon the current 45% equity and 55% debt capital structure with a 10% ROE. While Ms. Winker's capital structure has a slightly larger equity proportion, the ROE is materially lower, so I estimate that on balance the outcome would be at least a one-notch rating downgrade from each of Moody's and Fitch.

Q. PLEASE EXPLAIN THE REASONING FOR MS. WINKER'S RECOMMENDATION AND YOUR RESPONSE.

A. Ms. Winker notes that the current 55/45 debt-to-equity resulted in improving the Moody's rating for CenterPoint Houston from Baa3 to A3, and she asserts that it has allowed CenterPoint Houston to issue long-term debt in the public market.[42] She couples this capital structure with a recommended ROE of 9.15%.[43]

Ms. Winker dismisses CenterPoint Houston's need for higher equity to offset the effects of the TCJA and the loss of deferred taxes as a source of cash flow as follows:

> ...[T]he credit rating agencies view the effects of the TCJA on electric utilities as a short term negative and a longer-term positive. CenterPoint Houston's recent new debt issuance after the effective date of the TCJA demonstrates that it has continued to have access to debt at lower interest rates. (Winker at 43:8-12)

Ms. Winker misinterprets the rating agencies' early comments published in January 2018 as a signal that rating agencies and investors will overlook or look beyond

[42] *Id.* at 42:8-17.

[43] *Id.* at 44:7-11.

weak credit metrics that will persist for at least the next three years. That is unlikely, since weaker cash flow metrics at CenterPoint Houston will persist from 2019 through 2022, if not longer. The 2020-2022 period is when the new electric rates determined in this case will be in effect. Increasing equity and reducing debt in this proceeding will redress the cash flow deficiency. Credit rating agencies such as Moody's are not likely to delay in downgrading ratings when regulatory jurisdictions demonstrate a lack of support for utility cash flow and credit quality, as was the case in October 2018 when Moody's lowered the credit rating of Southwestern Public Service Company from Baa1 to Baa2 in response to an unfavorable rate decision.

Q. PLEASE EXPLAIN MR. ORDONEZ'S REASONING WITH REGARD TO HIS RECOMMENDED CAPITAL STRUCTURE.

A. Mr. Ordonez dismisses all points advanced by Mr. McRae regarding the need for a greater proportion of equity capital to offset various risks including: high capital expenditures; reduced cash flows as a result of the TCJA; hurricane and storm risk; and regulatory risk. On several of these points he employs weak logic that deserves correction.

For example, Mr. Ordonez makes several logical flaws in the following passage:

> Additionally, the nature of the utility industry requires elevated capital expenditures and the TCJA affects all utilities. Therefore, these risks have been accounted for in my estimation of CEHE's return on equity based on a comparable group of companies. [44]

[44] Ordonez Direct, 31:16-18.

First, it is not the case that all utilities face equally high capital expenditures, and Mr. Ordonez provides no evidence that all members of his proxy group (or Mr. Hevert's proxy group) have equally high investment, and not all utilities are in the same boat with regard to the TCJA. Furthermore, Mr. Ordonez stands on shaky ground when he states that those two risks have been accounted for by means of the ROE determined based on a proxy group of comparable utilities. While the ROE determined using the DCF method may provide compensation for a risk faced by CenterPoint Houston as well as by the utilities in the proxy group, it will not do so if the proportion of equity that Mr. Ordonez recommends for CenterPoint Houston is less than that of the proxy group. In this case, that is exactly what he does; he recommends a more leveraged capital structure for the Company than is the case for the companies in the proxy group, and more leveraged than the utilities owned by the parent holding companies in the Hevert proxy group.

Mr. Ordonez also reveals fuzzy logic regarding the correct set of operating electric companies against which to compare CenterPoint Houston's capital structure. First he rejects a capital structure drawn from a group of vertically integrated electric utilities, a reasonable point, but then he ALSO summarily rejects a capital structure drawn from a group of deliver-only utilities in other states:

> CEHE is a TDU. Therefore, a capital structure resulting from a proxy group that includes integrated utilities is inappropriate. A capital structure resulting from delivery only electric utilities in other jurisdictions is also inappropriate because, after reviewing the financial information ... for the delivery only electric utilities in the 2018 SNP Global Market Intelligence RRA report, I found that 14 of 16 the electric delivery utilities in the report purchase and sell electricity. The capital structures of the delivery-only electric utilities in the 2018 SNP Global Market Intelligence RRA Report,

> while a better proxy for CEHE than vertically integrated utilities, are not a good proxy for CEHE, which is a TDU (a wires-only utility) that does not purchase and sell electricity.[45]

When Mr. Ordonez imagines that a Texas transmission and distribution utility ("TDU") wires-only utility is an exceptional case that has no legitimate counterparts outside of Texas, he eliminates from consideration exactly that group of companies that investors would reasonably consider the relevant group against which to compare CenterPoint Houston. After we set aside Mr. Ordonez's peculiar argument that electric delivery-only utilities are not relevant comparables, it is instructive that Mr. Ordonez acknowledges that the capital structure authorized in other jurisdictions for delivery-only electric utilities has trended upward, from 45% in 2001 to nearly 50% in 2018. [46] This information shows the error in Mr. Ordonez's recommendation of a capital structure for CenterPoint Houston comprised of 40% equity and 60% debt, a stark departure from the capital structure determinations for comparable electric delivery-only utilities.

Q. MR. ORDONEZ OPINES THAT A 60/40 CAPITAL STRUCTURE IS APPROPRIATE TODAY BECAUSE THAT CAPITAL STRUCTURE WAS ESTABLISHED BY THE COMMISSION IN THE ORDER IN DOCKET NO 22344.[47] WHAT IS YOUR RESPONSE?

A. Mr. Ordonez cites one of the earliest generic cases relating to the early days of wires-only transmission and distribution utilities in Texas. The capital structures established in that case were based only on hypotheses, without the benefit of any

[45] Ordonez Direct at 35:4-14.

[46] *Id.* at 35:20 – 36:3 including graphic table.

[47] *Id.* at 37:3-14.

experience. In the succeeding years there have been many developments and changes reflecting real experience. The financial markets have changed, and some key economic factors affecting electric utilities have changed. For example, tax rates are now lower affecting cash flows, and the TCJA has certainly altered utility cash flows. It is unreasonable to say that the hypothetical capital structure set in that proceeding remains relevant today, since we know that one result of the 60/40 capital structure was very low credit ratings for those utilities affected.

Mr. Ordonez points to the 60/40 capital structure of several Texas transmission-only utilities[48], even though those companies, unlike CenterPoint Houston, do not face retail customers and do not have an obligation to make continual ongoing capital expenditures to meet changing customer demands. The only comparable electric distribution utilities he references are the AEP companies, and those companies have just filed an application seeking to increase their equity capitalization to 45%.

Q. WHAT OTHER JUSTIFICATION DOES MR. ORDONEZ OFFER IN SUPPORT OF THE RELEVANCE TODAY OF THE CAPITAL STRUCTURE SET IN DOCKET NO. 22344?

A. Mr. Ordonez opines that the generic 60/40 capital structure that was set nearly 20 years ago in Docket No. 22344 is still relevant today because "Moody's and S&P characterize the Texas regulatory environment as 'constructive' or 'positive'.[49] However, I doubt that those rating agencies would continue to view the regulatory

[48] Ordonez Direct at footnote 41.

[49] Ordonez Direct at 37:3-4.

environment in so favorable a light if the Commission were to roll back the equity component of the capital structure to the level set in Docket No. 22344, at the same time that utilities face cash flow reductions from TCJA and have high capital investment budgets. In the same context, he also states that the Commission recently surveyed its ratemaking mechanisms for TDUs and found them to be effective and not in need of major revisions.[50] Those mechanisms do not directly address the appropriateness of a generic 60/40 capital structure versus any other capitalization ratios.

Q. DOES MR. ORDONEZ AGREE THAT IT IS PROPER TO CONSIDER THE RESULTING CREDIT RATINGS FOR AN INDIVIDUAL UTILITY WHEN ESTABLISHING A CAPITAL STRUCTURE?

A. No, in Mr. Ordonez's view it is not appropriate for the Commission to concern itself with supporting the credit-worthiness of a particular utility. In this regard, he cites to prior opinions of Staff, and not of the Commission.[51]

To carry out the Commission's objectives and balance the interests of customers and investors, the Commissioners should take notice of information from many sources, including the fixed income market and credit rating agencies. If the Commission orders a capital structure that is excessively leveraged and may result in low credit ratings, utilities in Texas would have a harder time to access sources of funding and to fulfill the needs of customers.

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[50] *Id.* at 37:5-14.

[51] *Id.* at 33:12 -34:3.

Q. WHAT IS THE APPROPRIATE TEST OF THE CAPITAL STRUCTURE RECOMMENDED BY THE WITNESSES?

Reflecting the viewpoint of the capital markets in general and the debt capital market in particular, in my view the single most important test of the witnesses' recommendations is their probable impact on CenterPoint Houston's ratings by Moody's and Fitch. As I have already explained earlier in my rebuttal testimony, the ratings by Moody's and Fitch of utility operating companies such as CenterPoint Houston are of greater importance to fixed income investors because these ratings measure the individual credit strength of the operating utility, unlike an S&P rating that is formulated as a consolidated picture of a holding company and its various subsidiaries taken as a group. CenterPoint Houston's current A3 rating by Moody's is particularly influential with bond buyers and market participants.

To test the 60/40 capital structure recommended by Messrs. Ordonez, Gorman and Woolridge in a pro forma model, I chose to use the ROE of 9.25% represented in Mr. Gorman's Exhibit MPG-5 for the exercise, since it is near the midpoint of a range of ROE recommendations from 9% up to 9.45%.

As shown in Exhibit R-EL-6 on pages 3-4, the resulting financial ratios are materially lower than the threshold for CenterPoint Houston's current ratings of A3 and A- respectively, signaling a potential downgrade by Moody's and Fitch of two notches into the range of Baa2 to Baa3 for Moody's and BBB for Fitch. In essence, CenterPoint Houston would revert to the unfavorable financial status that it held prior to the Commission's decision in Docket No. 38339.

Q. PLEASE REVIEW TIEC'S WITNESS MR. GORMAN'S MODEL IN EXHIBIT MPG-5.

A. To support his recommended capital structure of 60% debt and 40% equity and a proposed ROE of 9.25%, Mr. Gorman presents a pro forma model of S&P credit ratios in exhibit MPG-5 that contains several major computational errors. The largest impact on the credit ratios that calculates result from his reversal of the signs of income tax adjustments, which overstated his forecasts of net income and EBITDA and had the result of forecasting the equivalent of a 10% ROE. His statement of cash flow on page 2 of MPG-5 overstates cash flow materially and produces a $316 million shortfall of funding for capital expenditures. Robert McRae's rebuttal testimony identifies in detail Mr. Gorman's calculation errors. Including his errors that overstate net income, EBITDA, and cash flow measures, Mr. Gorman finds that CenterPoint Houston's SACP (a component in S&P's rating approach) would be downgraded to 'a-', a 2-notch downgrade from CenterPoint Houston's current 'a+' SACP. That reflects degradation of CenterPoint Houston's financial strength and flexibility.

An even more serious deficiency in Mr. Gorman's testimony is that he does not calculate the impact of his recommended 60/40 capital structure and 9.25% ROE on the two ratings that are more significant to the fixed income market, that is, the A3 Moody's rating and A- rating by Fitch. Had he calculated the Moody's and Fitch ratings resulting from his recommendations, the serous errors in his statement of cash flows would have been more clearly revealed and the degradation in credit status would be all the more apparent.

Q. DID YOU TEST THE RESULTS OF A 60/40 CAPITAL STRUCTURE AND 9.25% ROE ON THE COMPANY'S RATINGS FROM MOODY'S AND FITCH?

A. Yes. Exhibit R-EL- 6, pages 3-4 shows that analysis. By modeling Mr. Gorman's capital structure and ROE recommendations and applying the rating benchmarks used by Moody's and Fitch, I find that the projected financial ratios that drive the Moody's and Fitch ratings correspond to ratings of Baa2 to Baa3 for Moody's (two or more notches below the current A3 rating) and BBB for Fitch, (two notches below the current A- rating.). The result for Moody's is consistent with a comment published on June 17, 2019 in Moody's Credit Outlook, in which Moody's states that an outcome in the current rate proceeding that lowers the equity layer materially below 45% and reduces the ROE would be "credit negative".[52]

Q. WHAT IS YOUR RESPONSE TO MR. WOOLRIDGE'S POSITION REGARDING CAPITAL STRUCTURE AND ROE?

A. The capital structure recommended by TCUC witness Mr. Woolridge appears as a primary recommendation of 60% long-term debt and 40% equity and an alternate recommendation of 55.48% long-term debt, 0.9% short-term debt, and 43.62%. [53] He couples these with a recommended ROE of 9%. The likely credit ratios and ratings impacts of Mr. Woolridge's primary capital structure recommendation would be roughly similar to those I just discussed with regard to Mr. Gorman's

[52] Exhibit R-EL-5 Moody's Credit Opinion (Confidential).

[53] Woolridge at 21:1-6 and JRW-3, p.3. Converting Mr. Woolridge's alternate recommendation into the form excluding short-term debt as used by the Commission, the result is a debt-to-equity ratio of 55.9% long-term debt to 44% equity, somewhat more leveraged than the capital structure ordered by the Commission in Docket No. 38339 but less leveraged than Mr. Woolridge's primary recommendation.

recommendations, albeit somewhat lower due to the lower ROE recommendation of 9% versus 9.25%. I did not prepare a separate calculation for Mr. Woolridge's alternate capital structure recommendation.

Mr. Woolridge defends his capital structure recommendations by comparing CenterPoint Houston's request with average equity ratios he calculated for the holding companies in two proxy groups, the Hevert and Electric (i.e.,Woolridge) Proxy Groups and he concludes that CenterPoint Houston's proposed common equity ratio is higher than the average common equity ratio for the holding company participants in the two proxy groups.[54]

There are several fallacies in the comparison that Mr. Woolridge draws between the average ratio of equity to capital of the companies in the two DCF proxy groups and the regulatory capital structure proposed for CenterPoint Houston. First, the equity and debt ratios calculated in the context of rate-setting are not calculated in the same manner as the ratios calculated for the companies in the proxy groups, because the ratios computed for the proxy group companies include short-term debt, whereas the regulatory calculation excludes short-term debt. Secondly, the companies in the proxy groups are parent holding companies and not utility operating companies. A more appropriate comparison for CenterPoint Houston would be a comparison with the capital structures of the utility operating companies that are subsidiaries of the proxy group companies.

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[54] Woolridge at 17:11-18.

Q. WHAT IS THE AVERAGE EQUITY RATIO OF THE OPERATING UTILITIES OWNED BY THE PARTICIPANTS IN THE INDUSTRY PROXY GROUP?

A. In his direct testimony, Mr. McRae calculated that the average ratio of equity to capital for the utility operating subsidiaries of the companies in the Hevert Proxy Group was 53.13% over the prior eight calendar quarters.[55] Thus, contrary to Mr. Woolridge's assertions, the 50% equity ratio proposed by CenterPoint Houston is comparable to that of its peer utilities, and the 40% equity ratio that Mr. Woolridge proposes would cause CenterPoint Houston to be far more leveraged than its peer operating utility companies.

Q. ARE YOU AWARE IF ANY CRA HAS REACTED TO THE CAPITAL STRUCTURE PROPOSALS FROM STAFF AND THE INTERVENORS IN THIS CASE?

a. Yes. Moody's issued a Credit Outlook on June 17, 2019 that provided a reaction to CenterPoint Houston's filing and the positions taken by intervenors and Staff in this proceeding. In particular, Moody's reports that the positions taken by intervenors and regulatory staff are "credit negative." The report highlights the fact that intervenors all recommend a lower ROE and equity layer than CenterPoint Houston is seeking, and states that an [redacted] Further, Moody's states that without a positive outcome from the rate case, it sees [redacted]

[55] McRae Direct Testimony at 33:19-21.

[redacted]

I have provided a confidential copy of the June 17, 2019 Credit Outlook as Exhibit R-EL-5 (Confidential).

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING CAPITAL STRUCTURE AND FINANCIAL STRENGTH.

A. The Commission should disregard the testimony of the intervenor witnesses and Staff witness regarding capital structure and financial strength. Their positions are unsupported, and if adopted by the Commission are likely to weaken the financial health of CenterPoint Houston and lead to credit downgrades.

V. <u>CONCLUSION</u>

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. Summing up my rebuttal testimony, I make the following conclusions and recommendations.

1. **Intercompany Risks and Bankruptcy Risk**: In order to justify the imposition of new ring-fencing commitments, Mr. Tietjen overstates risks to CenterPoint Houston by suggesting a false analogy between CenterPoint Energy and Energy Future Holdings; in fact, no real parallel exists. The witnesses Messrs. Gorman and Griffey exaggerate the supposed intercompany risks to CenterPoint Houston of its association with its parent and sister companies, primarily by placing undue emphasis on the credit ratings of Standard & Poor's, ignoring the ratings of the two rating agencies Moody's and Fitch that are highly influential

with fixed-income investors. A more accurate picture of CenterPoint Houston's financial status is provided by examining the ratings and ratios of Moody's and Fitch, as I have done in this rebuttal testimony. The Commission should reject the views of witnesses Gorman, Griffey, and Tietjen on this point.

2. **Ring-Fencing Mechanisms**: CenterPoint Houston has a robust set of protective measures in place that provide an appropriate level of separation among the utility and its owner and sister companies. The prudent management practices and policies of within the corporate group are evidenced by the existence of a thorough set of ring-fencing practices that I document that are now in effect at CenterPoint Houston. By following the existing protective measures, CenterPoint Houston is not at risk of being drawn into the very unlikely bankruptcy of its parent or sister companies. Also, the existing practices assure that CenterPoint Houston can maintain access to sources of funding and liquidity in order to sustain itself if necessary as a viable individual entity. The list of mandatory ring-fencing commitments proposed by Mr. Tietjen and Mr. Griffey is problematic on several counts. First, there is no evidence whatsoever of any abuse or likely abuse by CNP of its relationship as a parent company that would justify imposing ring-fencing mandates. Second, I find that several proposed commitments on the list are ill-conceived and would likely create new problems of implementation and interpretation. Third, the Commission would have to go far beyond its clear authority and historical precedents to order such commitments without the consent of CenterPoint

Energy and the Company. The Commission should not seek to impose mandatory ring-fencing commitments upon the Company.

3. **Capital Structure and Financial Strength**: The 60% debt, 40% equity capital structure recommended by the witnesses Messrs. Gorman, Woolridge and Ordonez would represent a harmful level of financial leverage. That heightened leverage along with the low ROEs recommended by the opposing witnesses would cause a sharp erosion of the Company's cash flow financial ratios and undermine the Company's existing ratings of A3 by Moody's and A- by Fitch. My analysis indicates that the pro forma financial ratios of CenterPoint Houston would be consistent with downgrades by Moody's to Baa2 or Baa3 and by Fitch to BBB, fairly dramatic downgrades of approximately two notches relative to the current ratings. Imposing that capital structure in combination with low ROEs would be highly likely to cause a reversion to the weak credit status of CenterPoint Houston that the Commission remedied in 2011 when it authorized higher equity for the utility in Docket No. 38339. All three credit rating agencies would be likely to amend their current favorable views of the regulatory environment for TDUs in the Texas jurisdiction The Commission should reject the recommendations by Messrs. Gorman, Woolridge and Ordonez to order a more leveraged capital structure.

STATE OF NEW YORK §
§
COUNTY OF New York **§**

AFFIDAVIT OF ELLEN LAPSON

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

1. "My name is Ellen Lapson. 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.

Ellen Lapson
Ellen Lapson, CFA

SUBSCRIBED AND SWORN TO BEFORE ME on this 17 day of June, 2019.

Notary Public in and for the State of New York

My commission expires: September 20, 2020

JIMMY MA
Notary Public, State of New York
No. 01MA6116017
Qualified in New York County
Commission Expires Sept. 20, 2020

EXPERIENCE AND QUALIFICATIONS
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SUMMARY OF QUALIFICATIONS

Industry expert on financing utilities and infrastructure projects. Over 40 years of professional experience in commercial and investment banking, securities analysis, and credit ratings. Focus on utilities, power generation and alternative energy sources, natural gas and fuels, corporate and project finance. Provide credit rating advisory services.

Develop financial training programs and materials; provide executive training in utility financial analysis and credit analysis.

Consult and provide expert witness testimony in matters involving capital access for infrastructure, energy and utilities. (See pages 3-5.)

MBA in accounting and finance; Chartered Financial Analyst (CFA).

EMPLOYMENT

Lapson Advisory
Principal
Dec. 2011 to present

Financial consulting services to utilities and developers of infrastructure projects. Financial strategy and credit advisory for power, energy, infrastructure companies, and utilities. Expert witness testimony on financial and regulatory topics relating to utilities and infrastructure finance. Design and conduct financial and credit training.

Fitch Ratings
Utilities, Power & Gas
Managing Director
1999-2011
Senior Director
1994-1999

Chair of Fitch's global Corporate Finance Criteria Committee overseeing criteria for rating corporations, financial institutions, insurers, REITs, and project finance transactions (2010-2011).

Manager or primary analyst on credit ratings of over 200 utility, pipeline, power generation companies. Utility tariff monetization. Senior member of rating committees for utilities and energy and power-related projects.

Liaison with utility sector fixed income investors, focusing on 50 largest institutional investors holding utility and power bonds, buy-side and sell-side analysts, and utility bankers.

JP Morgan Chase (formerly Chemical NY Corp.) Vice President 1975-94 Asst. Vice President 1974-1975	Managed financial advisory transactions, structured debt private placements, syndicated credit facilities for utilities, mining and metals, project finance. Structured financing for utility regulatory assets (first of its kind "stranded cost" securitization transaction) for Puget Energy, 1992-94. Led financing for bankrupt utility as debtor-in-possession; prepared financing plans for distressed utilities; structured exit financing for reorganization of two utilities emerging from Chapter 11. Divisional Controller - 1981-1986
Argus Research Corp. Equity Security Analyst – Utilities 1969-1974	Equity analysis of U.S. electric and gas utilities, natural gas pipelines, and telecommunications companies. Modeling and projecting corporate financial statements. Research coverage and reports.

EDUCATION & CHARTER

Stern School of Business, New York University, MBA, 1975
Major concentration: Accounting
Master's Thesis: Cash Flow vs. Accrual Accounting Data in Utility Equity Valuation
Chartered Financial Analyst (CFA) since 1978
Barnard College, Columbia University, BA, 1969

PROFESSIONAL ASSOCIATIONS

Institute of Chartered Financial Analysts, 1978 - present
Wall Street Utility Group, 1996 - present

ADVISORY COUNCILS AND BOARD SERVICE

Rocky Mountain Institute Sustainable Finance Advisory Board member. 2016 to 2018.

Represented U.S. investment community in advisory panel on International Accounting Standard Board proposals for financial reporting for rate-regulated activities, sponsored by Edison Electric Institute and American Gas Association, Dec. 2014

National Academy of Sciences/ National Research Council, Resilient America Forum, July 2014.

MIT Energy Institute, External Advisory Council, The Future of Solar Energy, 2012-2014.

Electric Power Research Institute, Advisory Council, 2004-2011; Chair, 2009 and 2010.

EXPERT WITNESS TESTIMONY

Jurisdiction	Proceeding	Topic
Public Utilities Commission Texas	Docket No. 48929, Application of Oncor Electric Delivery Co. LLC, Sharyland Utilities LP, and Sempra Energy…, on behalf of Sharyland Utilities (2019)	Ring-fencing for formation of an electric transmission utility
Public Utilities Commission of Colorado	Proceeding No. 17AL-0363G, Filing to Revise Gas Tariff, on behalf of Xcel Public Service Co, of Colorado (2018)	Cash flow and credit impacts of tax reform; capital structure
South Carolina Public Service Commission	Docket No. 2017-370-E; Joint Application for Merger and for Prudency Determination, on behalf of South Carolina Electric & Gas Company (2018)	Benefits of merger and proposed rate plan; implications for cash flow and access to capital.
U.S. Federal District Court, District of SC	Civil Action No.: 3:18-cv-01795-JMC, Motion for Preliminary Injunction, on behalf of South Carolina Electric & Gas	Adverse impact of Commission ordered rate cut compliant with Act
Public Utilities Commission Texas	Docket No. 48401, Texas-New Mexico Power Co. Application to Change Retail Rates, on behalf of TNMP (2018)	Cash flow and credit impacts of tax reform
Public Utilities Commission Texas	Docket No. 48371, Entergy Texas Inc., Application to Change Retail Rates, on behalf of ETI (2018)	Cash flow and credit impacts of tax reform
Public Utilities Commission Texas	Docket No. 47527, Southwestern Public Service Co. Application for Retail Rates, on behalf of SPS Co. (2018)	Adverse cash flow impacts of tax reform
New Mexico Public Regulation Commission	Case No. 17-00255-UT, Southwestern Public Service Co. Application for Retail Rates, on behalf of SPS Co. 2018)	Adverse cash flow impacts of tax reform
South Carolina Public Service Commission	Docket No. 2017-305-E, Response to ORS Request for Rate Relief, on behalf of S. Carolina Electric and Gas (2017)	Adverse financial implications of rate reduction sought by ORS
DC Public Service Commission	Formal Case No. 1142, Merger Application of AltaGas Ltd. and Washington Gas Light, Inc. (2017)	Ring-fencing for utility merger; financial strength
Public Service Commission of Maryland	Docket No. 9449, In the Matter of the Merger of AltaGas Ltd. and Washington Gas Light, Inc. (2017)	Ring-fencing for utility merger; financial strength
Public Utilities Commission Texas	Docket No. 46957, Application of Oncor Electric Delivery LLC to Change Rates, on behalf of Oncor. (2017)	Appropriate capital structure. Financial strength.
Public Utilities Commission Texas	Docket No. 46416, Application of Entergy Texas, Inc. for a Certificate of Convenience and Necessity, Montgomery County, on behalf of Entergy Texas (2016-2017)	Debt equivalence and capital cost associated with capacity purchase obligations (PPA)

Jurisdiction	Proceeding	Topic
U.S. Federal Energy Regulatory Commission	Dockets No. EL16-29 and EL16-30, NCEMC, et al. vs Duke Energy Carolinas and Duke Energy Progress, on behalf of the Respondents (2016)	Capital market environment affecting the determination of the cost of equity capital
Hawaii Public Utilities Commission	Docket No. 2015-0022, Merger Application on behalf of NextEra Energy and Hawaiian Electric Inc. (2015)	Ring-fencing and financial strength
U.S. Federal Energy Regulatory Commission	Dockets No. EL14-12 and EL15-45, ABATE, vs MISO, Inc. et al., on behalf of MISO Transmission Owners (2015)	Capital market environment; capital spending and risk
U.S. Federal Energy Regulatory Commission	Dockets No. EL12-59 and 13-78, Golden Spread Electric Coop., on behalf of South-western Public Service Co. (2015)	Capital market environment; capital spending and risk
U.S. Federal Energy Regulatory Commission	Dockets No. EL13-33 and EL14-86, ENE et al. vs. Bangor Hydro-Electric Co. et al., on behalf of New England Transmission Owners. (2015)	Capital market environment affecting the measurement of the cost of equity capital
U.S. Federal Energy Regulatory Commission	Dockets No. ER13-1508 et alia, Entergy Arkansas, Inc. and other Entergy utility subsidiaries, on behalf of Entergy Services Inc. (2014)	Capital market environment affecting the measurement of the cost of equity capital
Delaware Public Service Commission	DE Case 14-193, Merger of Exelon Corp. and Pepco Holdings, Inc. on behalf of the Joint Applicants (2015)	Ring-fencing for utility merger; avoidance of financial harm
Maryland Public Service Commission	Case No. 9361, Merger of Exelon Corp. and Pepco Holdings, Inc. on behalf of the Joint Applicants (2015)	Ring-fencing for utility merger; avoidance of financial harm
New Jersey Board of Public Utilities	BPU Docket No. EM 14060581, Merger of Exelon Corp. and Pepco Holdings, Inc., on behalf of the Joint Applicants (2015)	Ring-fencing for utility merger; avoidance of financial harm
U.S. Federal Energy Regulatory Commission	Docket ER15-572 Application of New York Transco, LLC, on behalf of NY Transco, LLC. (2015)	Incentive compensation for electric transmission; capital market and financial strength
U.S. Federal Energy Regulatory Commission	Docket EL 14-90-000 Seminole Electric Cooperative, Inc. and Florida Municipal Power Agency vs. Duke Energy FL on behalf of Duke Energy (2014)	Capital market environment affecting the determination of the cost of equity capital
DC Public Service Commission	Formal Case No. 1119 Merger of Exelon Corp. and Pepco Holdings Inc., on behalf of the Joint Applicants (2014-2015)	Ring-fencing for utility merger; avoidance of financial harm

Jurisdiction	Proceeding	Topic
U.S. Federal Energy Regulatory Commission	Docket EL14-86-000 Attorney General of Massachusetts et. al. vs. Bangor Hydro-Electric Company, et. al on behalf of New England Transmission Owners (2014)	Return on Equity; capital market environment
Arkansas Public Service Commission	Docket No. 13-028-U. Rehearing direct testimony on behalf of Entergy Arkansas. (2014)	Investor and rating agency reactions to ROE set by Order.
Illinois Commerce Commission	Docket No. 12-0560 Rock Island Clean Line LLC, on behalf of Commonwealth Edison Company, an intervenor (2013)	Access to capital for a merchant electric transmission line.
U.S. Federal Energy Regulatory Commission	Docket EL13-48-000 Delaware Division of the Public Advocate, et. al. vs. Baltimore Gas and Electric Company and PEPCO Holdings et al., on behalf of (i)Baltimore Gas and Electric and (ii) PEPCO and subsidiaries (2013)	Return on Equity; capital market view of transmission investment
U.S. Federal Energy Regulatory Commission	Docket EL11-66-000 Martha Coakley et. al. vs. Bangor Hydro-Electric Company, et. al on behalf of a group of New England Transmission Owners (2012-13)	Return on Equity; capital market view of transmission investment
New York Public Service Commission	Cases 13-E-0030; 13-G-0031; and 13-S-0032 on behalf of Consolidated Edison Company of New York. (2013)	Cash flow and financial strength; regulatory mechanisms
Public Service Commission of Maryland	Case. 9214 "In The Matter Of Whether New Generating Facilities Are Needed To Meet Long-Term Demand For Standard Offer Service", on behalf of Baltimore Gas and Electric Co., Potomac Electric Power Co., and Delmarva Power & Light (2012)	Effect of certain power contracts on the credit and financial strength of MD utility counterparties

CONSULTING & ADVISORY ASSIGNMENTS

NJ American Water Co. 2018	Analyzed impacts of tax reform on water utility's cash flow and ratings. Objective: Regulatory strategy
AltaGas Ltd. 2017	Credit advisory on ratings under merger and no-merger cases. Objective: Compare strategic alternatives, M&A
Entergy Texas, Inc. 2016	Research study on debt equivalence and capital cost associated with capacity purchase obligations. Impact of new GAAP lease accounting standard on PPAs.

	Objective: Economic comparison of resource options.
Utility (Undisclosed) 2014	Evaluated debt equivalence of power purchase obligations. Objective: Clarify credit impact of various contract obligations.
International Money Center Bank (Undisclosed) 2014	Research study and recommendations on estimating Loss Given Default and historical experience of default and recovery in the regulated utility sector. Objective: Efficient capital allocation for loan portfolio.
GenOn Energy Inc. 2012	White Paper on appropriate industry peers for a competitive power generation and energy company. Objective: Improve peer comparisons in shareholder communications and for compensation studies.
Transmission Utility (Undisclosed) 2012	Recommended the appropriate capital structure and debt leverage during a period of high capital spending. Objective: Make efficient use of equity during multi-year capex project; preserve existing credit ratings.
Toll Highway (Undisclosed) 2011	Advised on adding debt while minimizing risk of downgrade. Recommended strategy for added leverage and rating agency communications. Objectives: Increase leverage and free up equity for alternate growth investments, while preserving credit ratings.
District Thermal Cooling Company (Undisclosed)	Recommended a project loan structure to deal with seasonal cash flow. Optimized payment schedule, form and timing of financial covenants. Objectives: Reduce default risk; efficient borrowing structure.

PROFESSIONAL AND EXECUTIVE TRAINING

In-house Training, Southern California Edison Co., Rosemead CA	Designed and delivered in-house training program on evaluating the credit of energy market counterparties, Nov. 2016
In-house Training, Undisclosed Financial Institution, NYC	Developed corporate credit case for internal credit training program and coordinated use in training exercise, 2016
CoBank, Denver CO	Designed and delivered "Midstream Gas and MLPs: Advanced Credit Training", 2014
Empire District Electric Co., Joppa MO	Designed and delivered in-house executive training session Utility Sector Financial Evaluation, 2014
PPL Energy Corp, Allentown PA	Designed and delivered in-house Financial Training, 2014
SNL Knowledge Center Courses	"Credit Analysis for the Power & Gas Sector", 2011-2014 "Analyst Training in the Power & Gas Sectors: Financial Statement Analysis", 2013-2014
EEI Transmission and Wholesale Markets School	"Financing and Access to Capital", 2012

National Rural Utilities Coop Finance Corp.	"Credit Analysis for the Power Sector", 2012
Judicial Institute of Maryland (Private seminar for MD judges)	"Utility Regulation and the Courts: Impact of Court Decisions on Financial Markets and Credit", Annapolis MD, 2007
Edison Electric Institute	"New Analyst Training Institute: Fixed Income Analysis and Credit Ratings", 2008 and 2004

PUBLICATIONS/
BOOK CHAPTERS

"Managing Credit Risk in the Electricity Market", Ellen Lapson and Denise Furey, chapter 21 in Managing Energy Price Risk, 4th Edition, Vincent Kaminski ed., Risk Publications, London, 2016.

"Standard Market Design: Credit of Some Sectors Will Be Affected by SMD", Ellen Lapson. Chapter in: Electric & Natural Gas Business: Understanding It, 2003 and Beyond, Robert E. Willett ed., Financial Communications Company, Houston, TX, 2003.

Energy Modeling and the Management of Uncertainty, Robert Jameson ed., Risk Publications, London, 1999. "Managing Risks Through Contract Technology: Know Your Counterparty", Ellen Lapson, pp 154-155.

"Managing Credit Risk in the Electricity Market", Ellen Lapson (pp 281-291). Chapter in: The US Power Market: Restructuring and Risk Management, Robert Jameson ed., Risk Publications, London, 1997.

Deregulation of the Electric Utility Industry – Proceedings of the AIMR Seminar; ed. AIMR (CFA Institute), Charlottesville, VA, 1997. Speaker 3: E. Lapson.

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News Release

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Oct 01, 2018

CenterPoint Energy closes concurrent upsized public offerings of $2.8 billion in net proceeds

Offerings include $1.90 billion Common Stock, $978 million Depositary Shares representing interests in Series B Mandatory Convertible Preferred Stock, which included the full exercise of both respective overallotment options

HOUSTON, Oct. 1, 2018 /PRNewswire/ -- CenterPoint Energy, Inc. (NYSE: CNP) today announced it has closed its concurrent underwritten public offerings of approximately 69,633,027 shares of common stock at a price of $27.25 per share and 19,550,000 depositary shares, each representing a 1/20th interest in a share of its 7.00% Series B Mandatory Convertible Preferred Stock (Series B Preferred Stock), at a price of $50 per depositary share. The amounts sold include 9,082,568 shares of common stock and 2,550,000 depositary shares issued pursuant to the exercise in full of the options granted to the underwriters in each of the respective offerings to purchase additional shares of common stock and depositary shares, respectively.

CenterPoint® Energy

offerings of approximately $1.85 billion and $0.95 billion, respectively, in each case after deducting issuance costs and discounts for the respective offerings, to finance a portion of the cash consideration payable by CenterPoint Energy in connection with its pending merger with Vectren Corporation (Vectren Merger), as well as a portion of the related fees and expenses. If for any reason the Vectren Merger is not completed, CenterPoint Energy expects to use the net proceeds from these offerings for general corporate purposes, which may include, at its sole discretion, exercising its option to redeem the Series B Preferred Stock and the corresponding depositary shares for cash, debt repayment, including repayment of commercial paper, capital expenditures, investments and repurchases of its common stock at the discretion of its board of directors.

Each depositary share entitles the holder of such depositary share, through the depository, to a proportional fractional interest in the rights and preferences of the Series B Preferred Stock, including conversion, dividend, liquidation and voting rights, subject to the terms of the deposit agreement.

The depositary shares have been authorized for listing, upon official notice of issuance, on the New York Stock Exchange under the symbol CNPPRB. CenterPoint Energy's common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange under the symbol CNP.

Joint book-running managers and representatives of the underwriters of the concurrent offerings were Morgan Stanley, Goldman Sachs & Co. LLC, Citigroup and Wells Fargo Securities.

Additional joint book-running managers of the concurrent offerings were Barclays, Credit Suisse, Deutsche Bank Securities and J.P. Morgan.

Senior co-managers of the concurrent offerings were Mizuho Securities, MUFG and RBC Capital Markets.

Co-managers of the concurrent offerings were BNY Mellon Capital Markets, LLC, BTIG (common stock offering only), Comerica Securities, Evercore ISI, PNC Capital Markets LLC, R. Seelaus & Co., Inc. (a diversity and inclusion firm (D&I)), Ramirez and Co., Inc., (D&I), Regions Securities LLC, TD Securities, The Williams Capital Group, L.P. (D&I), Wolfe Capital Markets and Advisory, and US Bancorp (depositary share offering only).

Each offering was made pursuant to CenterPoint Energy's effective shelf registration statement on Form S-3, as amended, previously filed with the Securities and Exchange Commission (SEC).

Each offering was made only by means of a prospectus and related prospectus supplement meeting the requirements of Section 10 of the Securities Act of 1933, as amended. Copies of the prospectus supplement and accompanying base prospectus meeting such requirements related to each offering may be obtained free of charge from the SEC's website at www.sec.gov or from:

Morgan Stanley & Co. LLC
Attention: Prospectus Department
180 Varick St. 2nd Fl.
New York, New York 10014

Goldman Sachs & Co. LLC
Attention: Prospectus Department
200 West Street
New York, New York 10282
Telephone 1-866-471-2526
Email: prospectus-ny@ny.email.gs.com

Citigroup
c/o Broadridge Financial Solutions
1155 Long Island Avenue
Edgewood, New York 11717
Telephone: 1-800-831-9146

Wells Fargo Securities, LLC
Attention: Equity Syndicate Department
375 Park Avenue
New York, New York 10152
Telephone. 1-800-326-5897
Email: cmclientsupport@wellsfargo.com

This press release shall not constitute an offer to sell or the solicitation of an offer to buy the securities described herein, nor shall there be any sale of these securities in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

CenterPoint Energy, Inc., headquartered in Houston, Texas, is a domestic energy delivery company that includes electric transmission & distribution, natural gas distribution and energy services operations. The company serves more than five million metered customers primarily in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma, and Texas. The company also owns 54.0 percent of the common units representing limited partner interests in Enable Midstream Partners, LP, a publicly traded master limited partnership it jointly controls with OGE Energy Corp.Enable Midstream Partners, LP owns, operates and develops natural gas and crude oil infrastructure assets. With more than 8,000 employees, CenterPoint Energy and its predecessor companies have been in business for more than 150 years.

This press release includes forward-looking statements that are not historical facts. Actual events and results may differ materially from those projected. Forward-looking statements in this press release include, but are not limited to, the use of proceeds from the proposed offerings, the anticipated conversion date of the Series B Preferred Stock and the Vectren Merger. Factors that could affect the company's ability to complete the proposed offerings include, but are not limited to, general market conditions, investor acceptance of the proposed offerings, the satisfaction of the conditions to the proposed offerings discussed in the prospectus supplements and accompanying base prospectuses and other factors discussed in CenterPoint Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, CenterPoint Energy's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018, and June 30, 2018, and CenterPoint Energy's other SEC filings.

Factors that could affect the company's ability to complete the Vectren Merger include, but are not limited to, the satisfaction of the conditions to the Vectren Merger discussed in the prospectus supplement and accompanying base prospectus and other factors discussed in the company's SEC filings.

For more information contact
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Phone 713.207.6500

View original content to download multimedia:http://www.prnewswire.com/news-releases/centerpoint-energy-closes-concurrent-upsized-public-offerings-of-2-8-billion-in-net-proceeds-300722168.html

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Aug 22, 2018

CenterPoint Energy announces closing of Series A Perpetual Preferred Stock Offering

HOUSTON, Aug. 22, 2018 /PRNewswire/ -- CenterPoint Energy, Inc. (NYSE: CNP) today announced it has closed the previously announced underwritten public offering of 800,000 shares of its Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock, par value $0.01 per share (Series A Perpetual Preferred Stock), at a price to the public of $1,000 per share.

CenterPoint® Energy

"We are excited to complete this transaction as it represents another positive step forward on CenterPoint Energy's close of the pending merger with Vectren Corporation," said Bill Rogers, chief financial officer and executive vice president of CenterPoint Energy.

CenterPoint Energy intends to use the net proceeds of the offering of Series A Perpetual Preferred Stock of approximately $790 million (after estimated underwriters' discounts, commissions and offering expenses) to finance a portion of the cash consideration payable by CenterPoint Energy in connection with its pending merger with Vectren Corporation (Vectren Merger), as well as a portion of the related fees and expenses. If for any reason the Vectren Merger is not completed, then CenterPoint Energy expects to use the net proceeds from the offering of Series A Perpetual Preferred Stock for general corporate purposes, which may include, in CenterPoint Energy's sole discretion, debt repayment, including repayment of commercial paper, capital expenditures, investments and repurchases of its common stock at the discretion of its board of directors.

Subject to their declaration by CenterPoint Energy's board of directors, dividends will be payable on a cumulative basis semi-annually at an annual rate of 6.125% of the stated amount per share from the issue date to, but excluding September 1, 2023, and thereafter at a floating rate per annum equal to three-month U.S. dollar LIBOR for each quarterly dividend period, plus a spread of 3.270%. Dividends will be paid in arrears on March 1 and September 1 of each year, commencing on March 1, 2019, and ending on September 1, 2023, and thereafter quarterly in arrears on the first day of March, June, September and December of each year.

Goldman Sachs & Co. LLC, Morgan Stanley, J.P. Morgan, MUFG, Mizuho Securities, RBC Capital Markets, Barclays, Credit Suisse and Deutsche Bank Securities acted as joint book-running managers of the offering.

The offering of Series A Perpetual Preferred Stock was made pursuant to an effective shelf registration statement on Form S-3 previously filed with the Securities and Exchange Commission (SEC). The offering of Series A Perpetual Preferred Stock was made only by means of a prospectus and related prospectus supplement meeting the requirements of Section 10 of the Securities Act of 1933, as amended. A copy of the prospectus supplement and accompanying base prospectus meeting such requirements related to the offering may be obtained free of charge from the SEC's website at www.sec.gov.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy the securities described herein, nor shall there be any sale of these securities in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

CenterPoint Energy, Inc., headquartered in Houston, Texas, is a domestic energy delivery company that includes electric transmission & distribution, natural gas distribution and energy services operations. The company serves more than five million metered customers primarily in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma, and Texas. The company also owns 54.0 percent of the common units representing limited partner interests in Enable Midstream Partners, LP, a publicly traded master limited partnership it jointly controls with OGE Energy Corp.Enable Midstream Partners, LP owns, operates and develops natural gas and crude oil infrastructure assets. With more than 8,000 employees, CenterPoint Energy and its predecessor companies have been in business for more than 150 years.

This press release includes forward-looking statements. Actual events and results may differ materially from those projected. The statements in this press release regarding the use of proceeds from the offering of Series A Perpetual Preferred Stock and the Vectren Merger are not historical facts and are forward-looking statements. Factors that could affect the company's ability to complete the Vectren Merger include, but are not limited to, the satisfaction of the conditions to the Vectren Merger discussed in the prospectus supplement and accompanying base prospectus and other factors discussed in CenterPoint Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, CenterPoint Energy's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018, and CenterPoint Energy's other filings with the SEC.

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View original content with multimedia:http://www.prnewswire.com/news-releases/centerpoint-energy-announces-closing-of-series-a-perpetual-preferred-stock-offering-300701125.html

SOURCE CenterPoint Energy, Inc.

NYSE : CNP

$29.54

-0.06

(0.00%)

4:02 PM | JUN 18, 2019

Day High: $29.80
Day Low: $29.34
Volume: 3,700,135

Latest Annual Reports

- 2018 Annual Report
- 2019 Proxy Statement
- 2018 Form 10-K
- Corporate Responsibility Report
- Global Reporting Initiative Index

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Baa3 rating to CenterPoint Energy's Series A preferred stock

14 Aug 2018

Approximately $500 million of debt securities rated

New York, August 14, 2018 -- Moody's Investors Service ("Moody's") has assigned a Baa3 rating to CenterPoint Energy, Inc.'s (CenterPoint, Baa1 senior unsecured) approximately $500 million issuance of Series A Preferred Stock. The proceeds from the issuance will be used to help fund a portion of CenterPoint's $8.5 billion acquisition of Vectren Corp. (Vectren, not rated) that is expected to close by 31 March 2019. The rating outlook of CenterPoint is negative.

Assignments:

..Issuer: CenterPoint Energy, Inc.

....Pref. Stock Preferred Stock, Assigned Baa3

RATING RATIONALE

The Baa3 rating assigned to the fixed to floating rate cumulative redeemable preferred stock reflects the security's relative position in CenterPoint's capital structure compared to the company's senior unsecured debt given that the preferred stock is subordinated to and junior in right of payment to the senior unsecured debt. The two notch differential between the Baa3 assigned to the Series A Preferred Stock and CenterPoint's Baa1 senior unsecured rating is consistent with our methodology guidance for notching preferred securities due to structural subordination.

In our view, the Series A Preferred Stock have equity-like features which allow it to receive partial equity treatment. The security will receive basket "C" treatment (i.e. 50% equity and 50% debt) by Moody's for the purpose of adjusting financial statements. Please refer to Moody's Rating Methodology "Hybrid Equity Credit" (January 2017) for further details.

CenterPoint's Baa1 senior unsecured rating credit reflects the low business risk profiles of its electric transmission and distribution (T&D) operations at subsidiary CenterPoint Energy Houston Electric, LLC (CEHE, A3 stable) and its local distribution company (LDC) operations at subsidiary CenterPoint Energy Resources Corp. (CERC, Baa2 stable) as well as its ownership in the riskier subsidiaries CenterPoint Energy Services (CES) and Enable Midstream Partners (Enable, Baa3 stable).

On 23 April 2018, CenterPoint announced the acquisition of Vectren for $8.5 billion. The negative outlook reflects the financing plans associated with Vectren, as the company plans to fund the $8.5 billion acquisition with $6.0 billion of debt (approximately 70% of the total financing mix, including $2.5 billion assumed debt and $3.5 billion of incremental debt) and $2.5 billion of new equity (approximately 30% of the total financing mix). The outlook reflects our expectation that on a pro forma basis, the increased leverage resulting from the Vectren acquisition will put downward pressure on consolidated key credit metrics and increase CNP's ratio of holding company debt to consolidated debt to over 25%. The Vectren acquisition, if successfully consummated, provides some positive qualitative benefits including geographic and regulatory diversity in the constructive regulatory environments of Ohio and Indiana. Moody's estimates that the rate base will be over $13 billion on a pro forma basis and CenterPoint's business mix will improve to 65% regulated from 60% regulated.

CenterPoint's ratings post-acquisition are largely dependent on the financing decisions being made around the transaction. A one notch downgrade is likely at or before the closing date if the transaction is financed as currently envisioned. This would result in a deterioration of key credit metrics including cash flow from operations before changes in working capital (CFO pre-W/C to debt) in the mid-teens range on a pro forma basis and holding company debt as a percentage of total debt will increase to over 25% of consolidated debt.

Over the past few years, CenterPoint has been generating stable financial metrics, including a ratio of CFO pre-W/C to debt in the high-teens. On a pro-forma basis, Moody's expects a deterioration of CenterPoint's key credit metrics, including CFO pre-W/C to debt falling to the mid-teens.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Other factors used in this rating are described in Notching Corporate Instrument Ratings Based on Differences in Security and Priority of Claim, published in October 2017.

CenterPoint Energy, Inc. (Baa1 negative), headquartered in Houston, Texas, is a primarily regulated electric and natural gas distribution company with a joint venture interest in a midstream master limited partnership (MLP). CNP operates through two wholly owned subsidiaries, CenterPoint Energy Houston Electric, LLC (A3 stable) and CenterPoint Energy Resources Corp. (Baa2 stable). CEHE is a regulated electric T&D utility serving the greater Houston area. CERC is a local gas LDC with divisions in six states and has a 54.0% limited partner (LP) economic interest in Enable Midstream Partners, L.P. (Baa3 stable).

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

FitchRatings

Fitch Rates CenterPoint Energy's Series A Preferred Stock 'BB+'

Fitch Ratings-New York-14 August 2018: Fitch Ratings has affirmed CenterPoint Energy Inc.'s (CNP) Long-Term Issuer Default Rating (IDR) at 'BBB' and assigned a 'BB+' rating to CNP's Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Stock. The Ratings Outlook is Stable.

The perpetual preferred stock is eligible for 50% equity credit under Fitch's hybrid methodology, dated March 27, 2018, titled "Corporates Hybrids Treatment and Notching Criteria" and available at www.fitchratings.com. The key rating characteristics for the preferred stock include ability to cumulatively defer interest and payments, no maturities or call provisions for principal repayment within five years, no voting rights, and ranks only above the common equity. The net proceeds from the offering will be used to fund the proposed merger with Vectren Corporation. If the merger doesn't close, the proceeds will be used for general corporate purpose.

In April 2018, Fitch affirmed CNP's 'BBB' long-term Issuer Default Rating (IDR) and revised the Outlook to Stable from Positive following an announcement that it will acquire 100% of Vectren Corporation's equity interest. CNP plans to fund the merger with $2.5 billion of equity and $3.5 billion in debt. Vectren's low risk regulated gas and electric operations (80% of net income in 2017) in Indiana and Ohio will enhance CNP's diversification and business risk profile. However, the meaningful increase in leverage, relatively complex corporate structure and exposure to Vectren's power generation and non-utility operations, limit any upward migration of CNP's ratings at this time.

Merger closing requires approval from the Federal Communications Commission, the Federal Energy Regulatory Commission (FERC), Vectren's shareholders and approval under the Hart-Scott-Rodino Antitrust Improvements Act. Fitch understands that change of control filings are not required by the Indiana Utility Regulatory Commission (IURC) and Public Utilities Commission of Ohio (PUCO). Vectren's shareholders will vote on Aug. 28, 2018. CNP has made informational filing in both Ohio and Indiana and filed with the FERC. The transaction is expected to close in the first quarter of 2019.

KEY RATING DRIVERS

Improving Risk Profile: The acquisition will modestly increase CNP's exposure to regulated utility operations and improve geographic diversification. Pro forma, CNP's operating income in 2019, including equity earnings from investment in Enable Midstream Partners (Enable, BBB-/Stable), is estimated to be comprised of approximately 70% regulated utilities, compared to 65% without Vectren. Gas utilities will represent 31% of the pro forma operating income, up from 24%. Fitch views this trend favorably as gas utilities enjoy more supportive regulation, robust rate-base growth through politically uncontroversial gas infrastructure modernization programs and have less exposure to environmental control mandates.

Credit Metrics Impaired by Merger Financing: Fitch estimates that CNP's FFO adjusted leverage will average 5.5x in the next two years with 2019 metrics to be particularly weak due to one-time merger and integration related expenses. Fitch proportionately consolidates Enable's debt and cash flow in calculating this ratio. If Enable is not consolidated, and if including Enable's distribution in the operating cash flow, the FFO adjusted leverage will be an average of 5.2x in the next two years. Fitch believes that these metrics position CNP at the 'BBB' rating level.

Supportive Regulation: Indiana is Vectren's primary service territory with approximately 77% of the rate base at the end of 2017, followed by 15% in Ohio and 8% under FERC and shared assets. Fitch views Indiana as one of the most supportive regulatory jurisdictions in the country, allowing utilities to consistently earn near or exceed their allowed ROEs. Vectren's earned ROEs exceeded 12% from 2015 to 2017, compared with allowed ROEs ranging from 10.15% to 10.6%. Indiana utilities have full or partial decoupling or weather normalization, and the Ohio gas utility has a straight fixed variable rate structure for residential customers. All utilities have gas and fuel and cost recovery and adjustment clause, and infrastructure recovery programs. Indiana also allows recovery for environmental or federal mandates. Other mechanisms include trackers for bad debt expenses, demand side management and filing of integrated resource plans.

In the next 10 years, Vectren will invest approximately $3.8 billion in the gas utilities and $2.2 billion in the electric utility, supporting rate base growth of 7% CAGR for gas and 5% for electric. Seventy-five percent of this capex can be recovered through mechanisms and deferrals. Supportive regulation and robust infrastructure programs more than offset the tepid customer growth in Indiana and Ohio. Vectren utilities' long-term customer growth is projected to be between 0.5% to 1%, versus CEHE and CERC's 1% to 2%.

Vectren's Financial Profile: Vectren's financial profile is strong, rooted in a conservative capital structure and low leverage. Vectren and Vectren Utility Holdings Inc. (VUHI)'s FFO adjusted leverage was in the mid-3x and low 3x, respectively, in the last two years. These credit metrics, combined with the supportive regulatory framework in Indiana and Ohio, could position them strongly in the 'A' rating category. However, Fitch expects these credit metrics to weaken primarily due to increasing capex, and impact from the tax reform. The company will increase capex spending by nearly 40% in year 2021 and 2022 at the utilities primarily for the construction of the new natural gas combined cycle plant. Vectren's rating assignment and its subsidiaries will be subject to review of the final capital structure, updated credit metrics and clarity of the regulatory treatment of the tax reform benefit.

Unregulated Operations: Unregulated operations will represent approximately 29% of the combined operating income in 2019, compared with 35% currently at CNP. This includes Enable's equity income contribution, which will decline modestly to 20% in 2018 from 23% in 2017. The decline will likely continue as CNP executes its plan to sell the common units in the open market, a credit positive. Fitch estimates that Vectren's non-utility businesses represent approximately 4% of the total operating income in 2019. They are expected to grow within the new entity but will remain manageable. Similar to CNP's existing non-utility operations, they are complementary to the core utility business. Vectren's non-utility segment includes infrastructure services and energy services. Infrastructure services provide underground pipeline construction and repair services. Energy services provide renewable project development and energy efficiency management.

Exposure to Generation: Vectren's electric utility owns and operates 1.248 GW of power generation including 1 GW coal, 245 MW gas, and 3 MW of landfill gas electric. Though exposure to power generation is credit negative, CNP is expected to continue Vectren's current plan to retire or exit 70 MW of natural gas generation in the next two years and 730 MW of coal generation in 2023 and 2024. Additionally, Vectren plans to construct a 700 MW natural gas combined cycle plant by 2024 and add 50 MW of solar generation. Indiana allows pre-approval and recovery of environmental mandates with a return. In early 2015, IURC approved Vectren's request for capital investment to comply with the mercury and air toxic standards for its coal plants and address certain issues at the A.B. Brown station. In February 2018, Vectren filed a request to begin recovery for the projects. An order is expected in early 2019.

Complex Corporate Structure: Assuming no changes in the existing corporate structure at Vectren, the merger will add more complexity in CNP's existing structure. VUHI currently funds the short-term and long-term financing needs of the regulated utilities, which also have their own debt prior to the formation of VUHI. VUHI's obligations are severally and jointly guaranteed by the utilities. Vectren Corporation guarantees the debt obligations at Vectren Capital Corp., which funds the non-utility business. Additionally, the transaction will increase CNP's parent-level debt as a percentage of total debt, reversing the positive and declining trend over the last few years.

DERIVATION SUMMARY
Fitch expects CNP to be well positioned relative to its peers. CNP's pro forma FFO-adjusted leverage is estimated to be in the mid-5x in the next two years, weaker than Sempra Energy's (BBB+/Stable) high 4x and OGE Energy's (BBB+/Stable) 3.8x, but in line with NiSource Inc's 5.5x (BBB/Stable). CNP's business model carries higher risk than NiSource's fully regulated business model, due to its investment in the Enable and other non-utility businesses. Similar to Sempra Energy, approximately 70% of CNP's operating income is from regulated utilities. However CNP's utilities are more geographically diversified and are more insulated from distributed generation and aggressive renewable standards than Sempra's California utilities. CNP and OGE Energy are both exposed to the commodity sensitive midstream business (Enable). CNP's utility operations are diversified and enjoy supportive regulations whereas OGE's utility, Oklahoma Gas and Electric, is concentrated in Oklahoma and has experienced negative regulatory treatment in recent years.

KEY ASSUMPTIONS
Fitch's key assumptions within its rating case for the issuers include:
--CNP will issue $2.5 billion equity (including common equity and equity content of mandatory convertible equity securities and the series A perpetual preferred stock) and $3.5 billion debt;
--Merger will close in the first quarter of 2019;
--No change in assumptions for the capital investment in each company's regulated and unregulated business segments per recent disclosures;
--Certain amount of sale of Enable's common units is assumed from 2019 to 2021.

RATING SENSITIVITIES
Future Developments That May, Individually or Collectively, Lead to Positive Rating Action
--An upgrade is unlikely in the next two years due to the Outlook revision to Stable from Positive because of the merger. Nevertheless, if the FFO adjusted leverage is below 5x on a sustained basis, assuming no change in the business risk profile, CNP could be upgraded.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action
--CNP and Vectren's utilities' regulatory environment becomes unfavorable to the point that they are unable to
receive timely and reasonable recovery in rates;
--Enable requires a meaningful amount of equity support;
--The inability to execute the planned sale of Enable units due to poor market conditions;
--Inability to issue the sizeable common equity to finance the merger, resulting in material increase in leverage;
--FFO adjusted leverage exceeds 6x on a sustained basis.

FULL LIST OF RATING ACTIONS

Fitch has assigned the following rating:

CenterPoint Energy, Inc.:
--Preferred Stock at 'BB+'

Fitch has affirmed following ratings:

CenterPoint Energy, Inc.:
--Long-Term IDR at 'BBB';
--Senior unsecured notes and pollution control revenue bonds at 'BBB';
--Junior subordinated debenture (ZENS) at 'BB+';
--Short-term IDR/Commercial paper at 'F2';
--Senior secured pollution control revenue bonds at 'A+' (secured by general mortgage bonds of CenterPoint Energy Houston Electric).

The Rating Outlook is Stable.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Hybrids Treatment and Notching Criteria (pub. 27 Mar 2018) (https://www.fitchratings.com/site/re/10024296)
Corporate Rating Criteria (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10023785)
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10024585)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/10041348)
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S&P Global
Ratings

Research

CenterPoint Energy Inc.'s $500 Million Preferred Stock Rated 'BBB', On CreditWatch Negative

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NEW YORK (S&P Global Ratings) Aug. 14, 2018--S&P Global Ratings today assigned its 'BBB' issue-level rating to CenterPoint Energy Inc.'s $500 million series A fixed-to-floating-rate cumulative redeemable perpetual preferred stock. The rating is on CreditWatch with negative implications. All existing ratings are unchanged. CenterPoint intends to use the net proceeds to partly finance the previously announced Vectren Corp.'s acquisition.

We classify these securities as hybrid securities that have intermediate equity credit (50%). We rate the securities two notches below our 'A-' issuer credit rating on CenterPoint to reflect the instrument's subordination and the company's ability to defer interest payments. We base our intermediate equity treatment on the instrument's permanence, subordination, and deferability features, as defined under our criteria for hybrid securities.

The security's perpetual nature, along with the company's limited ability and lack of incentives to redeem the issue for a long-dated period, meets our standards for permanence. The interest payments are deferrable, fulfilling the deferability element in the criteria. The instruments are also subordinated to all existing and future debt obligations, thereby satisfying the condition for subordination.

The issuer credit rating on CenterPoint is 'A-' and it is on CreditWatch negative. For the issuer credit rating rationale, see the research update on

CenterPoint published April 24, 2018.

RELATED CRITERIA

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

RATINGS LIST

CenterPoint Energy Inc.	
Corporate Credit Rating	A-/Watch Neg/A-2
New Ratings	
CenterPoint Energy Inc.	
Perpetual Preferred Stock	
$500 Mil. Series A Fixed-to-Floating Rate	
Cumulative Redeemable	BBB/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Methods to Reconcile Split Credit Ratings

Rated Company: Centerpoint Energy Houston

I-a. Middle of Three Ratings

	CRA	*Actual Rating*	*Converted to common scale*
	S&P	BBB+	BBB+
Middle>>	Moody's	A3	A-
	Fitch	A-	A-

I-b. Predominant Two out of Three

	S&P	BBB+
Preponderant >>	Moody's	A-
	Fitch	A-

II. Averaging with Point Scores

	Actual Rating	*Assign Point Score**
S&P	BBB+	8
Moody's	A3	7
Fitch	A-	7
Total Points		22
Average Points		7.333
Equivalent Rating		A-

*Example of Scoring System

S&P or Fitch	*Moody's*	*Score Assigned*
AAA	Aaa	1
AA+	Aa1	2
AA	Aa2	3
AA-	Aa3	4
A+	A1	5
A	A2	6
A-	A3	7
BBB+	Baa1	8
BBB	Baa2	9
BBB-	Baa3	10
BB+	Ba1	11
BB	Ba2	12
BB-	Ba3	13

Source: Lapson Advisory

Ring-Fencing Objectives and Methodology

Checklist of Protective Policies and Practices

TRACK I: Preserves Indivdual Viability

I. Viability: Able to Maintain Its Assets and Solvency

I.A. Prevent the diversion of Protected Co. assets

1 Is a separate legal entity; maintains its separate name and identity
2 Maintains separate financial accounts in its own name; no commingling of assets.
3 Protected Company owns all of its physical assets in its own name.
4 Has policy/procedures to control dividends from Protected Co.
5 Has policy/procedures to control asset transfers and asset diversion from the Protected Company to parent or sister companies.
Assets are not pledged for the benefit of parent or sister companies.
6 Transfers of assets, services, and supplies between the Protected Company and its parent or sister companies are subject to an arm's length standard.
7 Protected Co. does not lend to parent or affiliates

I.B. Maintains access to its own financing and liquidity

7 Protected Company has separate 3rd party borrowing sources.
7a > Has credit ratings in its own name.
8 Protected Company's ability to borrow is not contingent on financial condition of parent or affiliates.
8a > No Cross default / cross acceleration with parent or affiliates
8b > No covenants tied to ratings of parent or affiliates

I.C. Is insulated from liabilities of parent and affiliates

9 Protected Co. does not guarantee the liabilities of affiliates
10 Parent and affiliates do not represent to the public or creditors that the Protected Co. is liable for parent or affiliate obligations
11 Not subject to joint tax liability, other than as required by law

I.D. Enhances Financial Viability by controlling financial leverage

12 Avoids excessive debt leverage

a. A provision may appear in more than one category if appropriate; b. Source: Lapson Advisory.

Checklist of Protective Policies and Practices

TRACK II: Avoids Consolidation in Bankruptcy of Parent or Affiliates

II.A. Has barriers to involuntary consolidation

Is a separate legal entity; separate name and identity
[Same as No. 1 above]
Maintains separate financial accounts. No commingling of assets.
[Same as No. 2 above]
Arm's length standard for transfers of assets, services and supplies
[Same as No. 6 above]
13 Protected Co. does not represent that it is responsible for obligations of parent or affilliates.
14 Protected Co. has separate accounting books & records.
15 Protected Co. maintains all legal formalities to preserve its existence.
16 Protected Co. does not own shares of parents or affiliiates

a. A provision may appear in more than one category if appropriate; b. Source: Lapson Advisory.

Ring-Fencing Objectives and Methodology

Ring-Fencing and Governance Practices (a) (b) | *CenterPoint Houston (CEHE) Policies and Practices* | *Details*

I. Viability: Able to Maintain Its Assets and Solvency

I.A. Prevent the diversion of Protected Co. assets

1 Separate legal entity; separate name and identity	CEHE is a separate LLC that conducts all its business under its own name and identity. It is a separate SEC registrant.	Amended and Restated LLC Agreement, Aug. 2, 2011; SEC Form S-3
2 Separate financial accounts.	CEHE has separate bank accounts in which it deposits the proceeds of its receivables and from which it makes payments.	Factual, CEHE / CNP Practice
3 Protected Company owns all of its physical assets in its own name.	All CEHE physical assets are held by CEHE. Property, plant & equipment are subject to the lien of Mortgage Bond Indentures.	General Mortgage Indenture of 2002 and First Mortgage and Deed of Trust 1944
4 Controls on dividends from Protected Co.	Quarterly, CEHE makess upstream dividends of approximately 60% of net income. Once annually, CNP takes an adjusting dividend payment or makes an equity infusion to true up the capital structure as needed to maintain the authorized regulatory capital structure. Dividends are limited by covenant pursuant to the Revolving Credit Agreement if debt would be greater than 65% of capital.	CEHE Response PUC 13-01
5 Controls on asset transfers and asset diversion	CEHE does not transfer property to parent company or make any payments to parent or affiliates, except as follows: Quarterly dividend payments to parent as above; monthly intercompany payments for certain shared corporate services are subject to allocations that are reviewed by PUCT in general rate cases. Any sale or transfer of property would require a waiver from mortgage indentures.	CEHE Response to PUC 13-0; CNP Inter-company Settlements Agreement; Mortgage Indentures (1944 and 2002).
	CEHE has never pledged and will not pledge any assets on behalf of or for the benefit of CNP or any affiliate.	Restriction on Liens in Revolving Credit Agreement; CEHE/CNP practice
	CEHE's physical assets are pledged for the benefit of bondholders under its two secured bond indentures.	Mortgage Indentures of 1944 and 2002
6 Arm's length standard for transfers of assets, services and supplies	Transactions with affiliates or CNP for services and supplies are subject to an arms-length standard (PUCT Affiliates Standard) and subject to PUC review in rate cases.	PUCT Affiliates Standard regulations; CNP Intercompany Settlements Agreement
7 Protected Co. does not lend to parent or affiliates	CEHE does not make loans to CNP or to any of its regulated or non-regulated affiliates.	Factual, CEHE / CNP Practice
	Instead, CEHE participates in a money pool with its parents or affiliates, subject to the terms of the CenterPoint Money Pool Agreement, which are advantagous to CEHE.	Centerpoint Money Pool Agreement

a. A provision may appear in more than one category if appropriate; b. Source: Lapson Advisory;

I.B. Maintains access to its own financing and liquidity

7	Has separate 3rd party borrowing sources.	CEHE is a SEC registrant. As reported in Form 10-K, CEHE has significant capacity to issue bonds under its General Mortgage. CEHE maintans an independent, committed $300 MM revolving credit facility that can be expanded.	S-3 registration statement. Revolving Credit Commitment
7a	> Has credit ratings in its own name.	Moody's, S&P, and Fitch maintain credit ratings for CEHE in its own name.	Rating agency websites
8	Able to borrow, not contingent on financial condition of parent or affiliates	Access to drawings under CEHE's committed revolving credit facility is not subject to any conditions regarding CNP or affiliates. CEHE can draw even if parent or affiliate is in default	Revolving Credit Commitment
8a	> No Cross default / cross acceleration with parent or affiliates	Default by CNP or any other affiliate is not an event of default or acceleration under CEHE's debt agreements and revolving credit facilities.	Revolving Credit Commitment
8b	> No covenants tied to ratings of parent or affiliates	There are no affirmative or negative covenants or conditions that impede borrowing in debt or credit facilities of CEHE tied to ratings of CNP or any affiliate. (CNP change of control would trigger default of CEHE; it would require the RC banks to grant a waiver.)	Revolving Credit Commitment

I.C. Is insulated from liabilities of parent and affiliates

9	Protected Co. does not guarantee the liabilities of affiliates	CEHE has never guaranteed any liabilities of its parent or affiliates.	CEHE/ CNP practice
10	Parent and affiliates do not represent to the public or creditors that the Protected Co. is liable for parent or affiliate obligations	Neither CNP nor CEHE represents to creditors of CNP or other affiliates that CEHE is a guarantor or liable on behalf of others.	CEHE/ CNP practice
11	Not subject to joint tax liability, other than as required by law	1. CEHE is a party to a joint corporate tax return, subject to a formal tax sharing agreement and policy. 2. Tax expense allocation is subject to periodic Commission reviews in general rate cases.	Response to RFI GCCC 01-03

I.D. Enhances Financial Viability by controlling financial leverage

12	Avoids excessive debt leverage	CEHE manages its capital structure and leverage to maintain regulatory capital structure.	CEHE/ CNP practice
		CEHE's debt leverage is limited to a max. of 65% under the sole financial covenant in its RC facility (ratio adjusts up to 70% in certain storm events.)	Revolving Credit Commitment

a. A provision may appear in more than one category if appropriate; b. Source: Lapson Advisory;

II. Avoids Consolidation in Bankruptcy of Parent or Affiliates

II.A. Has barriers to involuntary consolidation

1 Separate legal entity; separate name and identity	Same as No. 1 above	
2 Separate financial accounts. No commingling of assets	Same as No 2 above	
6 Arm's length standard for transfers of assets, services and supplies	Same as No 6 above	
13 Protected Co. has separate accounting books & records	CEHE has its own separate financial books from which it reports SEC GAAP statements and regulatory financials consistent with FERC Uniform System of Accounts.	Factual
14 Protected Co. maintains all corporate formalities	CEHE observes all corporate formalities; maintains its LLC status, consistent with the LLC Agreement.	Amended and Restated LLC Agreement, as of Aug. 2, 2011
15 Protected Co. does not own shares of parents or affiliiates	CEHE owns no shares of CNP or any other affiliates.	Factual
16 Protected Co. does not represent that it is responsible for obligations of parent or affilliates	Neither CNP nor CEHE represents to creditors of CNP or other affiliates that CEHE is a guarantor or liable on behalf of others.	CEHE/ CNP practice

a. A provision may appear in more than one category if appropriate; b. Source: Lapson Advisory.

Exhibit R-EL-5 is Confidential and will be provided pursuant to the terms of the Protective Order issued in Docket No. 49421.

CenterPoint Energy Houston Electric, LLC

Scenario: 55% Long-Term Debt; 45% Equity. Authorized ROE 10%

Pro Forma using Moody's methodologies

Current Rating: A3	**Predicted Rating 2020-22**			**Baa1 or Baa2** Indicative Rating 2020-2022
Moody's (including Securitization) (a)	**2020**	**2021**	**2022**	
Funds From Operations Interest Coverage	5.23	5.29	5.26	
Moody's Benchmarks	*4.5 -6 x = A*			A mid
	3 - 4.5x = Baa			
Total Debt / Capital	55.4%	55.1%	55.0%	
Moody's Benchmarks	*50-59% = Baa*			Baa2 mid
	59% - 67% = Ba			
Funds From Operations / Total Debt	16.0%	16.3%	16.5%	
Moody's Benchmarks	*11% - 19%= Baa*			Baa1
(FFO - Dividends) / Total Debt	12.7%	12.3%	13.8%	
Moody's Benchmarks	*7% - 15%= Baa*			Baa2 to Baa1
Total Debt / EBITDA	4.58	4.34	4.27	n.a.
(FFO - Dividends) / Capital Expenditures	67.1%	56.9%	80.2%	n.a.
Moody's (excluding Securitization) (a)	**2020**	**2021**	**2022**	
Funds From Operations Interest Coverage	4.90	4.80	4.71	
Moody's Benchmarks	*4.5 -6 x = A*			A low
	3 - 4.5x = Baa			
Total Debt / Capital	50.4%	51.1%	52.0%	
Moody's Benchmarks	*50-59% = Baa*			Baa1
	59% - 67% = Ba			
Funds From Operations / Total Debt	15.6%	10.5%	12.3%	
Moody's Benchmarks	*11% - 19%= Baa*			Baa2 to Baa3
(FFO - Dividends) / Total Debt	11.6%	10.5%	12.3%	
Moody's Benchmarks	*7% - 15%= Baa*			Baa2
Total Debt / EBITDA	4.52	4.40	4.38	n.a.
(FFO - Dividends) / Capital Expenditures	49.9%	41.5%	62.9%	n.a.

(a) Primary ratios are those that include securitization debt and related cash flows.

n.a. There is no applicable Moody's benchmark.

Pro Forma using Fitch Ratings methodologies

	Current Rating: A-	Predicted Rating 2020-22:			BBB to BBB-
					Indicative Rating
Fitch Ratings Ratio Method (b)		**2020**	**2021**	**2022**	2020-2022
FFO Interest Coverage (times)		4.86	4.90	4.85	A-
	Fitch Benchmarks	*5x = Median A*			
		4.5x=Median BBB			
		3.5x = Median BB			
Debt / EBITDA (times)		4.39	4.28	4.28	BBB- to BB+
	Fitch Benchmarks	*3.75x= Median BBB*			
		4.75x = Median BB			
Debt / FFO (times)		4.86	4.76	4.74	BBB mid
	Fitch Benchmarks	*5x = Median BBB*			
		6.5x = Median BB			
Debt as % of Total Capitalization		60.0%	60.2%	60.5%	n.a.
Common Equity as % of Total Capitalization		40.0%	39.8%	39.5%	n.a.
FFO / Debt %		13.8%	13.8%	13.8%	n.a.
EBITDA Interest Coverage (times)		4.78	4.77	4.71	n.a.
% Internal Cash Generation [(FFO less Dividends) / Capital Expenditures]		78.3%	74.6%	91.0%	n.a.

(b) Ratios are computed by eliminating securitization debt and all related cash flows.
n.a. - There is no applicable Fitch benchmark.

Pro Forma using S&P rating methodologies (SACP)

	Current SACP: a+	Predicted SACP 2020-22:			a
	Current formal Rating: A-				
					Indicative Financial
S&P Rating Method (b)(c)					Risk Category
Core Ratios		**2020**	**2021**	**2022**	2020-2022
FFO/Total Debt		15.4%	15.9%	16.1%	Intermediate
Total Debt/EBITDA		4.48	4.38	4.38	Significant
Supplemental Ratios					
OCF/Total Debt		15.1%	14.6%	14.6%	Intermediate
FOCF/ Total Debt		-7.8%	-10.3%	-4.5%	Aggressive
EBITDA Interest Coverage		5.37%	5.42%	5.35%	Intermediate
FFO Interest Coverage		4.72%	4.79%	4.78%	Intermediate

Financial Risk Category: Significant

Business Risk Category	**Interme-diate**	**Signi-ficant**	**Aggres-sive**	**Highly Leveraged**
Excellent	$\boxed{\text{a+/a}}$	a-	bbb	bbb-/bb+
Storng	a-/bbb+	bbb	bb+	bb
Satisfactory	bbb/bbb-	bbb-/bb+	bb	b+

(b) Ratios are computed by eliminating securitization debt and all related cash flows.
(c) Low Volatility Matrix; Assuming Business Risk Category is Excellent
OCF = Operating Cash Flow; FOCF= Free Operating Cash Flow
SACP = Standalone Credit Profile (a component used to develop the formal rating)

CenterPoint Energy Houston Electric, LLC

Scenario: 60% Long-Term Debt; 40% Equity. Authorized ROE 9.25%

Pro Forma using Moody's methodologies

Current Rating: A3	Predicted Rating 2020-22			Baa3 or Baa2
				Indicative Rating
Moody's (including Securitization) (a)	**2020**	**2021**	**2022**	2020-2022
Funds From Operations Interest Coverage	3.66	3.60	3.56	
Moody's Benchmarks	*4.5 -6 x = A*			Baa3
	3 - 4.5x = Baa			
Total Debt / Capital	59.6%	59.4%	59.3%	
Moody's Benchmarks	*50-59% = Baa*			Baa3 low
	59% - 67% = Ba			
Funds From Operations / Total Debt	14.0%	13.9%	14.0%	
Moody's Benchmarks				Baa2
(FFO - Dividends) / Total Debt	11.3%	10.5%	11.5%	
Moody's Benchmarks	*7% - 15%= Baa*			Baa2
Total Debt / EBITDA	5.01	4.83	4.79	n.a.
(FFO - Dividends) / Capital Expenditures	94.5%	86.2%	103.2%	n.a.

Moody's (excluding Securitization) (a)	**2020**	**2021**	**2022**	
Funds From Operations Interest Coverage	3.28	3.08	3.03	
Moody's Benchmarks	*4.5 -6 x = A*			Baa3 low
	3 - 4.5x = Baa			
Total Debt / Capital	55.0%	55.7%	56.6%	
Moody's Benchmarks	*50-59% = Baa*			Baa2
	59% - 67% = Ba			
Funds From Operations / Total Debt	13.2%	12.5%	12.6%	
Moody's Benchmarks	*11% - 19%= Baa*			Baa3
(FFO - Dividends) / Total Debt	10.0%	8.6%	9.8%	
Moody's Benchmarks	*7% - 15%= Baa*			Baa3
Total Debt / EBITDA	5.03	4.99	4.99	n.a.
(FFO - Dividends) / Capital Expenditures	77.3%	70.7%	85.9%	n.a.

(a) Primary ratios are those that include securitization debt and related cash flows.

n.a. There is no applicable Moody's benchmark.

Pro Forma using Fitch Ratings methodologies

Current Rating: A-				BBB mid
				Indicative Rating
Fitch Ratings Ratio Method (b)	**2020**	**2021**	**2022**	2020-2022
FFO Interest Coverage (times)	4.25	4.20	4.17	BBB mid
Fitch Benchmarks	*5x = Median A*			
	4.5x=Median BBB			
	3.5x = Median BB			
Debt / EBITDA (times)	4.92	4.88	4.87	BB mid
Fitch Benchmarks	*3.75x= Median BBB*			
	4.75x = Median BB			
Debt / FFO (times)	5.53	5.53	5.49	BBB low
Fitch Benchmarks	*5x = Median BBB*			
	6.5x = Median BB			
Debt as % of Total Capitalization	60.0%	60.2%	60.5%	n.a.
Common Equity as % of Total Capitalization	40.0%	39.8%	39.5%	n.a.
FFO / Debt %	13.8%	13.8%	13.8%	n.a.
EBITDA Interest Coverage (times)	4.78	4.77	4.71	n.a.
% Internal Cash Generation [(FFO less Dividends) / Capital Expenditures]	78.3%	74.6%	91.0%	n.a.

(b) Ratios are computed by eliminating securitization debt and all related cash flows.

n.a. - There is no applicable Fitch benchmark.

Pro Forma using S&P rating methodologies (SACP)

Current SACP: a+ **Predicted SACP 2020-22: a-**

Current formal Rating: A-

				Indicative Financial Risk Category
S&P Rating Method (b)(c)				
Core Ratios	**2020**	**2021**	**2022**	2020-2022
FFO/Total Debt	13.1%	13.4%	13.5%	Intermediate
Total Debt/EBITDA	4.99	4.97	4.98	Significant
Supplemental Ratios				
OCF/Total Debt	12.8%	11.9%	12.0%	Signficant
FOCF/ Total Debt	-8.2%	-11.0%	-5.6%	Aggressive
EBITDA Interest Coverage	4.80%	4.76%	4.68%	Intermediate
FFO Interest Coverage	4.19%	4.16%	4.14%	Intermediate

Financial Risk Category: Significant

Business Risk Category	**Interme-diate**	**Signi-ficant**	**Aggres-sive**	**Highly Leverage**
Excellent	a+/a	$\boxed{\text{a-}}$	bbb	bbb-/bb+
Storng	a-/bbb+	bbb	bb+	bb
Satisfactory	bbb/bbb-	bbb-/bb+	bb	b+

(b) Ratios are computed by eliminating securitization debt and all related cash flows.

(c) Low Volatility Matrix; Assuming Business Risk Category is Excellent

OCF = Operating Cash Flow; FOCF= Free Operating Cash Flow

SACP = Standalone Credit Profile (a component used to develop the formal rating)