Control Number: 49421

Item Number: 602

Addendum StartPage: 0

SOAH DOCKET NO. 473-19-3864
PUC DOCKET NO. 49421

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

REBUTTAL TESTIMONY

OF

MATTHEW A. TROXLE

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

June 2019

602

TABLE OF CONTENTS

LIST OF EXHIBITS

REBUTTAL TESTIMONY OF MATTHEW A. TROXLE

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND POSITION.

A. My name is Matthew A. Troxle. I am Director of Regulatory Affairs for CenterPoint Energy Service Company, LLC. I am filing this rebuttal testimony on behalf of CenterPoint Energy Houston Electric ("CenterPoint Houston" or the "Company").

Q. ARE YOU THE SAME MATTHEW A. TROXLE WHO SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

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

A. Yes.

II. SUMMARY AND PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. This testimony rebuts certain cost allocation and rate design recommendations made by several intervenor witnesses and Public Utility Commission of Texas ("PUCT" or "Commission") Staff in this proceeding. Specifically, I respond to assertions made in the testimony of Gulf Coast Coalition of Cities witness Lane Kollen, City of Houston ("COH") witnesses Kit Pevoto, Texas Industrial Energy Consumers ("TIEC") witness Jeffrey Pollock, HEB witness George W. Presses, Office of Public Utility Counsel ("OPUC") witness Karl J. Nalepa, and Commission Staff witnesses William B. Abbott and Brian T. Murphy.

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. My testimony responds to the arguments advanced by intervenors and Commission Staff in their direct testimonies. Specifically, it explains the reasonableness of the Company's allocation of transmission costs and municipal franchise fees. It supports the specific cost allocation factors challenged by Ms. Pevoto for certain intangible plant, general plant, other rate base, administrative & general ("A&G") expense, and taxes other than income tax expense accounts. I explain that the Company's proposal to collect its transmission costs through base rates is consistent with this Commission's prior precedent and rules. I also support the reasonableness of the Company's proposed energy efficiency adjustment as necessary to account for known and measurable changes to test year billing determinants in order to accurately capture usage for the test year based on the Company's test year energy efficiency programs. I address the reasonableness of the Company's customer charge and street lighting operations and maintenance ("O&M") costs. I respond to Mr. Nalepa's arguments regarding the need to consider post-test year adjustments to revenues. I also provide the amounts that will be refunded to customers through the proposed unprotected excess deferred income tax ("UEDIT") rider. Finally, I explain the reasonableness of the Company's proposal to charge its customer charge on a per-meter instead of per-customer basis in order to appropriately charge customers that utilize multiple meters.

Q. DO YOU HAVE ANY OTHER ISSUES YOU WOULD LIKE TO ADDRESS REGARDING THE INTERVENORS' DIRECT TESTIMONY?

A. Yes. Regarding the Company's errata filing on May 20, 2019, Mr. Kollen in his direct testimony objects to the correction of the carrying costs in the quantification of the Company's Hurricane Harvey regulatory asset. The propriety of including carrying charges is addressed in the rebuttal testimony of Company witness Kristie Colvin. However, I would note that Mr. Kollen's general complaint regarding the filing of the errata was addressed in Order No. 6 in this proceeding. That order rejected arguments that the errata constituted an entirely new filing. Order No. 6 nevertheless amended the procedural schedule to provide intervenors an opportunity to propound additional discovery and prepare testimony on the errata. The carrying costs existed at the time the Company filed its rate filing package but were mistakenly omitted. They are, in fact, a correction to the filing package, not a supplement to reflect a later change in circumstances. Therefore, they are proper.

III. CLASS COST OF SERVICE STUDY ("CCOSS")

A. 4CP Demand Allocator

Q. HAS ANY INTERVENOR CHALLENGED THE COMPANY'S PROPOSAL TO ALLOCATE ITS WHOLESALE TRANSMISSION COSTS TO CUSTOMER CLASSES BASED ON THE COMPANY'S COINCIDENT PEAK DEMAND?

A. Yes. Mr. Pollock and Mr. Murphy argue that the Company should utilize the ERCOT system-wide peak demand ("ERCOT 4CP") to allocate costs instead of the Company's coincident peak ("CEHE 4CP"). Both witnesses incorrectly allege using ERCOT 4CP is necessary to "match" how costs are billed to the Company

with how it bills those costs to its customers. In addition, Mr. Presses argues that the Company should utilize its non-coincident peak ("NCP") instead of either ERCOT 4CP or CEHE 4CP to allocate costs.

Q. WHAT IS COINCIDENT PEAK DEMAND AND HOW IS IT IS USED TO SET RATES?

A. Coincident Peak Demand is the maximum amount of electricity demanded by a customer at the time that peak demand on the electric system occurs. Electric utilities like CenterPoint Houston use the Coincident Peak Demand method to allocate transmission costs to retail customer classes because it reflects those customers' contributions to the system peak. The basic premise behind the use and application of this demand allocator is that utilities build infrastructure to meet peak system demand. Therefore, a class's contribution to peak system demand directly influences investment and supporting operations, justifying the Coincident Peak Demand method as the basis for cost allocation. The use of the 4CP method coincides with the four-month time period most of the electricity is demanded such as the summer months of June, July, August and September.

Q. WHAT IS THE DIFFERENCE BETWEEN THE CEHE 4CP, ERCOT 4CP AND NCP?

A. The CEHE 4CP is based on the peak demand of the CenterPoint Houston system, while the ERCOT 4CP is based on the peak demand of the entire ERCOT system, which encompasses CenterPoint Houston's system plus the transmission systems of other electric utilities in the ERCOT region. The NCP is the peak demand of each individual customer or customer class, irrespective of CenterPoint Houston's

or the ERCOT's system peaks. The CEHE 4CP represents the highest amount of demand by all customers within the CenterPoint Houston service area in June, July, August and September. The ERCOT 4CP represents the highest amount of demand by all electric utilities in ERCOT in June, July, August and September. The NCP represents the highest amount of demand by the individual customer, regardless of when it occurs.

Q. WHY IS THE COMPANY PROPOSING TO ALLOCATE TRANSMISSION COSTS USING THE CEHE 4CP?

A. CenterPoint Houston's system is built primarily to serve the Company's peak demand. Accordingly, the Company uses the CEHE 4CP because this captures the peak demand that the Company builds its system to meet.

Q. WHY IS THE COMPANY'S PROPOSED APPROACH MORE APPROPRIATE THAN USE OF THE ERCOT 4CP OR NCP?

A. Rates should be set for the CenterPoint Houston service territory based upon the Company's demand characteristics, not the demand characteristics of ERCOT as a whole. Pursuant to 16 Tex. Admin. Code § 25.192 ("TAC"), the ERCOT 4CP sets the rate that all transmission service providers ("TSPs") in ERCOT must charge and all distribution service providers ("DSPs") in ERCOT must pay for wholesale transmission service, based on how all the DSPs contribute to the whole ERCOT system peak demand. Therefore, the CEHE 4CP should be used to allocate those costs among its own customer classes based on how those customers contribute to the Company's own system peak demand.

Q. IS THE COMPANY'S PROPOSAL CONSISTENT WITH COMMISSION RULES?

A. Yes. Contrary to Mr. Pollock's and Mr. Murphy's testimony, the Commission does not dictate how a DSP's transmission costs should be allocated to the various rate classes. Although Mr. Pollock and Mr. Murphy point to Rule 25.192, the rule does not dictate how wholesale transmission costs are to be allocated to the customer classes. It addresses how TSPs charge DSPs for transmission service, not how DSPs allocate those costs and charge them to retail customers.

Q. IS THE COMPANY'S PROPOSAL CONSISTENT WITH THE PRINCIPLES OF COST-CAUSATION?

A. Yes. Cost-causation is the reason that the Company decided to make this allocation proposal. As this is a CenterPoint Houston rate case, and not an ERCOT system rate case, it is appropriate to allocate CenterPoint Houston's system costs based upon the coincident peak demand on the Company's system and not ERCOT's system. The use of CEHE 4CP reflects cost-causation within the CenterPoint Houston service area.

Q. WHAT WOULD BE THE IMPACT OF ADOPTING MR. POLLOCK'S APPROACH ON THE RESIDENTIAL AND COMMERCIAL CLASSES?

A. According to the unverified percentages in Mr. Pollock's Direct Testimony, the impact of changing from the CEHE 4CP to the ERCOT 4CP are:

	CEHE 4CP	Pollock's ERCOT 4CP
Residential	46.65%	47.61%
Secondary ≤10 kVa	0.88%	0.83%
Secondary > 10 kVa	34.07%	34.69%
Primary	3.48%	3.41%
Transmission	14.92%	13.46%

In short, adopting Mr. Pollock's approach would shift significant costs from the Transmission class to Residential and Commercial classes. I do not believe this is appropriate, equitable, or consistent with the principles of cost causation.

Q. MR. POLLOCK ALSO CLAIMS THE COMPANY'S APPROACH IS FLAWED BECAUSE IT CALCULATES DEMAND AT THE METER INSTEAD OF AT THE GENERATING SOURCE. WHAT IS YOUR RESPONSE?

A. In the last rate case, Docket No. 38339, the Company was ordered to use unadjusted 4CP values for allocation purposes. In this case, the Company interpreted that instruction as demand "at the meter" because calculating demand "at the source" requires an adjustment to the Company's meter data.

Q. WOULD USING THE CEHE 4CP ALLOW "COST-SHIFTING" TO RESIDENTIAL CUSTOMERS OR INCENTIVIZE OTHER CUSTOMERS TO "GAME THE SYSTEM," AS MR. PRESSES ASSERTS?

A. Allocation is the process of allocating costs among rate classes. Any change in the allocation factor shifts costs. The point here is to try to tie the allocation factors as closely to cost causation as possible. I believe using the CEHE 4CP is the most reasonable way to do that. As shown above, according to the percentages in Mr. Pollock's direct testimony, the use of the CEHE 4CP would in fact shift cost

from the residential class while the use of a new ERCOT 4CP would shift cost *to* the residential class. Customers with the ability to curtail their load may take advantage of technology, generation investments and curtailment in response to price signals in the market. However, using CEHE 4CP instead of ERCOT 4CP does not change those dynamics. Under the Company's proposal, it is now harder to "game the system" as an entity would need to not only accurately predict the CEHE 4CP to influence the class allocation but also the ERCOT 4CP to influence their billing determinants.

Q. MR. PRESSES CLAIMS THE COMPANY NEVER EXPLAINS HOW USING THE CEHE 4CP TO ALLOCATE TRANSMISSION COSTS AFFECTS CUSTOMERS. IS THIS TRUE?

A. No. The Company's application is based on the allocation of costs by the CEHE 4CP allocator. Accordingly, the resulting rates based on using the CEHE 4CP are presented in the Company's application, schedules and schedule workpapers. Furthermore, as noted above, according to the unverified percentages in Mr. Pollock's direct testimony, changing from the CEHE 4CP to the ERCOT 4CP would shift cost to residential and commercial customers from Transmission customers.

Q. MR. PRESSES ASSERTS THAT USING THE CEHE 4CP DEMAND ALLOCATOR WILL EXACERBATE RELIABILITY CONCERNS IN ERCOT. WHAT IS YOUR RESPONSE?

A. I believe his concern is overstated. As explained before, the CEHE 4CP is only used to allocate cost, not to determine how much CenterPoint Houston pays for its

portion of the use of the grid. Nor is it used as a billing determinant. Regardless, I do not think that regulating allocation factors in order to incentivize customers to operate their systems in a way that predicts the coincident peak demand on ERCOT's system is an effective way to address the broader concerns of reliability or generation capacity.

Q. IS THE COMPANY'S PROPOSED ALLOCATION OF TRANSMISSION COSTS USING THE CEHE 4CP REASONABLE, EQUITABLE TO ALL CUSTOMERS, AND CONSISTENT WITH THE PRINCIPLES OF COST CAUSATION?

A. Yes, it is.

B. Municipal Franchise Fee Allocation

Q. DOES ANY PARTY RECOMMEND A CHANGE IN THE ALLOCATION OF MUNICIPAL FRANCHISE FEES TO CUSTOMER CLASSES?

A. Yes. Mr. Pollock has recommended that municipal franchise fees be weighted by the kilowatt-hour ("kWh") sales mix within each city and the rate within each city, because the rates range between 0.149¢ and 0.927¢. He asserts that without weighting the Company's allocation results in cross-subsidization between customers within different cities. He also asserts his method is more consistent with Commission policy.

Q. HAS THE COMPANY TAKEN THE SALES MIX INTO ACCOUNT IN THE PROPOSED ALLOCATION OF MUNICIPAL FRANCHISE FEES?

A. Yes, at the system level the customer class sales mix is taken into account. The allocation within the Company's calculations utilize the sales by customer class by city to determine an overall system-wide sales mix based on actual kWh by

customer class within each city that assessed municipal franchise fees in the test year.

Q. DOES THE COMPANY'S ALLOCATION TAKE INTO ACCOUNT THE DIFFERENCES IN RATES WITHIN EACH CITY?

A. No.

Q. IS THE COMPANY'S PROPOSED TREATMENT OF MUNICIPAL FRANCHISE FEES CONSISTENT WITH THE COMMISSION'S PRECEDENT ON THE ISSUE?

A. Yes. The Commission's precedent in regard to municipal franchise fees is to allocate the franchise fees to the customer classes based upon in-city kWh sales and to then collect the fees from all customers within the customer class. The Company has followed this recent precedent. Mr. Pollock recommended the very same changes to that precedent in the Company's last rate case, and his recommendation was rejected. In fact, his testimony in this case is almost word-for-word identical to his testimony in Docket No. 38339. However, the ALJs considered and rejected Mr. Pollock's recommendations:[1]

> TIEC witness Pollock recommends that the Company change the methodology by which it allocates municipal franchise fees and instead weight the kilowatt-hour (kWh) sales mix within municipal franchise fee rate within each city.[2] CenterPoint witness Troxle explained, however, that the Company already takes the customer class sales mix into account at the system level. The Company has not taken into account any differences in rates within each city because to do so would be inconsistent with Commission precedent. The Commission in past cases has allocated customer franchise fees to the customer classes based on in-city kWh sales and collected the fees from all customers within the customer class, which is

[1] *Application of CenterPoint Energy Houston Electric, LLC For Authority to Change Rates*, Docket No. 38339, Proposal for Decision at 156-157 (Dec. 2, 2010).
[2] *Id.* at TIEC Ex. 1 at 31 (Pollock Direct).

> consistent with prior findings that franchise fees confer a system-wide benefit, and is consistent with the Company's methodology used in this case. . . . The ALJs agree with the arguments presented by CenterPoint and Staff and, therefore, recommend that the Commission approve CenterPoint's proposed allocation of municipal franchise fees.

In its Order on Rehearing, the Commission agreed and adopted Finding of Fact No. 179: "CenterPoint's allocation of municipal franchise fees to the customer classes based upon in-city kilowatt-hour ("kWh") sales and collection of the fees from all customers within the customer class is reasonable and consistent with Commission precedent." Mr. Pollock also requested this treatment in Docket No. 39896, and it was also rejected by the Commission.[3]

The Company is not aware that this Commission has ever adopted this approach, and Mr. Pollock does not point to any Commission precedent that adopts his position.

Q. WHAT WOULD BE THE IMPACT OF MR. POLLOCK'S RECOMMENDATION ON THE VARIOUS CLASSES?

A. As shown on page 16 of Mr. Pollock's direct testimony, Mr. Pollock is proposing to shift approximately $4 million from the Transmission class to commercial and residential customers.

[3] *Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment*, Docket No. 39896, Order on Rehearing (Nov. 2, 2012).

C. Allocation of General Plant Costs and A&G Expense

Q. PLEASE SUMMARIZE MS. PEVOTO'S PROPOSED CHANGES TO THE COMPANY'S ALLOCATION FACTORS FOR CERTAIN INTANGIBLE PLANT, GENERAL PLANT AND A&G, OTHER RATE BASE AND TAXES OTHER THAN INCOME TAXES EXPENSE ACCOUNTS.

A. Ms. Pevoto recommends changing the allocation factor applied to Intangible Plant FERC accounts 303.02, General Plant FERC accounts 389 through 398, A&G FERC accounts 920, 921, 925, 926, 930.1, 930.2, 931 and 935, Other Rate Base Items in FERC accounts 1650, 2540, 2282, 2283, 1823 and Taxes Other Than Income Taxes in FERC accounts 4081 from a total O&M allocator to a payroll allocator.[4]

Q. DID THE COMPANY ALLOCATE ALL THESE FERC ACCOUNTS BY A TOTAL O&M ALLOCATOR (PAGE 11, LINE 18)?

A. No. The FERC accounts mentioned above were allocated by an O&M allocator which excluded A&G and reflected the O&M costs of its assigned function. The O&M allocator was applied to FERC Accounts 303.02, 389 through 398, the Reg Asset-Postretirement (RDS) portion of 1823, the Prepaid Pension Assets portion of 1650, the Reg Liability Pension portion of 2540, the Worker's Comp portion of 2282, 920, 921, 925, 926, 930.1, 930.2, 931, 935 and the FICA, FUTA and Sales & Use Tax portion of the 4081. The other FERC Accounts were allocated by a plant allocator attributed to cost in each function.

[4] City of Houston filed an errata on June 14, 2019 indicating that Ms. Pevoto had misidentified the specific accounts that she was proposing changes to. This rebuttal responds to the accounts addressed in the errata to Ms. Pevoto's testimony.

Q. DID MS. PEVOTO GIVE ANY SPECIFIC REASONS FOR WHY A PAYROLL ALLOCATOR WAS MORE APPROPRIATE TO AN O&M ALLOCATOR FOR THESE ACCOUNTS?

A. She generally asserts that payroll expenses represent more accurately how the applicable facilities or equipment are used, that a payroll allocator more closely adheres to how some of these accounts are functionalized, and that her approach is more consistent with the guidelines as set forth in the National Association of Regulatory Utility Commissioners ("NARUC") Electric Utility Cost Allocation Manual ("NARUC Manual"). However, her testimony is mostly conclusory and ignores the fact that the Company's approach is already reasonable and has been utilized and approved by this Commission for several years.

Q. DO YOU HAVE ANY CONCERNS ABOUT MS. PEVOTO'S PROPOSED CHANGES TO THE COMPANY'S ALLOCATION FACTORS FOR THESE ACCOUNTS?

A. Yes. Ms. Pevoto is attempting to change allocation factors that have long been employed by the Company and approved by this Commission in its prior rate cases, with very little justification for her approach. I believe our allocation factors are reasonable, and they are consistent with what this Commission has approved in the past.

Q. DO YOU AGREE WITH MS. PEVOTO THAT A PAYROLL ALLOCATOR MORE ACCURATELY REPRESENTS HOW THE FACILITIES, EQUIPMENT AND OTHER COSTS IN THESE ACCOUNT ARE USED?

A. I do not believe a payroll allocator would be more accurate or result in more accurate rates for these accounts.

Q. OF THESE FERC ACCOUNTS ALLOCATED BY AN O&M ALLOCATOR, WHICH ONES WERE FUNCTIONALIZED BY A PAYROLL ALLOCATOR?

A. The Worker's Comp portion of FERC Acct 2282, 920, 921, 925, 926, 930.1, 930.2, 931, and the FICA and FUTA portion of the 4081. The other FERC Accounts were allocated by a plant allocator attributed to the costs in each function.

Q. FOR THESE SPECIFIC ACCOUNTS, IS IT NECESSARY THAT THE FACTOR USED TO FUNCTIONALIZE THE ACCOUNTS MATCH THE FACTOR USED TO ALLOCATE THE COSTS WITHIN THE ACCOUNTS TO THE VARIOUS CLASSES?

A. No. The NARUC Manual relied upon by Ms. Pevoto never states that costs need to be functionalized and allocated by the same allocator.

Q. DID THE COMPANY FOLLOW THE NARUC MANUAL GUIDELINES FOR FUNCTIONALIZING AND ALLOCATING COSTS FOR THESE ACCOUNTS?

A. Yes. The NARUC Manual allows for several different approaches for functionalizing and allocating costs, in addition to the approach preferred by Ms. Pevoto. For instance, for A&G accounts, NARUC recognizes that costs may

be allocated based on the sum of the other operating and maintenance expenses, as the Company did in this case.[5] Ms. Pevoto failed to recognize that the NARUC Manual considers a variety of alternative allocation methodologies.

Q. DID MR. MURPHY ADDRESS THE USE OF A PAYROLL ALLOCATOR FOR FUNCTIONALIZING COSTS IN FERC ACCOUNT 930.2?

A. Yes. On page 34, line 5 through page 39, line 6 of Mr. Murphy's testimony, he explains why an overall payroll allocator should not be used for FERC account 930.2 because not all expenses within this account varied with payroll expenses.

Q. MS. PEVOTO ALSO RECOMMENDS THE COMPANY'S USE OF A WEIGHTED RATE CLASS ALLOCATOR FOR FERC ACCOUNT 907-10 COSTS. WHAT IS YOUR RESPONSE?

A. The Company in this case is continuing its long-standing practice of using lamp count for allocating costs to the lighting classes. The use of lamp count for allocating cost to the lighting classes instead of the number of customers recognizes that some customers, like the City of Houston, have many lights. Because there are more costs associated with serving customers with more lamps, the use of the lamp count allows the Company to accurately allocate the cost of the lighting class and adhere to the cost causation principle.

[5] National Association of Regulatory Utility Commissioners, Electric Utility Cost Allocation Manual at 106 (1992), *available at* https://pubs.naruc.org/pub/53A3986F-2354-D714-51BD-23412BCFEDFD.

Q. ARE THE COMPANY'S PROPOSED ALLOCATION FACTORS FOR THIS CLASS CONSISTENT WITH WHAT WAS APPROVED BY THIS COMMISSION IN DOCKET NO. 38339?

A. Yes. This exact same approach was approved by the Commission in Docket No. 38339.

D. Allocation of Bad Debt Expense

Q. HAS THE COMPANY IDENTIFIED ANY OTHER NECESSARY ALLOCATION ADJUSTMENTS THAT NEED TO BE ADDRESSED?

A. Yes. While preparing its response to RFI TEAM 01-05 the Company realized the allocation factors for bad debt expense excluded the allocation factors for the Secondary Greater than 10kVa rate class, Primary, Transmission and lighting rate classes.

Q. WERE ANY COSTS LEFT OUT OF THE CALCULATION?

A. No, all costs are included and allocated in the RFP.

Q. WHAT IS THE IMPACT OF THE NEW ALLOCATION FACTORS?

A. The Company has corrected the allocation and the impacts are demonstrated below:

Allocation to Rate Classes	RES	SVS	SVL	PVS	TVS	SLS	MLS	Write-off total
Abacus Resources Energy, LLC	21,004.32	93.90	243.29	-	-	-	-	21,341.52
TexRep1, LLC	182,471.13	972.68	23,282.30	-	-	82 78	144.87	206,953.76
TruSmart Energy, LLC	242,130.24	3,622.33	37,213.80	-	-	-	28.30	282,994.67
Competitive Retailer Bad Debt in Rates	817,396.22	62,542.87	118,312.92	10,476.73	7,725.26	36,403.97	5,397.10	1,058,255.07
Total	**1,263,001.91**	**67,231.79**	**179,052.31**	**10,476.73**	**7,725.26**	**36,486.76**	**5,570.27**	**1,569,545.02**
Total Rate Class %	*80.48%*	*4.28%*	*11.41%*	*0.67%*	*0.49%*	*2.32%*	*0.35%*	*100.00%*

Allocation to Rate Classes	RES	SVS	SVL	PVS	TVS	SLS	MLS	Total
1/3 to requested cost of service*	421,000.64	22,410.60	59,684.10	3,492.24	2,575.09	12,162.25	1,856.76	523,181.68

*Company requested a 3 year amortization of the regulatory asset

IV. TRANSMISSION COST RECOVERY FACTOR ("TCRF")

A. Recovery of Transmission Costs Through Base Rates

Q. HAS ANY PARTY CHALLENGED THE COMPANY'S PROPOSAL TO RECOVER ITS TRANSMISSION SERVICE COSTS THROUGH BASE RATES?

A. Yes. Mr. Pollock claims that all transmission costs should be recovered through the Company's Rider TCRF.

Q. HAS THE COMPANY HISTORICALLY RECOVERED ITS TRANSMISSION COSTS FROM OTHER TSPs THROUGH BASE RATES AS THE COMPANY PROPOSES IN THIS PROCEEDING?

A. Yes. The Company proposes that the most current wholesale transmission cost for each TSP in ERCOT will be placed in base rates in the transmission charge for each delivery rate schedule and the TCRF be set to zero. At the conclusion of this case, the Company will update the TCRF to reflect any changes in the transmission cost that vary from those utilized to fix base rates and the temporary items such as rate case expenses and credits/surcharges associated with transmission cost of service updates. Additionally, the TCRF allocation factors will be updated to reflect the December 31, 2018 Test Year unadjusted 4CP allocation factors used for the allocation of transmission cost in the proposed CCOSS.

Q. WAS THIS APPROACH APPROVED IN DOCKET NO. 38339?

A. Yes. This approach has been approved for the Company since the deregulation of the electric market and the creation of the TCRF.

Q. IS THIS APPROACH CONSISTENT WITH COMMISSION RULES?

A. Yes. The TCRF is intended to capture the "the amount of wholesale transmission cost changes approved or allowed by the commission to the extent that such costs vary from the transmission service cost utilized to fix the base rates of the DSP."[6] In short, it captures the incremental differences between a DSPs actual costs and what is included in its base rates. Furthermore, the Company's approach is consistent with the requirements in the Commission's TDU rate filing package instructions, which on page 59 refers to the allocation of the functional requirements and on page 63 refers to the revenue requirements by the function (Transmission is one of the functions). Further, in the rate filing package sample forms, the rate design sheets are clearly designed to reflect a transmission charge in base rates. In fact, I am not aware of *any* rule that suggests or requires a DSP to capture its entire transmission cost of service through a rider.

Q. MR. POLLOCK CLAIMS THE TCRF DOES NOT PROPERLY ACCOUNT FOR LOAD GROWTH AND THUS ALLOWS CENTERPOINT HOUSTON TO OVER-RECOVER ITS COSTS. WHAT IS YOUR RESPONSE?

A. Mr. Pollock is repeating an argument TIEC has been advancing since the TCRF was approved in Project No. 37909 in 2010 and, to some extent, all the way back to the original TCRF rule in Project No. 23157 in 2001. In fact, the Commission specifically considered and rejected the application of a load growth adjustment to the TCRF in its order approving the TCRF rule:

> As stated by the commission previously, DSPs essentially serve as billing and collection agents for passed-through TCRF costs and, under the commission's current rules, have no ability to avoid such costs or address and manage the

[6] 16 TAC § 25.193(b).

regulatory lag that exists with respect to these costs. Therefore, the load growth adjustment advocated by TIEC would be inappropriate.[7]

This argument should be rejected here for the same reasons it was rejected then.

Q. WILL THE COMPANY'S PROPOSAL RESULT IN THE "OVER-RECOVERY" OF WHOLESALE TRANSMISSION COSTS, AS MR. POLLOCK ASSERTS?

A. If all other variables that determine a utility's earnings except load growth never change after rates are set but remain the same as in the test year, then it is possible the utility's transmission cost recovery will exceed its test year costs to the extent there is significant load growth on the system at some point in the future. But load growth is just one of numerous factors that can affect a utility's cost recovery. Other impacts can drive down cost recovery at the same time. For instance, an electric utility that serves more load will probably have increased O&M costs and will be required to make increased investments in its system. In addition, there are other factors that affect usage, costs, and revenues, like weather, economic conditions, and changes in tax rates, all of which are reviewed by the Commission in the Company's annual Earnings Monitoring Reports. Furthermore, there is no guarantee that load growth will occur every year, as growth can fluctuate like any other factor, and CenterPoint Houston must absorb the risk of reduced load usage, for instance related to customer attrition or increased energy efficiency. In short, Mr. Pollock presumes a lot of potential benefits to the Company without taking into account the potential detriment and risks.

[7] *Rulemaking Proceeding To Amend PUC Subst. Rule §25.193, Relating to Distribution Service Provider Transmission Cost Recovery Factors (TCRF)*, Project No. 37909, Order Adopting Amendment To §25.193 as Approved at the September 29, 2010 Open Meeting at 18 (Oct. 4, 2010).

Q. ARE THERE OTHER FACTORS THAT MITIGATE MR. POLLOCK'S CONCERNS?

A. Yes. The Commission recently implemented new 16 TAC § 25.246, which requires all investor-owned electric utilities to file a rate case every four years. In fact, that is one of the reasons why the Company filed the present case. Accordingly, TIEC and any other affected customer can review the Company's entire cost of service every four years to ensure it is not over-recovering its transmission costs or *any* other costs. In the interim, the Company is still required to file earnings monitoring reports and the Commission retains the authority to require a rate case sooner than every four years if it determines the need for one. With all of these protections in place, there is simply no justification to contradict the rate filing package and rules in place to shift all of its transmission costs into the TCRF or any other rider recovery mechanism.

Q. IS THE COMPANY'S PROPOSED RECOVERY OF ITS WHOLESALE TRANSMISSION COSTS FROM OTHER TSPs THROUGH BASE RATES AND USE OF THE TCRF TO CAPTURE INCREMENTAL CHANGES IN THOSE COSTS REASONABLE?

A. Yes.

B. Response to TIEC Proposal to Periodically Reset Allocation Factors in the TCRF

Q. PLEASE DESCRIBE MR. POLLOCK'S PROPOSAL TO PERIODICALLY RESET THE TCRF ALLOCATION FACTORS.

A. Mr. Pollock is proposing that the Commission should re-open the rulemaking for 16 TAC § 25.193 to have a dynamic 4CP allocator more representative of when the

TCRF is updated. Alternatively, Mr. Pollock proposes the Commission should take a gradualist approach in adjusting the future TCRF 4CP allocation factors.

Q. HOW DO YOU RESPOND TO MR. POLLOCK'S CONCERNS ABOUT RATE SHOCK?

A. Mr. Pollock's concerns are overstated. As I noted before, the Commission now requires all electric utilities to file a comprehensive rate proceeding every four years, at which time the allocation factors will be updated. Accordingly, the marginal shifts in the allocation factors among classes will be captured in rates every four years, mitigating any real risk of the rate shock.

Q. HAS TIEC PREVIOUSLY REQUESTED THAT THE COMMISSION ESTABLISH RESETTING ALLOCATION FACTORS AS PART OF THE TCRF?

A. Yes. In Project No. 37909, TIEC sought the exact same relief and was denied. The order states as follows:

> changes to the class allocations would be inappropriate in a TCRF proceeding. As stated by the Joint DSPs, TIEC's proposal would require DSPs to calculate new allocation factors that would require the use of load research data that has not previously been reviewed by the commission, and consideration of these issues in a TCRF update could result in a contentious and time-consuming proceeding.[8]

The Commission's reasoning then is still applicable today.

[8] Project No. 37909, Order Adopting Amendment To §25.193 as Approved at the September 29, 2010 Open Meeting at 18.

Q. IS THIS CASE THE APPROPRIATE FORUM IN WHICH TO CHANGE THE TCRF RULE?

A. No. In fact, it is not even clear from Mr. Pollock's testimony that he is requesting the establishment of resetting allocators in this proceeding. Rather, he appears to be utilizing this forum as an opportunity to encourage the Commission to establish a rulemaking to address his concerns. However, the Commission has already considered this issue and rejected it. The fact is the TCRF is meant to be a streamlined mechanism, not a contested case proceeding bogged down in the intricacies of litigation over load data.

V. BILLING DETERMINANT ADJUSTMENT FOR TEST-YEAR ENERGY EFFICIENCY PROGRAMS

Q. HAS ANY INTERVENOR CHALLENGED THE REASONABLENESS OF THE COMPANY'S ADJUSTMENT TO ACCOUNT FOR KNOWN AND MEASURABLE CHANGES TO TEST YEAR BILLING DETERMINANTS ASSOCIATED WITH THE COMPANY'S TEST YEAR ENERGY EFFICIENCY PROGRAMS?

A. Yes. Mr. Abbott and Mr. Nalepa both incorrectly claim the Company's adjustment is not known and measurable because it is based on the Commission's deemed savings standards instead of actual measured energy and demand savings. They also mischaracterize the adjustment as a lost revenue adjustment mechanism ("LRAM") and incorrectly claim the Commission has previously rejected this adjustment in prior cases.

Q. WHAT IS YOUR RESPONSE?

A. Mr. Nalepa and Mr. Abbott appear to misunderstand the nature and purpose of the adjustment, which is to adjust test year billing determinants to capture accurate usage for the test year. The adjustment has no impact on the Company's revenue requirement, only on the usage used to set rates to allow the Company a reasonable opportunity to collect the approved revenue requirement established in this case.

Q. DO THE COMMISSION'S RULES REQUIRE THE COMPANY TO ADJUST REVENUES, BILLING AND USAGE DATA BASED ON KNOWN AND MEASURABLE CHANGES?

A. Yes. PURA § 36.051 states that "the regulatory authority *shall* establish the utility's overall revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable return on the utility's invested capital used and useful in providing service to the public in excess of the utility's reasonable and necessary operating expenses." 16 TAC § 25.234 states that "[r]ates *will be* determined using revenues, billing and usage data for a historical test year adjusted for known and measurable changes...." Likewise, 16 TAC § 25.231(a) provides that "rates are to be based upon an electric utility's cost of rendering service to the public during a historical test year, adjusted for known and measurable changes." And 16 TAC § 25.231(b) provides, "In computing an electric utility's allowable expenses, only the electric utility's historical test year expenses as adjusted for known and measurable changes will be considered." Therefore, to meet the statutory mandate of establishing a "utility's overall revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable return," the Commission's rules

clearly require a utility's test year data to be adjusted for known and measurable changes.

Consistent with the statute and rule, the Company makes several adjustments to its test year expenses, revenues, billing and usage to accurately capture a test year that is representative of conditions expected to be in place once new rates go into effect. For instance, the Company adjusts usage to reflect the number of customers at the end of the test year. The reason is, if customers move into the Company's service territory in the middle of the test year, the Company assumes those customers will be present when rates go into effect. Without a customer count adjustment, the Company's billing determinants would be too low, so this adjustment ensures that the Company does not over-recover its approved cost of service. Another example is the adjustment to labor or payroll expenses to account for employee salaries at the end of the test year.[9] Such test year adjustments are routinely made and approved in utility rate cases.[10]

Q. DOES THE PROPOSED ADJUSTMENT COMPLY WITH RULES 25.231 AND 25.234?

A. Yes. Like the customer count test year adjustment and the labor expense test year adjustment I have mentioned, the energy efficiency test year adjustment is an in-period adjustment. Test year adjustments (also referred to as pro-forma adjustments) are used to change test year data to reflect the full year effect of known

[9] *See* Direct Testimony of Kristie Colvin at 13:20-21 ("The Company has adjusted its test year direct labor expenses to annualize calendar year-end salaries").
[10] *See, e.g., Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Order (Jan. 11, 2018) (approving SWEPCO's proposed base payroll adjustment based on the salaries of its employees at the end of the test year).

and measurable changes in ongoing expense levels or other ratemaking elements including billing determinants. There are two types of test year adjustments: in-period adjustments and out-of-period adjustments. In-period adjustments include normalization adjustments to remove the known and measurable effects of abnormal conditions *during the test year* on expense levels or other ratemaking elements, and annualization adjustments to account for known and measurable changes in expense levels or other ratemaking elements that occur *during the test year* if such changes are reasonably expected to continue beyond the test year. In-period adjustments are routinely made in rate cases. Out-of-period adjustments (also called post-test year adjustments) are less frequently made and less frequently approved. Out-of-period adjustments are intended to account for known and measurable changes in a utility's expense levels or other ratemaking elements that are expected to occur *after the test year*.

The Company's energy efficiency adjustment in this case, as well as the Company's customer count and labor expense adjustments in this case, are all *in-period annualization adjustments* to account for changes to various ratemaking elements that occurred *during the test year* to reflect the full year effect of those changes. In each case, a test year condition experienced a known change, and the effects of those changes in conditions are easily measurable. The energy efficiency adjustment is based on the known fact that the Company implemented several new energy efficiency programs during the test year. These programs reduced the Company's system usage and will continue to reduce the Company's usage beyond the test year. But because the programs were implemented in the middle of the

year, the Company's test year data only reflects part of the impacts of these programs. The Company requires an in-period annualization adjustment to calculate the impacts of those programs as if they had been in place for the whole year, because this is representative of the conditions that will exist once rates take effect.

Q. IS THE ENERGY EFFICIENCY ADJUSTMENT NECESSARY TO ACCURATELY CAPTURE BILLING DETERMINANTS USED TO SET RATES IN THIS PROCEEDING?

A. Yes. If known and measurable increases or reductions to usage are not applied to the calculation of the Company's rates, the Company's rates will not accurately capture the Company's cost of service and revenue requirement as approved by the Commission in this proceeding. The Company will then not be given a fair opportunity to recover its revenue requirement as required by PURA § 36.051 because the billing determinants used to set rates would be too high since they only reflect a partial year of program activity, which in turn causes the rate to be too low. This puts the Company in a state of under-recovery from the first day that new rates take effect.

Q. DOES THE ADJUSTMENT CAPTURE THE IMPACTS OF ANY FUTURE ENERGY EFFICIENCY PROGRAMS?

A. No. Although the Company will continue to administer the energy efficiency programs implemented during the test year and will likely implement additional energy efficiency programs in the future in order to comply with 16 TAC § 25.181, and although these programs will continue to decrease usage, this billing

determinant adjustment only annualizes test year activity. The Company will have to file another comprehensive rate case to capture usage associated with any future program activity.

Q. IS THE ENERGY EFFICIENCY PROGRAM ADJUSTMENT "SUBSTANTIVELY IDENTICAL" TO AN LRAM AS MR. ABBOTT STATES AND MR. NALEPA ARGUES?

A. No. An LRAM is an out-of-period adjustment, intended to adjust test year revenues (or capture changes in revenue levels) based on changes in usage that are expected to occur *after the test year* due to energy efficiency programs. An LRAM adjusts the *revenue requirement* to account for revenues the Company will not recover in the future. Here, the Company's energy efficiency adjustment is an in-period *billing determinant* adjustment based entirely on usage known and measurable at the end of the test year, consistent with 16 TAC §§ 25.231 and 25.234.

This is wholly different from adjusting the revenue requirement or a post-test year adjustment. The LRAM previously proposed by the Company in previous proceedings cited Mr. Abbott and Mr. Nalepa were based *on projected post-test year* energy savings, but the Company's current proposal is based on *historical in-period test year savings*. Mr. Abbott and Mr. Nalepa ignore the fact that, unlike prior LRAMs and the energy efficiency adjustment mechanism proposed by the Company in Docket No. 38339, the Energy Efficiency Adjustment proposed in this proceeding is based entirely on annualized test year data. Accordingly, Mr. Abbott's characterization of the Company's test year adjustment in this case as

a post-test year adjustment is wrong.[11] The application of this adjustment is not only consistent with Commission precedent, it is required by this Commission's rules.

Q. HAS THE COMPANY ASKED FOR AN LRAM IN THE PAST?

A. Yes. In Docket No. 38213, the Company asked for an adjustment to its revenue requirement to account for losses attributable to energy efficiency programs. The Commission denied the Company's request and the Company has not asked for an LRAM since that proceeding.

Q. HAS THE COMPANY MODIFIED ITS ENERGY EFFICIENCY ADJUSTMENT TO BE RESPONSIVE TO THE COMMISSION'S RULING ON THIS ISSUE IN PRIOR PROCEEDINGS?

A. Yes. By limiting the adjustment to known and measurable programs implemented during the test year, the Company has attempted to modify its proposal to be responsive to the Commission's concerns and better ensure its rate are designed consistent with 16 TAC §§ 25.231 and 25.234.

Q. MR. ABBOTT ASSERTS ON PAGES 21 AND 22 OF HIS TESTIMONY THAT ENERGY EFFICIENCY PROGRAMS DO NOT RESULT IN REDUCED USAGE. HOW DO YOU RESPOND?

A. Remarkably, Mr. Abbott asserts that energy efficiency programs are more likely to *increase* overall energy usage than to decrease it.[12] He believes that the more efficient an appliance is, the more a consumer will use it, offsetting any energy savings gained by the increased efficiency.

---

[11] Direct Testimony and Workpapers of William B. Abbott at 9.
[12] *Id.* at 21-22.

Q. IS MR. ABBOTT'S POSITION CONSISTENT WITH PURA AND THIS COMMISSION'S POLICY REGARDING THE PROMOTION OF ENERGY EFFICIENCY?

A. This position is completely at odds with PURA § 39.905 and this Commission's policy underlying the promulgation of the energy efficiency rule, which is to "allow each customer to reduce energy consumption" with the goal of achieving significant demand and energy reductions *overall*.[13] If Mr. Abbot is correct that there are no benefits to these programs in reducing usage, then there is no purpose to PURA § 39.905 or 16 TAC § 25.181.

Q. DO ENERGY EFFICIENCY PROGRAMS REDUCE USAGE IN A MEASURABLE WAY?

A. Yes. We know for a fact that energy efficiency programs result in reduced usage. If a security light that uses 100 watts and runs at night is replaced with a light that uses 10 watts, usage is reduced. It should not be assumed that the light will be used ten times as much.

Q. IS MR. ABBOTT'S EXAMPLE ON PAGE 6 OF HIS DIRECT TESTIMONY AN ACCURATE WAY TO DESCRIBE THIS ADJUSTMENT?

A. No. The example on page 6 of Mr. Abbott's testimony is an accurate way to describe the relationship between rates, revenue requirement and billing determinants, but is not relevant in this context. CenterPoint Houston has adjusted its billing determinants to represent an accurate number of kWh that will exist in the year rates go into effect. What Mr. Abbott should have modeled is the impacts

[13] PURA § 39.905; 16 TAC § 25.181(a)(2) & (e).

of keeping billing determinants artificially high, which results in rates being too low. When billing determinants do not reach the level used to set the rates (because, for instance, energy efficiency were put in place midway through the test year that reduce usage when rates take effect), the Company cannot recover its Commission-approved revenue requirement.

Q. MR. NALEPA AND MR. ABBOTT CLAIM THE COMPANY'S ADJUSTMENT IS NOT KNOWN AND MEASURABLE BECAUSE THE COMPANY USED THE COMMISSION'S DEEMED SAVINGS TO CALCULATE THE ADJUSTMENT. HOW DO YOU RESPOND?

A. The adjustment is known and measurable. It is undisputed that the Company implemented new energy efficiency programs during the test year. The impacts of these programs are measurable because there is a Commission-approved yardstick to measure them.[14] The Commission relies on the Technical Reference Manual ("TRM") to calculate the savings from the implementation of energy efficiency programs, and it is a reasonable means of calculating those savings. The TRM is reviewed and vetted by the Commissions third-party auditor Tetra Tech and is used to determine savings for every energy efficiency program under the Commission's purview. The savings calculated using the TRM are used to calculate the Energy Efficiency Cost Recovery Factor ("EECRF") that is approved by the Commission for every electric utility in Texas every year. Using deemed savings calculated based on the TRM is not only wholly appropriate and consistent with how this

[14] The "known and measurable" adjustment standard has two separate elements (it is not a single element): (1) a known event or change in condition and (2) the ability to reasonably measure the impact of that known event or change in condition on billing determinants or other relevant ratemaking elements.

Commission calculates the impacts of energy efficiency programs on usage and sets rates in the EECRF, but it is necessary in order to make the adjustments required by 16 TAC § 25.234.

Q. DOES THE FACT THAT THE DEEMED SAVINGS VALUES ARE ESTIMATES REDUCE THEIR VALUE AS A MEASURING TOOL FOR CALCULATING BILLING DETERMINANTS?

A. No. All test year adjustments are reasonable estimates or based on reasonable assumptions, including in-period adjustments such as adjustments for weather normalization, customer counts and labor expenses. The estimates and assumptions underlying the Company's test year energy efficiency adjustment are no less reasonable than the estimates and assumptions underlying the other test year adjustments that the Company has proposed in this case and (except for the weather adjustment) no party has disputed.

Q. DOES THE COMMISSION RELY ON THESE DEEMED SAVINGS?

A. Yes. Mr. Abbott's position that it is "inappropriate" to use deemed savings "in a rate proceeding" is directly contrary to the entire purpose the deemed savings were calculated in the first place, to set rates based the impacts of programs in usage in EECRF proceeding. It has been Staff's position in previous cases that EECRF proceedings are rate proceedings,[15] and I do not understand Mr. Abbott's logic that the deemed savings calculations are appropriate for purposes of determining energy usage to set rates in an EECRF proceeding but inappropriate, here, to calculate the

[15] *See Application of CenterPoint Energy Houston Electric, LLC for Approval of an Adjustment to its Energy Efficiency Cost Recovery Factor*, Docket No. 40356, Commission Staff's Brief at 6 (May 30, 2012) ("an EECRF proceeding is a ratemaking proceeding since rates will be set as a result of the proceeding").

energy usage for purpose of determining appropriate test year usage pursuant to 16 TAC §§ 25.231 and 25.234. If the Commission has the confidence in these deemed savings to set rates in an EECRF, it can also utilize them in this rate proceeding. In fact, with the Commission's approval, utilities have spent and collected (and continue to spend and collect) millions of dollars of energy efficiency program costs based on the TRM deemed savings and, pursuant to the Commission's mandate, for the cost of developing the deemed savings themselves. The attempt to delegitimize their value and reliability in this case is peculiar to say the least.

Q. MR. ABBOTT ASSERTS ON PAGE 12 OF HIS TESTIMONY THAT DEEMED SAVINGS ARE UNRELIABLE BECAUSE CENTERPOINT HOUSTON DOES NOT "GUARANTEE ANY ENERGY EFFICIENCY SAVINGS TO CUSTOMERS WHO INSTALL ENERGY EFFICIENCY MEASURES." HOW DO YOU RESPOND?

A. Mr. Abbott appears to ignore the fact that the Company is not, and is *prohibited* from being, the energy efficiency service provider to customers. Customers subscribe to or purchase energy efficiency measures purchased directly from these vendors, not from the Company.

Q. DO YOU AGREE WITH MR. ABBOTT'S ASSERTION THAT INCREASED USAGE ON THE COMPANY'S SYSTEM SINCE 2013 DEMONSTRATES THAT ITS ENERGY EFFICIENCY DOES NOT DECREASE USAGE?

A. No. The increased usage CenterPoint Houston has experienced at the total-system level has been caused by customer growth, not usage per customer. In fact, I suspect Residential average usage per customer has declined since the energy efficiency rule was put in place. The Company's adjustment merely recognizes this reality in setting rates based on test year data.

Q. MR. ABBOTT ALSO ARGUES THAT APPROVING AN ENERGY EFFICIENCY ADJUSTMENT WOULD BE "EXTRAORDINARY"[16] BECAUSE IT IS NOT SPECIFICALLY MENTIONED IN THE COMMISSION-APPROVED RATE FILING PACKAGE. HOW DO YOU RESPOND?

A. I disagree. By this logic, any test year adjustment not specifically listed in the RFP is "extraordinary." Merely because a particular type of adjustment is not listed in the RFP does not mean it is extraordinary. For example, the RFP also does not specifically provide for annualized adjustments to payroll expense, but such adjustments are routine. It is simply impractical for the RFP to list every type of test year adjustment that can be made. That is why schedule II-H-4.1 includes a requirement to provide information "associated with other" adjustments.

[16] Direct Testimony and Workpapers of William B. Abbott at 14:19.

Q. DO YOU HAVE ADDITIONAL CONCERNS WITH MR. NALEPA'S PROPOSED ADJUSTMENT TO REMOVE THE IMPACTS OF THE ENERGY EFFICIENCY ADJUSTMENT FROM RATES?

A. Yes. Mr. Nalepa claims the Company's programs would increase revenues by $1.205 million. However, to remove the impacts of the adjustment, he appears to recommend a downward adjustment to test year revenues of $1.205 million *and* a reduction to the Company's revenue requirement of $1.205 million,[17] which would result in a reduction of $2.41 million, or twice the amount he alleges is attributable to the Company's proposed adjustment. However, Mr. Nalepa has clarified in response to discovery that he is not recommending an adjustment to the revenue requirement, only an adjustment to revenues in the amount of $1.205 million.[18] However, for all of the reasons I have explained before, Mr. Nalepa's recommendation should be rejected.

Q. IS THE COMPANY'S PROPOSED KNOWN AND MEASURABLE ADJUSTMENTS TO TEST YEAR BILLING DETERMINANTS NECESSARY TO CAPTURE TEST YEAR USAGE?

A. Yes.

[17] Direct Testimony of Karl Nalepa at 49.
[18] Exhibit R-MAT-1 (OPUC Response to CenterPoint Houston RFI 3-14).

VI. RATE DESIGN

A. Customer Charge

Q. MS. PEVOTO HAS RECOMMENDED THE COMPANY EMPLOY GRADUALISM BY REDUCING ITS PROPOSED CUSTOMER CHARGE FROM $2.46 TO $1.75 PER METER. WHAT IS YOUR RESPONSE?

A. As I explain more below, the fixed portion of the bill including the customer charge and the meter charge is decreasing by $0.94. The argument that a customer will experience rate shock by the individual fixed components of their bill is without merit.

Q. HOW DOES THE COMPANY CALCULATE ITS CUSTOMER CHARGE?

A. The Company's customer charge is calculated based upon the revenue requirement functionalized to the Transmission & Distribution Customer Service ("TDCS") function.

Q. IS IT REASONABLE TO EMPLOY GRADUALISM FOR PURPOSES OF REDUCING THE CUSTOMER CHARGE AS MS. PEVOTO RECOMMENDS?

A. No. The customer charge is calculated based on all costs that are functionalized to the TDCS function. To employ gradualism would simply shift the revenue requirement to the Distribution function, increasing the Distribution charge. Since deregulation, the Commission has favored setting rates at the cost of service without implementing gradualism principles. As explained below, there is no reason to do so in this case.

Q. MS. PEVOTO CLAIMS THAT WITHOUT EMPLOYING GRADUALISM THE COMPANY'S CUSTOMER CHARGE WOULD BE THE HIGHEST IN THE STATE OF TEXAS. HOW DO YOU RESPOND?

A. Ms. Pevoto ignores the fact that the Company charges customers two fixed charges on their bills: a customer charge and a meter charge. When you combine the two proposed fixed charges for the residential customers in this proceeding, they are a $0.94 decrease from the current charges[19] and are $3.32 less than Texas-New Mexico Power Company's ("TNMP") fixed charge ($7.85 to $4.53). The Company's fixed charges would also be $3.65 less than the current AEP Texas-North charges and $2.21 less than the current AEP Texas-Central charges.[20] Moreover, looking at the fixed charge alone does not take into account the usage charges.

Q. DOES THIS MITIGATE MS. PEVOTO'S CONCERNS ABOUT RATE SHOCK?

A. Yes. I do not think it is reasonable to assume customers will experience rate shock when their combined fixed charges are decreasing.

[19] Errata 1, Exhibit MAT-5 at 1 of 7.
[20] PUCT Comparison of Utilities Generic T&D Rates, Schedule Commission-1 (March 1, 2019), *available at* https://www.puc.texas.gov/industry/electric/rates/Trans/TDGenericRateSummary.pdf.

Q. HAVE YOU REVIEWED HOW CENTERPOINT HOUSTON'S PROPOSED RESIDENTIAL DISTRIBUTION RATES COMPARE TO ALL OTHER INVESTOR-OWNED TRANSMISSION AND DSPs IN ERCOT?

A. Yes. If the Commission were to approve the Company's proposed rates in this proceeding, the Company would be in the middle of the residential distribution rates for other transmission and distribution utilities in ERCOT, as shown below:

Utility	Fixed Charges + Distribution Charge +_ DCRF Charge at 1,000 kWh[21]
TNMP	$33.52
AEP Texas-North	$31.04
CenterPoint Houston (Proposed)	$27.18
Oncor	$23.44
AEP Texas-Central	$22.81

B. Street Lighting

Q. PLEASE DESCRIBE MS. PEVOTO'S AND MR. MURPHY'S RECOMMENDATIONS REGARDING THE CALCULATION OF STREET LIGHTING RATES.

A. Ms. Pevoto asserts the O&M cost for LED street lights should be excluded from transmission and distribution rates because, she alleges, there are no costs associated with operating and maintaining LED street lights. In addition, Mr. Murphy claims the magnitude of the customer charge impact associated with the proposal to establish LED lighting as the standard offering is unclear.

Q. DO YOU AGREE WITH MS. PEVOTO'S RECOMMENDATION?

A. No. As explained in the rebuttal testimony of Company witness Julienne Sugarek and below, the Company did incur costs during the test year and provided

[21] *Id.*; Errata 1, Exhibit MAT-5 at 1 of 7.

information in support of those costs in its rate filing package and in response to discovery. Ms. Pevoto's recommendation appears to be based on a discovery response related to test year O&M expense that was submitted by the Company to City of Houston, and which the Company has subsequently supplemented and clarified.

Q. PLEASE EXPLAIN.

A. Ms. Pevoto claims that in response to RFI COH02-12, CenterPoint Houston "admits that it did not incur any O&M expense for providing LED lighting service in 2015, 2016, 2017 and 2018." As explained by Ms. Sugarek in her rebuttal testimony, the Company has since clarified its response to explain that its response was only related to capitalized O&M associated with the initial investment in LED street lights but that during the test year the Company incurred O&M costs associated with the on-going operation and maintenance of its LED street lights.

Q. WHAT WAS THE COMPANY'S TEST YEAR O&M COSTS FOR ALL STREET LIGHTS?

A. During the test year, the Company incurred approximately $3.7 million in O&M costs for street lighting. When including A&G and other taxes, the total test year expense associated with street lighting is approximately $7.6 million. This amount is identified in Schedule H-I-J and CA in the Company's original rate filing package and errata filing.

Q. DOES MS. PEVOTO CHALLENGE THE COMPANY'S $7.6 MILLION TOTAL TEST YEAR COSTS ASSOCIATED WITH STREET LIGHTING?

A. No. Moreover, as explained by Ms. Sugarek, these costs are reasonable and necessary costs associated with providing street lighting service.

Q. DOES THE COMPANY TRACK O&M COSTS SPECIFIC TO EACH KIND OF LUMINAIRE IT OPERATES IN ITS SYSTEM?

A. No. As explained more below, the Company only tracks its total costs associated with operating and maintaining all types of street lights. It does not separately track those costs by street light type.

Q. HOW DID MS. PEVOTO DETERMINE THE $2.7 MILLION IN TEST YEAR COSTS ATTRIBUTABLE TO LED STREET LIGHTING SERVICE?

A. In preparing the Company's rate filing package for this proceeding, the Company prepared a study to determine the level of street lighting costs associated with all of the different types of lamps in the Company's system. The study was included in its original rate filing package in WP-Streetlight Rate Design, and in its errata filing in Errata-1 WP-Streetlight Rate Design. In the study, the Company assigned $2.73 million of its approximately $7.6 million in total O&M costs to LED street lighting O&M.

Q. WHY DID THE COMPANY PERFORM A STUDY TO ALLOCATE COSTS TO EACH TYPE OF STREET LAMP?

A. The allocation study was performed in order to demonstrate the costs attributable to each street light type.

Q. IS THIS ALLOCATION A REASONABLE METHOD FOR PURPOSES OF DEMONSTRATING THE BENEFITS OF USING LED STREET LIGHTS?

A. Yes. The street light services cost allocation study is a reasonable method to assign cost to the various luminaire types because the study evaluates the price CenterPoint Houston pays for replacements weighted by the expected life of each type of material associated with the luminaire. The allocation factor developed for each luminaire type is then applied to determine the portion of total O&M cost to each luminaire type on a cost causation basis.[22]

Q. MS. PEVOTO CLAIMS THE PROPOSED TRANSMISSION AND DISTRIBUTION RATES FOR LED STREET LIGHTING SERVICE ARE EXCESSIVE AND WILL RESULT IN OVERCHARGES TO CUSTOMERS. WHAT IS YOUR RESPONSE?

A. As I explained before, Ms. Pevoto's argument appears to be based on the assumption that the Company had no test year O&M costs associated with its LED street lights. The Company has since clarified that its total test year O&M costs associated with all street lights is approximately $7.6 million, regardless of how those costs are ultimately assigned. Moreover, this amount is identified in the Company's rate filing package and errata filing.

Q. IS THE COMPANY'S APPROACH CONSISTENT WITH COMMISSION RULES AND PRECEDENT?

A. The Commission approved the same streetlight rate design cost recovery method in prior rate case proceedings, Docket Nos. 38339 and 32093.[23]

[22] Errata 1 WP-Streetlight Rate Design at Tab SLS Rate Design.
[23] Docket No. 38339, Order on Rehearing (Jun. 23, 2011).

Q. PLEASE DESCRIBE MR. MURPHY'S CONCERN THAT THE MAGNITUDE OF THE IMPACT OF ESTABLISHING LED LIGHTS AS THE STANDARD OFFERING IS UNCLEAR IN THE COMPANY'S PROPOSED RATES.

A. Mr. Murphy's states the rate impacts of the proposal on lighting customers is unclear because the Company did not perform an analysis comparing a non-LED installation with an equivalent LED lighting installation.

Q. DO YOU AGREE WITH MR. MURPHY'S CONCERN?

A. No. This analysis was provided in the workpapers[24] supporting the RFP. The cost for a non-LED installation versus an LED installation is distinguishable, known and measurable and easily comparable as provided in the workpapers.

VII. POST-TEST YEAR ADJUSTMENTS TO REVENUES

Q. MR. KOLLEN SUGGESTS THAT THE COMPANY'S POST-TEST YEAR ADJUSTMENTS SHOULD BE REJECTED BECAUSE THE COMMISSION DOES NOT ALSO ADJUST FOR FUTURE INCREASES IN REVENUES AT THE SAME TIME. WHAT IS YOUR RESPONSE?

A. If known and measurable increases or reductions to usage are not applied to the calculation of the Company's rates, the Company's rates will not accurately capture the Company's cost of service and revenue requirement as approved by the Commission in this proceeding. The revenue increases Mr. Kollen seems to be referring to are associated with growth and are not known or measurable because there is no guarantee that load growth will occur every year.

[24] *See* Errata 1 WP-Streetlight Rate Design tabs Tariff Comp, SLS Rate Design, and Schedules A thru E.

Q. DID MR. KOLLEN RECOMMEND ANY SPECIFIC ADJUSTMENT TO REVENUES?

A. No. Mr. Kollen appears to simply be making this argument to bolster his claims that post-test year adjustments to expense should be rejected.

VIII. UNPROTECTED EXCESS DEFERRED FEDERAL INCOME TAX REFUND

Q. FOLLOWING THE FILING OF ERRATA-1, WHAT AMOUNTS WILL BE REFUNDED TO CUSTOMERS THROUGH THE PROPOSED RIDER UEDIT?

A. A total amount of $118,962,000 will be refunded to customers over a three-year period. The annual amounts are simply the total amount divided by three years and are shown on Rider UEDIT in the Errata-1 schedules. Please see the rebuttal testimony of Ms. Colvin for more information regarding the UEDIT refund and amortization.

Q. DOES THE PROPOSED RIDER INCLUDE AN ERROR IN THE REVENUE REQUIREMENT CALCULATION, AS MR. KOLLEN ASSERTS?

A. No. Mr. Kollen asserts that the Company miscalculated the amortization of the refund by using the second year of the UEDIT annual revenue requirement as the amortization amount to be applied to each of the three years of the amortization period. However, Mr. Kollen appears to misunderstand our calculation. To be clear, as shown in IV-J-7 UEDIT of the H-I-J and CA ERRATA – 1, the Company calculated the UEDIT annual amount by taking the *total* UEDIT refund amount, with interest, and amortized it over a three-year period.

Q. MR. MURPHY ARGUES THE COMPANY'S UEDIT REFUND SHOULD BE FUNCTIONALIZED TO BOTH WHOLESALE AND RETAIL CUSTOMERS. HOW DO YOU RESPOND?

A. The Company believes it is appropriate to apply the UEDIT benefit to retail customers but will defer to the Commission as to the appropriate functionalization of these costs.

IX. NON-RATE TARIFF CHANGES

Q. HAS ANY PARTY CHALLENGED THE COMPANY'S PROPOSAL TO ASSESS THE CUSTOMER CHARGE ON A PER-METER BASIS INSTEAD OF A PER-CUSTOMER BASIS?

A. Yes. Ms. Pevoto and Mr. Presses challenge the per-meter assessment, arguing instead that the Company should continue to charge on a per-customer basis.

Q. WHY IS THE COMPANY PROPOSING TO ASSESS THE CUSTOMER CHARGE BASED ON THE NUMBER OF METERS A CUSTOMER USES?

A. The purpose for changing the Customer Charge and Metering Charge in the transmission and distribution rate schedules from a "per Retail Customer" to a "per meter" basis is to recover the costs associated with the acquisition, operation and maintenance of additional meters serving the same retail customer premises. The rationale is that a customer that requires multiple meters should pay the costs for the meters used to serve them rather than being subsidized by other customers. It is correct that the Company's rate schedules have previously indicated that the Customer Charge and Meter Charge would apply "per Retail Customer." However, those same rate schedules also indicated that they were applicable to Retail Customers taking delivery to one Point of Delivery measured through one Meter

and that any other metering options requested by a Retail Customer would be provided at an additional charge. The change to a "per Meter" assessment of the Customer Charge and Metering Charge is to clarify the additional charge that will be applicable to a single Retail Customer using more than one Meter. This change simply assigns the cost to the entities causing the cost to be incurred.

Q. ON PAGE 27, LINES 16-18 OF HIS DIRECT TESTIMONY, MR. PRESSES STATES THAT "A PER CUSTOMER CHARGE MORE ACCURATELY REFLECTS THE ADMINISTRATIVE COSTS ASSOCIATED WITH THE PROVISION OF SERVICE." DOES MR. PRESSES PROVIDE ANY SUPPORT FOR HIS STATEMENT?

A. No. In fact, Mr. Presses admits in response to discovery that he has not performed any studies or analyses to support this statement.[25]

Q. DO YOU AGREE WITH MS. PEVOTO'S CLAIMS ON PAGE 30, LINES 5-9 OF HER TESTIMONY THAT ASSESSING THE CUSTOMER CHARGE ON A PER METER BASIS WILL "FUNDAMENTALLY CHANGE HOW CUSTOMERS WILL BE CHARGED" AND WILL "CREATE ADDITIONAL BURDENS FOR CUSTOMERS BECAUSE CUSTOMERS WITH MULTIPLE METERS WOULD RECEIVE MULTIPLE BILLS EVERY MONTH?"

A. No. This change is hardly "fundamental," because the vast majority approximately (99.976%) of the Company's Retail Customers receive service through a single Meter. As for those Retail Customers who take service through multiple Meters—

[25] Exhibit R-MAT-2 (HEB Response to CenterPoint Houston RFI 2-20).

often at their own request rather than because of any necessity—the change simply ensures that they will pay the cost of those additional Meters and not be subsidized by other Retail Customers. Moreover, as explained in response to discovery, each invoice CenterPoint Houston sends to a REP will include a numerical value corresponding to the number of meters represented on the bill. I do not foresee a significant risk of confusion or a need for REPs to send multiple bills to customers.

Q. DO YOU AGREE WITH MR. PRESSES' ASSERTION (PAGE 27, LINES 8-10) THAT THE COMPANY'S USE OF SMART METERS ELIMINATES THE NEED FOR A PER-METER CHARGE?

A. No. Mr. Presses focuses solely on the activity of meter reading, which is now largely (but not entirely) automated. However, even with the Company's advanced meters, there are still costs associated with meters. There is the cost of the meter itself as well as additional resources and systems to collect, store, manage, and process the data from the Company's advanced meters.

Q. DOES MR. PRESSES CHALLENGE THE COMPANY'S CALCULATION OF COSTS ASSOCIATED WITH ITS METERS?

A. No. He simply argues, without any real analysis, that those costs should be allocated on a per Retail Customer basis rather than a per Meter basis. As I noted before, this disregards the fact that customer that require multiple meters should pay the costs for those meters rather than be subsidized by other customers.

X. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

STATE OF TEXAS §
§
COUNTY OF HARRIS §

AFFIDAVIT OF MATTHEW A. TROXLE

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

1. "My name is Matthew A. Troxle. 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.

Matthew Troxle
Matthew A. Troxle

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

Alice S Hart
Notary Public in and for the State of Texas

My commission expires: 07/17/2019

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

SOAH DOCKET 473-19-3864
PUC DOCKET NO. 49421
OPUC's Response to CenterPoint Energy Houston Electric LLC's
Third Request for Information

3-14. Please refer to the Direct Testimony of Karl Nalepa at pages 46-49. Please confirm that Mr. Nalepa is proposing to adjust both the Company's revenue requirement by $1.205 million and the Company's revenues by $1.205 million to remove the impacts of the Company's proposed energy efficiency billing determinant adjustment. If so, please explain why it is necessary to make both of these adjustments to remove the impacts of the energy efficiency adjustment and provide all calculations and other support for Mr. Nalepa's recommendation.

RESPONSE:

Not confirmed. Mr. Nalepa recommends removal of the Company's proposed energy efficiency program adjustment, which increases test year revenues by $1.205 million. His recommendation does not affect the total revenue requirement, but does reduce the Company's proposed *increase* in revenues by $1.205 million.

Prepared By: Karl Nalepa
Sponsored By: Karl Nalepa

CenterPoint 2-20

Please provide any studies or analyses performed by Mr. Presses to support the statement on page 27, lines 16-18 of his testimony that "[a] per customer charge more accurately reflects the administrative costs associated with the provision of service."

Response:

Mr. Presses has not performed any studies or analysis in support of this statement.

Prepared by: George W. Presses
Sponsoring witness: George W. Presses