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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

KRISTIE L. COLVIN

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

June 2019

608

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LIST OF EXHIBITS

| | |
|------------------|--|
| Exhibit R-KLC-01 | RFIs Containing Errata |
| Exhibit R-KLC-02 | FASB Accounting Standards Codification (ASC) 980-10-05-5 |
| Exhibit R-KLC-03 | FASB Statement Concepts No. 6 |
| Exhibit R-KLC-04 | 2003 FERC Form 1 Page 232 |
| Exhibit R-KLC-05 | Response to RFI PUC08-01 |
| Exhibit R-KLC-06 | REP Bad Debt, Docket No. 38339 |
| Exhibit R-KLC-07 | Sections of 18 CFR Part 101 (FERC USOA) |
| Exhibit R-KLC-08 | FASB Accounting Standards Codification (ASC) 350-50 |
| Exhibit R-KLC-09 | Supreme Court Transition Charge Decision |

REBUTTAL TESTIMONY OF KRISTIE L. COLVIN

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND POSITION.

A. My name is Kristie L. Colvin. I am Senior Vice President and Chief Accounting Officer of CenterPoint Energy Service Company, LLC (“Service Company”) and CenterPoint Energy Houston Electric, LLC (“CenterPoint Houston” or the “Company”), a wholly-owned subsidiary of CenterPoint Energy, Inc. (“CNP”).

Q. ARE YOU THE SAME KRISTIE L. COLVIN THAT FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

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

A. The purpose of my rebuttal testimony is to address certain positions taken by Mark E. Garrett, Scott Norwood and Kit Pevoto on behalf of the City of Houston and Houston Coalition of Cities (“COH/HCC”), June M. Dively and Karl Nalepa on behalf of the Office of Public Utility Counsel (“OPUC”), Billie S. LaConte on behalf of the Texas Industrial Energy Consumers (“TIEC”), and Lane Kollen on behalf of the Gulf Coast Coalition of Cities (“GCCC”) collectively “Intervenors” and Mark Filarowicz, Blake P. Ianni, Jorge Ordonez, Brian T. Murphy and Darryl Tietjen on behalf of Public Utility Commission of Texas (“Commission”) Staff related to accounting issues.

1 **Q. HOW DOES YOUR TESTIMONY RELATE TO THE REBUTTAL**
2 **TESTIMONY OF OTHER COMPANY WITNESSES WHO ARE**
3 **COVERING RELATED TOPICS?**

4 **A. As the accounting witness, my rebuttal testimony addresses accounting-related**
5 **issues related to topics that are also addressed in the rebuttal testimony of several**
6 **other Company witnesses as identified in Figure 1 below.**

7 **Figure 1: Company Witness Rebuttal Testimony Topics**

| Topic | Rebuttal Witness |
|---|---------------------------------|
| Affiliate Costs | Townsend |
| Audit Items Related to Hurricane Harvey | Gauger |
| Competitive Pay Adjustment | Harkel-Rumford |
| Depreciation | Watson |
| Executive Pay | Harkel-Rumford Townsend |
| Gain/Loss on Sale of Land | Pryor |
| Incentive Compensation | Harkel-Rumford McRae Reed |
| Medicare Part D | Pringle |
| Operation & Maintenance Expenses | Narendorf Pryor Sugarek |
| Prepaid Pension Asset | Sanger |
| Riders | Troxle |
| Smart Meter Texas | Hudson |
| Substation Costs | Narendorf |
| Underground Cable Assessment Program | Pryor |
| Vectren Acquisition | Myerson |

8 **Q. WAS YOUR REBUTTAL TESTIMONY PREPARED BY YOU OR UNDER**
9 **YOUR DIRECT SUPERVISION?**

10 **A. Yes.**

1 **Q. HAVE YOU INCLUDED EXHIBITS WITH YOUR REBUTTAL**
2 **TESTIMONY?**

3 A. Yes. I have prepared or supervised the preparation of the exhibits listed in the table
4 of contents.

5 **Q. HAVING REVIEWED THE TESTIMONY OF THE INTERVENOR**
6 **WITNESSES AND STAFF IN THIS PROCEEDING, DO YOU HAVE ANY**
7 **GENERAL COMMENTS REGARDING THE NATURE OF THEIR**
8 **POSITIONS?**

9 A. Yes. The Company agrees with certain Intervenor and Staff proposed adjustments,
10 which I will address below. However, the majority of their proposed adjustments
11 are inconsistent with general ratemaking principles and seemed designed to find
12 ways to reduce revenue requirement as opposed to taking the reasoned approach
13 reflected in the Company's filing, which is designed to calculate an overall revenue
14 requirement that reflects the cost of service that is likely to prevail at the time new
15 rates from this case go into effect. Their proposed adjustments should be rejected
16 for the reasons outlined in my testimony below.

17 **II. ERRATA-1 FILING**

18 **Q. PLEASE DESCRIBE THE COMPANY'S ERRATA-1 FILING.**

19 A. During the discovery process, the Company identified certain adjustments or
20 revisions that should be made to its initial filing to better reflect the overall revenue
21 requirement. When these issues were identified in response to a discovery request,
22 the Company included an explanation in the discovery response and provided
23 functioning Excel spreadsheets, where applicable, that reflected the necessary
24 revisions. Please see Exhibit R-KLC-01 for the responses to these discovery

1 requests that were ultimately reflected in the Errata-1 filing. The Company filed
 2 and provided these discovery responses to all parties between May 6 and May 23,
 3 2019. The adjustments reflected in the Errata-1 filing, which are discussed below,
 4 resulted in a decrease to the annual revenue requirement, from \$2.250 billion to
 5 approximately \$2.244 billion, which included a revision to increase amounts to be
 6 refunded to customers through Rider Unprotected Excess Deferred Income Tax
 7 (“UEDIT”).

8 **Q. WHAT ADJUSTMENTS WERE MADE TO RATE BASE IN THE**
 9 **ERRATA-1 FILING?**

10 A. First, the Company corrected the placement of the Benefit Restoration Plan
 11 (“BRP”) liability on the schedules. The BRP liability balance of (\$6.91) million
 12 should have been shown as a provision on Schedule II-B-7 instead of a Regulatory
 13 Liability on Schedule II-B-11. This correction was simply a change in the
 14 presentation of the information and had no impact on rate base.¹

15 Second, there were corrections that impacted the rate base portion of the revenue
 16 requirement:

- 17 1. a correction was made to WP II-B-6 Adj 1 to remove \$0.2 million of Plant
 18 Held for Future Use (“PHFU”) from rate base because this tract of land will
 19 not be used within the next 10 years;²
- 20 2. the Regulatory Asset for Hurricane Harvey was also corrected to include
 21 carrying costs of \$8.7 million and to include the associated Accumulated
 22 Deferred Federal Income Tax (“ADFIT”) amount of \$(1.8) million, which

¹ See Response to RFI GCCC03-04, Exhibit R-KLC-01.

² See Response to RFI OPC02-01, Exhibit R-KLC-01.

1 I discuss below.³ The adjustment was made to WP II-B-12, WP II-E-3.5.1a,
2 and WP II-B-12b Hurricane Harvey;⁴ and

3 3. ADFIT for the prepaid pension asset on WP/II-E-3.5.1a was corrected to be
4 shown as a deferred tax liability rather than as a deferred tax asset.⁵

5 **Q. PLEASE DESCRIBE THE COST OF SERVICE ADJUSTMENTS IN THE**
6 **ERRATA-1 FILING.**

7 **A.** The Cost of Service adjustments made in the Errata-1 filing are:

- 8 1. Updated the Hurricane Harvey balance to include carrying costs on
9 WP II-E-4.1a to correctly reflect the new balance of \$73.1 million, which
10 results in \$24.4 million to be collected each year during the requested three-
11 year amortization period;
- 12 2. Added an adjustment to remove \$47,665 from insurance proceeds from
13 Operations and Maintenance (“O&M”) Federal Energy Regulatory
14 Commission (“FERC”) Account 9240 on WP II-D-2 that was related to the
15 Ulrich Substation;⁶
- 16 3. Removed capitalized amounts totaling \$0.8 million from the benefit
17 adjustment on WP II-D-2 Adj 6.1. The original adjustment inadvertently
18 included capital charges as O&M;⁷
- 19 4. Removed Advanced Metering Systems (“AMS”) plant balances of \$49.7
20 million in Asset Class E37003-AMS Meters and \$44.8 million from Asset

³ See Section III.C.7 Regulatory Asset and Liability Amortization Excluding Rider Unprotected Excess Deferred Income Tax (“UEDIT”)

⁴ See Response to RFI PUC08-14, Exhibit R-KLC-01.

⁵ See Response to RFI GCCC01-07, Exhibit R-KLC-01.

⁶ See Response to RFI COH10-15, Exhibit R-KLC-01.

⁷ See Response to RFI GCCC03-08, Exhibit R-KLC-01.

1 Class E39701 – Microwave Equipment from WP II-E-1 Adj 1 that had
2 previously been recovered in the AMS surcharge;⁸

3 5. Schedule II-E-2.1 was updated to correct the franchise fees to \$4.4 million
4 for the City of Sugar Land as shown WP II-E-2 Adj 4.1;

5 6. Updated WP II-E-5.2 to include \$1.8 million of Electric Reliability Council
6 of Texas (“ERCOT”) export revenues as a reduction to the revenue
7 requirement;⁹ and

8 7. Updated WP II-E-2.1 FF to include additional property tax bills paid in
9 March of \$0.2 million.

10 **Q. WERE ANY ADJUSTMENTS MADE TO THE PROPOSED RIDER**
11 **UEDIT?**

12 A. Yes. The Company increased the refund related to the proposed Rider UEDIT by
13 including a gross up, for tax purposes, for the UEDIT amounts. Please refer to the
14 Rider UEDIT Section VII.A below for more information.¹⁰

15 **Q. WERE ANY OTHER ISSUES INCLUDED IN THE ERRATA FILING?**

16 A. Yes. Pursuant to State Office of Administrative Hearing Order No. 6, the Errata-1
17 filing also addressed the removal of rate case expenses to be addressed in a separate
18 docket and excluded evidence related to Electric Vehicles and battery storage
19 issues.

⁸ *Application of CenterPoint Energy Houston Electric, LLC for the Final Reconciliation of Advanced Metering Costs*, Docket No. 47364, Final Order (Dec. 14, 2017).

⁹ See Response to RFI PUC01-31.

¹⁰ See Response to RFIs GCCC01-06 & PUC03-06, Exhibit R-KLC-01, PUC08-02.

III. OVERALL COST OF SERVICE

A. Direct Wages

Q. COH/HCC WITNESS MR. GARRETT RECOMMENDS ADJUSTMENTS TO THE COMPANY'S PROPOSED WAGE ADJUSTMENTS. DO YOU AGREE WITH HIS POSITION?

A. No, I do not. The Company's wage adjustments, consisting of adjustments to base pay, a competitive pay ("CPA"), and incentive compensation, should be approved. I address the flaws in his proposed adjustments below. Figure 2 Wage Adjustment (excluding Short-Term Incentive ("STI")) shown below details the Company's wage adjustment by union and non-union, and Direct and Affiliate by category. These amounts exclude the STI adjustment and its attendant impacts as they are discussed below. The details of the wage adjustment are shown in multiple workpapers the Company provided with its rate filing package.¹¹

Figure 2: Wage Adjustment
(In Thousands, excluding STI)

| | | Non-Union | Union | Total |
|--------|---------------------------------|-----------------|-----------------|-----------------|
| Direct | Salary Adjustment ¹² | \$ 437 | \$ 2,126 | \$ 2,563 |
| Direct | CPA Adjustment ¹³ | 1,200 | 1,971 | 3,171 |
| | Total Direct | 1,637 | 4,097 | 5,734 |
| | Total Affiliate ¹⁴ | 3,066 | 499 | 3,565 |
| | Total Wage Adjustment | \$ 4,703 | \$ 4,596 | \$ 9,299 |
| Direct | FICA Tax ¹⁵ | 22 | (14) | 8 |
| Direct | Savings ¹⁶ | (15) | 169 | 154 |
| | Grand Total | \$ 4,710 | \$ 4,751 | \$ 9,461 |

¹¹ CEHE RFP Workpapers WP-D-3 Adj 2

¹² CEHE RFP Workpapers WP-D-3 Adj 2 (Ref cells O3767-Q3767)

¹³ CEHE RFP Workpapers WP-D-3 Adj 2 (Ref cells R3767-U3767; Y3767-AA3767)

¹⁴ CEHE RFP Workpapers WP-D-1 Adj 4 (Ref cells X212-Z216)

¹⁵ CEHE RFP Workpapers WP-D-3 Adj 2 (Ref cells O3786-Q3786)

¹⁶ CEHE RFP Workpapers WP-D-3 Adj 2 (Ref cells O3778-Q3778)

1 **1. Competitive Pay Adjustment (“CPA”)**

2 **Q. WHAT IS MR. GARRETT’S POSITION REGARDING THE COMPANY’S**
3 **APPROACH TO THE CPA PAYROLL ADJUSTMENT?**

4 A. Mr. Garrett disputes whether the adjustment for the 2019 CPA is known and
5 measurable.¹⁷ He also unnecessarily confuses the CPA that is included in the test
6 year costs and the need to adjust wages for the CPA that occurred in April and May
7 2019.¹⁸

8 **Q. WHAT IS YOUR RESPONSE TO MR. GARRETT’S POSITION?**

9 A. The Company believes Mr. Garrett’s assertion to rely on a mid-year pay increase
10 to annualize wages is incorrect. The Company simply took actual payroll for
11 December 2018, which included the CPA that was in effect during the test year,
12 and annualized actual payroll.

13 The Company then applied a 3 percent adjustment for the 2019 CPA. This
14 is a known and measurable adjustment that occurred on April 1, for non-union
15 employees and May 26 for union employees. The actual non-union employee CPA
16 averaged 3.14%.¹⁹ For union employees, the Company is contractually obligated,
17 per the IBEW Local 66 union contract, to increase direct wages for union
18 employees every year.

19 **Q. DOES THE COMPANY’S PROPOSED WAGE ADJUSTMENT ADDRESS**
20 **OTHER FACTORS THAT AFFECT PAYROLL EXPENSE, WHICH MR.**
21 **GARRETT ALSO ADDRESSES?**

22 A. Yes. Mr. Garrett suggests factors such as attrition, workforce reorganization and
23 productivity gains should be considered. This is not necessary. The Company’s
24 annualization of direct salaries at year-end takes into consideration attrition because

¹⁷ Direct Testimony of Mark E. Garrett at 48:19-20.

¹⁸ *Id.* at 48-50.

¹⁹ See WP R-KLC-01 2019 CPA Percentage Calculation.

1 the average number of CenterPoint Houston direct employees throughout the test
2 year of 2,808 employees is nearly identical to the number of direct employees for
3 December 2018, which was 2,796 employees.²⁰ This data was provided in the
4 Company's RFP in Schedule II-D-3.5. In addition, the total impact of issues that
5 affect headcount are not known and measurable and often have a cost associated
6 with them. The Company's approach is a reasonable way to adjust test year wages
7 based on known and measurable adjustments that reflect the costs that are likely to
8 be incurred at the time new rates are implemented. Please see the rebuttal testimony
9 of Ms. Townsend for discussion on the affiliate wage adjustment.

10 **Q. WHAT IS YOUR RESPONSE TO MR. GARRETT'S POSITION THAT**
11 **THE WAGE ADJUSTMENT FOR THE 2019 CPA SHOULD BE**
12 **REJECTED BECAUSE IT REFLECTS A "PIECEMEAL" APPROACH TO**
13 **ADJUSTING TEST YEAR COSTS?**

14 **A.** Mr. Garrett suggests the Company's CPA adjustment is an example of the
15 Company trying to make adjustments to increase test year costs without also
16 incorporating offsetting cost decreases. Contrary to Mr. Garrett's suggestion, the
17 Company has not taken a one-sided approach in adjusting test year costs. The
18 Company's requested revenue requirement includes known and measurable
19 changes to test year costs for items such as benefits; injuries and damages; worker's
20 compensation; and auto and general insurance that will decrease in 2019. In fact,
21 as shown in Exhibit KLC-03a in my direct testimony, the Company's proposed
22 adjustments to test year amounts both increase and decrease the revenue
23 requirement.

²⁰ See Response to RFI OPC01-01 regarding normalized position levels.

1 **Q. ARE MR. GARRETT’S CALCULATIONS OF THE CPA AND RELATED**
 2 **TAXES CORRECT?**

3 A. No. First, the CPA amount and related tax amount are clearly shown on WP II-D-3
 4 Adj 2, which means separate calculations are unnecessary. Second, Mr. Garrett’s
 5 calculations of Direct CPA and related taxes are incorrect. Mr. Garrett incorrectly
 6 uses the Direct payroll adjustment to calculate CPA as a percentage of the total, and
 7 then applies the percentage to the adjusted payroll expense for his proposed
 8 \$(2,965) reduction.²¹ He then applies the tax rate of 7.65% to the total adjustment
 9 amount without considering limits on taxable income for individual base wages,
 10 which means his proposed tax adjustment is overstated. In contrast, the Company’s
 11 request for taxes related to the payroll adjustments correctly identifies tax amounts
 12 related to individual employee wage limits. See Ms. Townsend’s rebuttal testimony
 13 for further information on the affiliate wage adjustment.

14 **Q. DO MR. GARRETT’S PROPOSED DIRECT WAGE ADJUSTMENTS**
 15 **INCORRECTLY INCLUDE AMOUNTS RELATED TO UNION**
 16 **EMPLOYEES?**

17 A. Yes. Proposed adjustments to union base wages are contrary to Public Utility
 18 Regulatory Act (“PURA”). The direct and affiliate wage adjustments in the
 19 Company’s request include amounts for union employees, which are deemed
 20 reasonable due to PURA §14.006, which states:

21 The commission may not interfere with employee wages and
 22 benefits, working conditions, or other terms or conditions of
 23 employment that are the product of a collective bargaining
 24 agreement recognized under federal law. An employee wage rate or
 25 benefit that is the product of the collective bargaining is presumed
 26 to be reasonable.

²¹ Direct Testimony of Mark E. Garrett at 6.

1 As reflected in Figure 2 above, the Company's requested union amounts should be
2 approved.

3 **2. Incentive Compensation**

4 **Q. SHOULD THE COMMISSION ADOPT STAFF AND INTERVENOR**
5 **RECOMMENDATIONS TO DISALLOW ALL OF THE COMPANY'S**
6 **TEST YEAR LONG-TERM ("LTI") AND PORTIONS OF STI**
7 **COMPENSATION?**

8 A. No. Mr. Filarowicz,²² Ms. LaConte,²³ Ms. Dively,²⁴ and Mr. Garrett²⁵ propose the
9 Commission should disallow STI and LTI related to financial goals. I explain the
10 accounting errors in their proposals, which are as follows.

- 11 • Mr. Garrett adjusts the test year STI achievement level to the target level
12 expense, removes costs related to financial goals and arbitrarily applies a
13 50% reduction to STI costs tied to operational goals.²⁶ Mr. Garrett also
14 proposes an alternative starting with the STI payment rather than the
15 accrual.
- 16 • Mr. Filarowicz, Ms. Dively, and Ms. LaConte incorrectly base their direct
17 STI disallowance positions on the Company's test year amounts²⁷ rather
18 than a four-year average STI achievement level as mentioned in my direct
19 testimony,²⁸ provided in the Rate Filing Package ("RFP") and in response
20 to COH11-14.

²² Direct Testimony of Mark Filarowicz at 10-18.

²³ Direct Testimony of Billie S. LaConte at 14-19.

²⁴ Direct Testimony of June Dively at 40-46.

²⁵ Direct Testimony of Mark E. Garrett at 7-42.

²⁶ *Id.* at 30:14-20.

²⁷ Direct Testimony of Mark Filarowicz at 15; Direct Testimony of Billie S. LaConte at 17-18; Direct Testimony of June Dively at 45; Direct Testimony of Mark E. Garrett at 30.

²⁸ Direct Testimony of Kristie L. Colvin, Bates page 849:11-12.

- 1 • Mr. Garrett proposes an alternative to disallow the amount paid during the
- 2 test year rather than the expense reflected in the Company's filing.²⁹
- 3 • Staff's proposed disallowance includes STI costs related to the Overall
- 4 O&M Expenditures goal, which is an operational, not financial goal, and
- 5 applies a 50% reduction to operational and safety goals due to a "financial
- 6 trigger" related to STI payouts.³⁰
- 7 • Staff and Intervenors all erred by including the restricted stock component
- 8 of LTI as a financially-based LTI component because it is entirely time-
- 9 based.

10 Company witnesses Ms. Harkel-Rumford, Mr. McRae and Mr. Reed also address
11 these issues in their rebuttal testimonies.

12 **Q. WHY SHOULD THE COMPANY'S REQUESTED STI EXPENSE NOT BE**
13 **REDUCED TO TARGET LEVELS AS MR. GARRETT SUGGEST?**

14 A. The Company has historically achieved above target STI achievement levels, which
15 Ms. Harkel-Rumford addresses in her rebuttal testimony. The Company's
16 requested STI expense was calculated by adjusting actual STI expense down based
17 on a four-year average of actual STI achievement for non-union employees. The
18 Company's use of an average STI achievement percentage as part of the overall
19 wage adjustment results in normalizing STI based on the Company's actual
20 achievement levels. The four-year period was used to coincide with the RFP's
21 instructions that require utilities to provide data for the test year and the three
22 historical prior years for O&M on Schedule II-D-2a. The Company's historical STI
23 levels confirm that Mr. Garrett's position that only the target level expense should

²⁹ Direct Testimony of Mark E. Garrett at 32.

³⁰ Direct Testimony of Mark Filarowicz at 16-17.

1 be recovered through rates does not reflect the actual STI expenses that are likely
2 to occur at the time new rates are in effect.

3 **Q. DOES MR. GARRETT'S PROPOSAL TO REDUCE STI EXPENSE TO**
4 **TARGET LEVEL EXPENSE INCORRECTLY INCLUDE STI FOR UNION**
5 **EMPLOYEES?**

6 A. Yes. As noted previously, PURA §14.006 supports the Company's requested
7 recovery of all test year incentive compensation amounts for union employees. For
8 union employees, the STI achievement was calculated using first the four-year
9 average STI achievement level, which was then reduced to the average actual
10 achievement level of the prior three years for union. This additional adjustment
11 reflects the additional achievement measures within the direct union contract.

12 **Q. SHOULD THE COMMISSION ADOPT MR. GARRETT'S AND**
13 **MR. FILAROWICZ'S PROPOSAL TO REDUCE STI COSTS RELATED**
14 **TO OPERATIONAL GOALS BY 50%?**

15 A. No. Mr. Garrett and Mr. Filarowicz propose to reduce costs related to the
16 Company's STI Customer Satisfaction Composite and Safety Performance
17 operational goals by 50% based on the funding trigger.³¹ In addition,
18 Mr. Filarowicz proposes to disallow STI costs related to the Overall O&M
19 Expenditures goal, which is an operational, not financial goal.³² From a ratemaking
20 perspective, the proposal to reduce STI costs related to operational goals by 50%
21 based on a funding trigger is arbitrary and contrary to considering whether an
22 expense is reasonable and necessary. In addition, refer to Ms. Harkel-Rumford's
23 and Mr. Reed's rebuttal testimony for discussion of why disallowing STI costs
24 based on financial measures should be rejected.

³¹ Direct Testimony of Mark Garrett at 30:16-19; Direct Testimony of Mark Filarowicz at 16-17.

³² Direct Testimony of Mark Filarowicz at 16-17.

1 **Q. DO STAFF AND INTERVENOR WITNESSES USE THE WRONG**
 2 **AMOUNTS IN THEIR PROPOSED STI POSITIONS?**

3 A. Yes. They used per book amounts that were provided in response to RFI COH03-21
 4 or schedule workpapers. The Company is not requesting recovery of per book
 5 amounts. Instead, the Company is requesting recovery of STI using the four-year
 6 average achievement level applied to the total labor costs, including the wage
 7 adjustment. These STI expense amounts are as follows:

8 **Figure 3. Requested STI Expense Amount**
 9 **(In Thousands, Excluding FICA and Savings Match)**

| | Union | Non-Union | Total ³³ |
|-----------|----------------|-----------------|---------------------|
| Direct | \$1,374 | \$5,933 | \$7,307 |
| Affiliate | 117 | 9,457 | 9,574 |
| | <u>\$1,491</u> | <u>\$15,390</u> | <u>\$16,881</u> |

10 **Q. WHAT IS YOUR RESPONSE TO MR. GARRETT'S ALTERNATIVE STI**
 11 **ADJUSTMENT THAT FOCUSES SOLELY ON DISALLOWING STI**
 12 **PAYMENTS RELATED TO FINANCIAL GOALS?**

13 A. Mr. Garrett's alternative STI adjustment incorrectly begins with the Company's per
 14 book direct STI payments rather than the amounts requested. From a ratemaking
 15 perspective, his proposal is not consistent with the Company's request to recover
 16 accrued STI expense. Please refer to Ms. Harkel-Rumford's and Mr. Reed's
 17 rebuttal testimony for further discussion of why STI costs related to financial goals
 18 should be recovered through rates.

³³ See Response to RFI PUC07-01 that contains total requested STI expense amount. See WP R-KLC-02 Requested STI Expense Calculation.

1 **Q. WHAT IS YOUR RESPONSE TO THE INTERVENOR AND STAFF**
2 **PROPOSALS TO REMOVE ALL LTI COSTS DUE TO THEIR**
3 **ASSERTIONS THAT ALL LTI COSTS ARE TIED TO FINANCIAL**
4 **GOALS?**

5 A. First, not all LTI costs are based on achievement of financial goals. Specifically,
6 Company witness Ms. Harkel-Rumford explains that the portion of LTI related to
7 restricted stock awards is purely time-based. The Company's requested LTI
8 expenses related to restricted stock awards is \$3.8 million.³⁴ Therefore, even if the
9 Commission were to adopt the Intervenor and Staff recommendations to disallow
10 LTI costs based on financial goals, it would not be appropriate to disallow costs
11 related to the restricted stock awards.

12 **Q. MR. GARRETT CLAIMS THERE IS NO CASH EXPENSE ASSOCIATED**
13 **WITH STOCK-BASED INCENTIVE AWARDS SO RECOVERING COSTS**
14 **FOR LTI AMOUNTS TO A WINDFALL FOR THE COMPANY. WHAT IS**
15 **YOUR RESPONSE?**

16 A. Simply because the LTI stock awards is given in shares, should not dictate whether
17 the Company should be reimbursed for the cost of LTI stock awards. In addition,
18 the Company incurs a cash outlay related to dividend equivalents provided as a part
19 of the awards. Please refer to the rebuttal testimony of Company witness
20 Mr. McRae for further information.

³⁴ See Response to RFI COH11-17.

1 **3. Executive Employee Related Expenses**

2 **Q. MR. GARRETT AND MR. FILAROWICZ PROPOSE SEVERAL**
3 **ADJUSTMENTS TO EXECUTIVE RELATED COSTS. DO THEIR**
4 **PROPOSAL HAVE MERIT?**

5 A. No. Mr. Garrett proposes an adjustment based on Internal Revenue Service (“IRS”)
6 deductibility limits with no statute or precedent to support the proposed adjustment.
7 Please see the rebuttal testimonies of Ms. Harkel-Rumford and Ms. Townsend for
8 additional discussion on this issue, including testimony addressing why executive
9 benefit and pay amounts are reasonable and necessary.

10 **4. Vectren Related Reduction in Headcount**

11 **Q. STAFF RECOMMENDS THE REMOVAL OF LABOR COSTS FOR 32**
12 **EMPLOYEES WHO WERE SEPARATED FROM THE COMPANY**
13 **FOLLOWING THE ACQUISITION OF VECTREN.³⁵ WHY DID THE**
14 **COMPANY NOT MAKE THIS ADJUSTMENT?**

15 A. The Company used the number of active employees as of the end of the test year to
16 calculate wages included in the cost of service. This headcount reduction occurred
17 after the end of the test year, so the annualization of December 31, 2018 payroll did
18 not include this reduction. In addition, the Company’s requested costs do not
19 include severance expenses related to these 32 employees.

20 **Q. WHAT IS THE COMPANY’S POSITION RELATED TO**
21 **MR. FILAROWICZ’S PROPOSED REDUCTION TO BASE PAY IN THE**
22 **AMOUNT OF \$1.65 MILLION FOR THE 32 COMPANY EMPLOYEES?**

23 A. If the Commission adopts Mr. Filarowicz’s position, it would be necessary to also
24 reflect the corresponding severance expense related to the 32 direct employees. No

³⁵ Direct Testimony of Mark Filarowicz at 25-26.

1 party in this case has challenged the recovery of severance expenses included in the
 2 Company's request. If the amount of base pay is reduced for these 32 employees,
 3 the related severance expense that totals \$3.9 million should be included in cost of
 4 service. Please refer to the rebuttal testimony of Company witnesses
 5 Ms. Harkel-Rumford on this issue and Mr. Myerson for further information on the
 6 Vectren acquisition.

7 **B. Operations and Maintenance Expense**

8 **1. Overall Operations and Maintenance Expense**

9 **Q. MR. NORWOOD SUGGESTS A REDUCTION TO ADJUSTED TEST**
 10 **YEAR O&M TO LIMIT THE COMPANY TO A 2.6% INCREASE OVER**
 11 **2017 O&M BASED ON DOUBLING THE AVERAGE ANNUAL INCREASE**
 12 **IN O&M INCURRED BY THE COMPANY FOR FOUR PRIOR YEARS.³⁶**
 13 **SHOULD THE COMPANY'S ADJUSTED TEST YEAR COSTS BE**
 14 **LIMITED IN THIS WAY?**

15 **A.** No. Mr. Norwood is using unadjusted historical year and unadjusted test year
 16 amounts to propose an adjustment to O&M. He is arbitrarily using averages of
 17 prior year expense data that has not been adjusted or normalized and is therefore
 18 not comparable to the adjusted test year O&M the Company is requesting. By using
 19 an averaging approach of overall O&M, Mr. Norwood ignores the fact that there
 20 are certain costs the Company is contractually obligated to incur such as
 21 compensation for union employees. In addition, certain expense levels are
 22 determined based on actuarial studies for items such as pension, worker's
 23 compensation, and auto and general expense amounts. Also, his blanket adjustment

³⁶ Direct Testimony of Scott Norwood at 13.

1 does not contain any specific justification to reduce specific expenses included in
2 the Company's *adjusted* test year amounts.

3 The FERC Form 1 data for calendar years 2014 through 2017 that he relies
4 on also fails to include known and measurable adjustments for costs that are
5 recovered under separate riders such as Energy Efficiency or AMS or costs or
6 adjustments for pension and other expenses that are supported by actuarial reports.

7 Finally, Mr. Norwood's analysis in Figure 1 is wrong because he is using
8 per books amounts and not the requested O&M for the test year to conclude that
9 the requested O&M costs are 12.5% higher than O&M costs incurred over the
10 previous four years. If the error related to using the unadjusted test year O&M was
11 corrected, the comparison of the four-year average of per book O&M to the
12 adjusted amount of test year O&M is an increase of 6.4%,³⁷ not the 12.5%
13 Mr. Norwood calculated.³⁸ I provide this example to reinforce that comparisons
14 that relate to unadjusted test year O&M are incorrect. Even if that error is corrected,
15 it is still wrong to compare prior year per books O&M amounts and adjusted test
16 year O&M amounts because the data sets are not comparable for the reasons I
17 explain above.

18 **Q. ARE THERE OTHER REASONS MR. NORWOOD'S PROPOSED O&M**
19 **ADJUSTMENT METHODOLOGY IS FLAWED?**

20 A. Yes. Traditional ratemaking does not rely on use of an average O&M expense.
21 Ratemaking requires the use of test year amounts, adjusted for known and
22 measurable changes. Notably, Mr. Norwood's use of a simple average is different

³⁷ See WP R-KLC-03 Average O&M Expense Calculation.

³⁸ Direct Testimony of Scott Norwood at 12:21.

1 from the Company's use of a four-year average of actual STI achievement to
2 normalize a base line level of costs. The adjusted test year costs the Company
3 calculated are reasonable, necessary and likely to recur. Please see the direct and
4 rebuttal testimony of Company witnesses Mr. Pryor, Ms. Bodden (direct only),
5 Ms. Sugarek, Ms. Townsend, and Mr. Narendorf who address the Company's test
6 year O&M request and the specific FERC Accounts Mr. Norwood addresses in his
7 testimony.

8 **Q. MR. NORWOOD ASSERTS THE COMPANY'S O&M LEVEL IS**
9 **UNREASONABLE BECAUSE THE COMPANY DOES NOT MAINTAIN**
10 **YEAR OVER YEAR VARIANCE REPORTS BY FERC ACCOUNT. IS HIS**
11 **ASSERTION CORRECT?**

12 A. No. The Company is unaware of any requirement to specifically supply variance
13 reports by FERC account to support the reasonableness of its O&M costs in test
14 year. Instead, the Company provided examples of variance reports to the parties in
15 discovery that show year-over-year comparisons, but those costs are not managed
16 by FERC account rather they are managed by function. Please see the rebuttal
17 testimony of Company witnesses Mr. Pryor, Ms. Sugarek, Ms. Townsend, and
18 Mr. Narendorf who address the Company's test year O&M costs.

19 **2. Property Insurance Reserve**

20 **Q. MR. GARRETT PROPOSES AN EIGHT-YEAR RECOVERY PERIOD**
21 **AND MR. NALEPA RECOMMENDS A FIVE-YEAR RECOVERY PERIOD**
22 **FOR THE COMPANY'S SELF-INSURANCE RESERVE. DO THESE**
23 **PROPOSALS HAVE MERIT?**

24 A. No. Eight-year or five-year recovery periods are unreasonably long periods over
25 which to expect the Company to recoup losses previously incurred, and to establish
26 a level reserve that will be sufficient to cover expected costs as outlined in

1 Company's witness Mr. Gregory Wilson's direct testimony. Extending the
 2 recovery period to eight or five years puts the Company in a position of being
 3 subject to additional storm losses that could further deplete the storm reserve
 4 similar to Company's actual historical storm losses. A three-year period is
 5 appropriate to recover costs for all regulatory assets as noted below. Mr. Garrett
 6 and Mr. Nalepa recommendations should be rejected.

7 3. Injuries and Damages

8 Q. USING AN AVERAGING OF COSTS, MR. FILAROWICZ PROPOSES AN
 9 ADJUSTMENT TO THE COMPANY'S INJURIES AND DAMAGES
 10 EXPENSES.³⁹ DO YOU AGREE WITH HIS POSITION?

11 A. No. The Company's reliance on amounts contained in the actuarial report
 12 addressing injuries and damages is a more reasonable way to determine the expense
 13 that will occur in 2019, which is how the Company calculated its requested injuries
 14 and damages expense. Staff calculates a five-year average to adjust the Company's
 15 requested injuries and damages expenses. Staff further states that the first quarter
 16 or months of January through April of 2019 support his adjustment.⁴⁰ As noted in
 17 Section III.B.1, the Company disagrees with averaging as a method to determine
 18 test year expenses. In addition, the first quarter or months of January through April
 19 of 2019 are not reflective of the costs for the entire test year. Due to the timing
 20 throughout the year when injuries and damages costs are incurred, one must look
 21 at a twelve-month period to analyze cost. Using a twelve-month ending April 2019
 22 balance, the variance to the unadjusted test year is only \$9,634, as shown on
 23 WPR-KLC-04. Staff's adjustment to the Company's injuries and damages
 24 expenses should be rejected.

³⁹ Direct Testimony of Mark Filarowicz at 24:8-11.

⁴⁰ *Id.* at 23:8-11.

1 **C. Regulatory Assets and Liabilities**

2 **1. Texas Margin Tax**

3 **Q. DO STAFF AND INTERVENOR WITNESSES TAKE ISSUE WITH THE**
4 **COMPANY'S PROPOSAL RELATED TO CHANGING THE METHOD OF**
5 **RECOVERY FOR TEXAS MARGIN TAX ("TMT")?**

6 A. Yes. In addition, Staff and Intervenors also appear to be confused about the one-
7 time, one-year TMT regulatory asset that results from changing the rate recovery
8 method for TMT.

9 **Q. WHY IS THE COMPANY SEEKING TO MAKE A CHANGE TO THE**
10 **RECOVERY METHOD FOR TMT?**

11 A. As noted in my direct testimony, the Company is requesting this treatment in
12 response to issues that arose in the Company's distribution cost recovery factor
13 filing ("DCRF") proceedings related to the number of ratemaking issues the
14 currently methodology raises. Mr. Filarowicz states the Company is correct that
15 Staff had previous concerns with the Company's TMT cost recovery method.⁴¹

16 **Q. IS THE COMPANY REQUIRED TO MAKE A CHANGE TO THE**
17 **METHOD OF RECOVERY FOR TMT?**

18 A. No.

⁴¹ Direct Testimony of Mark Filarowicz at 28.

1 **Q. PLEASE DESCRIBE THE COMPANY’S CURRENT METHOD FOR**
 2 **RECOVERING TMT AND AN ASSOCIATED RECURRING TMT**
 3 **REGULATORY ASSET AS SUPPORTED BY DOCKET NO. 29526 AND**
 4 **ASC 980.⁴²**

5 A. Docket No. 29526 was related to determining the amount of generation stranded
 6 costs and it established the recoverability of the amount of state franchise tax that
 7 was paid in the year following the year in which the associated revenue was
 8 generated. The order in Docket No. 29526 simply supports the Company’s request
 9 to be kept whole related to TMT as it is included in base rates on a payment method.
 10 Since the approval of the final order in Docket No. 29526, in all base rate, TCOS,
 11 and DCRF filings the Company has been including the *payment* of TMT and its
 12 predecessor State Franchise Tax in base rates.⁴³

13 For GAAP purposes, the Company must recognize the TMT obligation in
 14 the period the revenue was earned.⁴⁴ The state franchise tax is unique from other

⁴² See Exhibit R-KLC-02 for ASC 980.

⁴³ *Complaint of Kenneth D. Williams Against Houston Lighting & Power Company*, Docket No. 12065; *Application of CenterPoint Energy Houston Electric, LLC, Reliant Energy Retail Services, LLC, and Texas Genco, LP to Determine Stranded Costs and Other True-Up Balances Pursuant to PURA §39.262*, Docket No. 29526, Final Order at Findings of Fact 227-237 (Dec. 17, 2004), *Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rate Pursuant to PUC Subst. R. §25.192*, Docket No. 36102; *Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates*, Docket No. 38339, Order on Rehearing at Findings of Fact 161-164 (Jun. 23, 2011); *Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rate Pursuant to PUC Subst. R. §25.192(h)(1)*, Docket No. 39633; *Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rate Pursuant to PUC Subst. R. §25.192(h)(1)*, Docket No. 39933; *Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rate Pursuant to PUC Subst. R. §25.192(h)(1)*, Docket No. 42334; *Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rate Pursuant to PUC Subst. R. §25.192(h)(1)*, Docket No. 43836; *Application of CenterPoint Energy Houston Electric, LLC for Approval of a Distribution Cost Recovery Factor Pursuant to PUC Subst. R. 25.243*, Docket No. 44572; *Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rate Pursuant to 16 Tex. Admin. Code §25.192(h)*, Docket No. 44881; *Application of CenterPoint Energy Houston Electric, LLC to Amend its Distribution Cost Recovery Factor and to Reconcile Docket No. 44572 Revenues*, Docket No. 45747; *Application of CenterPoint Energy Houston*

1 taxes in its rate treatment because there is a lag between the period in which the
 2 revenue is earned, which forms the basis for determining the amount of tax that is
 3 assessed, and the time when the tax payment is made. The Company relies on
 4 GAAP, specifically GAAP ASC 980 formerly SFAS No. 71, to record the TMT
 5 regulatory asset that represents the accrual of tax assessed which will be paid in the
 6 following year. The Commission, in Docket No. 29526, in Section III.C.9 of the
 7 Order on Rehearing, stated the GAAP requirement.

8 SFAS No. 71 governs how regulated entities recover certain estimated costs
 9 of providing regulated services. Under this accounting standard, the
 10 accounting for such an expense is keyed to the actions of the regulatory
 11 authority. Thus, SFAS No. 71 requires that a utility capitalize incurred costs
 12 that the regulatory authority assures will be recovered in the future.

13 The Commission concludes in the Order on Rehearing in Docket No. 29526, that
 14 the “joint applicants’ predecessor accounted for state franchise taxes as a deferred
 15 debit, as evidenced by a report of journal entries from 1999.”⁴⁵ In addition, the
 16 Commission acknowledged in Docket No. 29526 that the Company recover TMT
 17 on a two-year cycle: in one year, the amount is recorded as a deferred debit, and in

Electric, LLC for Interim Update of Wholesale Transmission Rates, Docket No. 45214; Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rates, Docket No. 46230; Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rates, Docket No. 46703; Application of CenterPoint Energy Houston Electric, LLC to Amend its Distribution Cost Recovery Factor, Docket No. 47032; Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rates, Docket No. 47610; Application of CenterPoint Energy Houston Electric, LLC to Revise its Wholesale Transmission Rates, Docket No. 48065; Application of CenterPoint Energy Houston Electric, LLC to Amend its Distribution Cost Recovery Factor, Docket No. 48226; Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rates, Docket No. 48389; Application of CenterPoint Energy Houston Electric, LLC for Interim Update of Wholesale Transmission Rates, Docket No. 48708.

⁴⁴ See FASB Accounting Standards Codification (ASC) 740.

⁴⁵ *Application of CenterPoint Energy Houston Electric, LLC, Reliant Energy Retail Services, LLC, and Texas Genco, LP to Determine Stranded Costs and Other True-Up Balances Pursuant to PURA §39.262, Docket No. 29526, Order on Rehearing, Findings of Fact 234 (Dec. 17, 2004).*

1 the second year the amount is recovered in rates.⁴⁶ In fact, in the Docket No. 29526
 2 final order, the Commission acknowledged that “under SFAS No. 71 and GAAP,
 3 the joint applicants have no mechanism to recover 2001 deferred debits for state
 4 franchise taxes, as the joint applicants did not receive regulated rates in 2002 or
 5 subsequent years.”⁴⁷

6 **Q. PLEASE EXPLAIN WHY THE COMPANY HAS NOT REQUESTED**
 7 **RECOVERY OF THE CURRENT TMT REGULATORY ASSET IN RATE**
 8 **BASE.**

9 A. The Company has not requested recovery of the current TMT regulatory asset in
 10 rate base because in prior dockets, under the payment method, the regulatory asset
 11 recorded each year is recovered in the following year. This TMT regulatory asset
 12 is not a one-time regulatory asset nor is it a regulatory asset that has been carried
 13 as a fixed amount pending recovery in the next rate proceeding.

14 **Q. PLEASE DESCRIBE THE COMPANY’S PROPOSED TMT RATE**
 15 **RECOVERY METHOD AND THE RESULTING TMT REGULATORY**
 16 **ASSET REQUESTED IN THIS DOCKET.**

17 A. As explained in my direct testimony, the TMT regulatory asset requested in this
 18 docket represents the amount of TMT the Company has yet to recover under the
 19 two-year cycle method. The TMT expense in the test year has been adjusted to the
 20 accrual method. This means the TMT expense is the amount assessed on the
 21 revenue in the period the revenue was earned. This eliminates the Company’s need
 22 to recover TMT expense on the current two-year cycle.

⁴⁶ *Id.* at Findings of Fact 235.

⁴⁷ *Id.* at Findings of Fact 236.

1 **Q. HOW IS THE REQUESTED TMT REGULATORY ASSET DIFFERENT**
 2 **THAN THE STATE FRANCHISE TAX REGULATORY ASSET IN**
 3 **DOCKET NO. 29526?**

4 A. The TMT regulatory asset in this docket is a one-time regulatory asset for an
 5 amount that the Company has not recovered from ratepayers under the two-year
 6 cycle method. In contrast, the regulatory asset related to the state franchise taxes
 7 under the payment method represents an amount on a two-year cycle. The payment
 8 method state franchise tax regulatory asset is established each year and reversed the
 9 following year when the state franchise tax is paid.

10 **Q. WHAT ARE THE INTERVENOR AND STAFF POSITIONS?**

11 A. Mr. Kollen suggests customers are harmed by the Company's request to change the
 12 way it recovers Texas Margin Tax expense and claims the Company's requested
 13 change to include the TMT regulatory asset in rate base is not supported by Docket
 14 No. 29526, which Ms. Dively also addresses.⁴⁸ Ms. Dively seems to also distort
 15 the issue by stating the accounting treatment is flawed.⁴⁹ Mr. Filarowicz suggests
 16 the Texas Margin Tax regulatory asset treatment has not been approved in prior
 17 dockets so the Company's request should not be adopted.⁵⁰

18 **Q. WHAT IS YOUR RESPONSE TO MR. KOLLEN'S OBJECTIONS TO THE**
 19 **COMPANY'S REQUESTED TEXAS MARGIN TAX TREATMENT?**

20 A. Mr. Kollen suggests customers are harmed by allowing the Company to recover the
 21 regulatory asset resulting from the change in methodology in recovering TMT when

⁴⁸ Direct Testimony of Lane Kollen at 32-33; Direct Testimony of June Dively at 24.

⁴⁹ Direct Testimony of June Dively at 26.

⁵⁰ Direct Testimony of Mark Filarowicz at 29-30.

1 in fact it is the Company that would be harmed by disallowing recovery of the
2 regulatory asset created by the transition to a new recovery method. Under the
3 current method, if the Company were to be unable to continue business in the
4 following year it would not have collected from the ratepayers in the current year
5 the amount it would still be required to pay to meet its TMT obligation in the
6 following year.

7 Mr. Kollen then erroneously compares the 1992 change in accounting
8 method for unbilled revenue to the proposed change in TMT treatment.⁵¹
9 Mr. Kollen neglects to consider unbilled revenue is a non-cash accrual item that
10 will reverse and never be collected from customers. In contrast, TMT is a cash item
11 that must be collected and submitted to taxing authorities.

12 **Q. WHAT IS YOUR RESPONSE TO MR. KOLLEN'S POSITION THAT THE**
13 **TMT REGULATORY ASSET SHOULD NOT BE INCLUDED IN RATE**
14 **BASE?**

15 A. The Company is willing to accept the exclusion of TMT regulatory asset from rate
16 base.

17 **Q. WHAT IS YOUR RESPONSE TO MS. DIVELY'S OBJECTIONS TO THE**
18 **COMPANY'S REQUESTED TEXAS MARGIN TAX TREATMENT?**

19 A. Ms. Dively first argues the Company is not following the FERC USOA by using
20 general ledger account 179060.⁵² Ms. Dively is misinterpreting a reference to
21 general ledger account 179060 that was included in a discovery response on this
22 subject. In fact, the Company uses separate general ledger accounts to track the

⁵¹ Direct Testimony of Lane Kollen at 36.

⁵² Direct Testimony of June Dively at 26:6.

1 individual regulatory assets in FERC Account 1823, which includes TMT.
2 According to FERC USOA requirements, Account 1823 is to include amounts for
3 items “in the current period under the general requirements of the Uniform System
4 of Accounts but for it being probable that such items will be included in a different
5 period(s).” Following the FERC USOA, the Company records its TMT in FERC
6 Account 1823 as shown on Schedule II-B-12.

7 Ms. Dively’s second argument states the Company should only be afforded
8 recovery of the difference between the cumulative historical accrual-based amounts
9 and the historical amounts recovered in rates.⁵³ It appears that Ms. Dively
10 recognizes that the Company needs to recover an amount to be made whole with
11 TMT. The flaw in her position, however, is that she does not identify the proper
12 adjustment to test year TMT expense, which as outlined in my testimony, results in
13 the regulatory asset from the two-year cycle method. Her argument is flawed even
14 though the explanation she includes in her testimony seems to show she
15 understands the Company’s request.⁵⁴ Under the current method, there is a one-
16 year lag between the accrual year and the payment year for TMT which results in
17 the Company recording a regulatory asset each year. As explained in my direct
18 testimony, to make the transition from the current method to the accrual method,
19 the Company’s proposal in this case results in a one time, one-year, regulatory asset
20 that contains the balance of unrecovered TMT expense. This is the TMT regulatory
21 asset that the Company is requesting in this case.

⁵³ *Id.* at 22-23.

⁵⁴ *Id.* at 20.

Her third argument alleges the Company's TMT request amounts to retroactive ratemaking to recoup losses,⁵⁵ which is not accurate. The amounts in the TMT regulatory asset are not losses. Instead, the amounts are based on normal on-going expenses that have been afforded rate recovery in the past. The Commission acknowledged in Docket No. 29526 that the Company recover TMT on a two-year cycle, in one year the amount is recorded as a deferred debit and the second year the amount is recovered in rates.⁵⁶

Q. WHAT IS YOUR RESPONSE TO MR. FILAROWICZ'S OBJECTIONS TO THE COMPANY'S REQUESTED TEXAS MARGIN TAX TREATMENT?

A. Mr. Filarowicz first revisits an issue that was resolved in Docket No. 29526. As discussed above, the Company cites Docket No. 29526 because it supports the Commission agreement that the Company is required to record regulatory assets and should recover state franchise tax deferred debits to ensure state franchise tax costs are recovered.

Mr. Filarowicz then claims the issue of TMT treatment began in 2008 based on the direct testimony of Charlie Pringle.⁵⁷ The tax has evolved over the years and was in existence prior to 2008. The Company had been recording the then-state franchise tax regulatory asset several years prior to 2008 as shown on the Company's 2003 FERC Form 1, which I include as Exhibit R-KLC-04. This is further evidenced by the Order on Rehearing in Docket No. 29526 the Commission found TGN recorded a deferred debit for state franchise tax.⁵⁸ While this reference

⁵⁵ *Id.* at 26:13-15.

⁵⁶ Docket No. 29526, Order on Rehearing, Findings of Fact 235.

⁵⁷ Direct Testimony of Mark Filarowicz at 29.

⁵⁸ Docket No. 29526, Order on Rehearing at 46.

1 is to the generation portion of the state franchise tax the Company recorded similar
2 regulatory asset for its transmission and distribution related state margin tax
3 obligation.

4 Mr. Filarowicz also claims the absence of the TMT regulatory asset in rate
5 base in Docket No. 38339 is a reason for exclusion in this case.⁵⁹ As noted above,
6 the TMT regulatory asset in this case is not the same as the TMT regulatory asset
7 in prior dockets. The TMT regulatory asset in prior dockets was not requested for
8 rate base treatment because under the payment method the regulatory asset each
9 year would be recovered in the following year. As discussed above, under the
10 proposed accrual method, the TMT regulatory asset is a one-time TMT payment
11 that must be recovered to fully transition to the new method.

12 Mr. Filarowicz erroneously implies the Company should not have recorded
13 the TMT regulatory asset because Staff is not aware of any other utility that
14 recorded a TMT regulatory asset.⁶⁰ While I can understand why Staff might focus
15 on what other utilities have or have not done, the Company relied on FERC and
16 GAAP requirements and prior Company dockets in making its determination of
17 recording the TMT regulatory asset. The Company's TMT regulatory asset request
18 should not be judged based on what other utilities choose to do or not do in their
19 cases.

⁵⁹ Direct Testimony of Mark Filarowicz at 30.

⁶⁰ *Id.*

1 **Q. MR. KOLLEN IS PROPOSING THE COMPANY WRITE OFF THE**
2 **REGULATORY ASSET IF THE CHANGE IN METHOD IS NOT**
3 **APPROVED.⁶¹ STAFF AND MS. DIVELY ARGUE THE COMPANY IS**
4 **NOT AUTHORIZED TO ESTABLISH THE REGULATORY ASSET. DO**
5 **EITHER OF THEIR ARGUMENTS HAVE MERIT?**

6 A. No. The Company's treatment of the regulatory asset was affirmed in Docket
7 No. 29526 as addressed above and mentioned in my Direct Testimony.⁶² The
8 Commission should approve the Company's regulatory asset related to the change
9 in rate recovery method for its Texas Margin Tax.

10 **Q. INTERVENORS ARE CONCERNED THE COMPANY'S PROPOSAL TO**
11 **TRANSITION THE METHOD OF RECOVERY OF TEXAS MARGIN TAX**
12 **EXPENSE WILL RESULT IN AMORTIZATION EXPENSE IN BASE**
13 **RATES UNTIL BASE RATES ARE SET AGAIN IN ANOTHER DOCKET.**
14 **HOW CAN THIS CONCERN BE ADDRESSED?**

15 A. This issue is addressed in Section C.7 below.

16 **Q. INTERVENORS AND STAFF RECOMMEND THE COMMISSION**
17 **REJECT THE COMPANY'S PROPOSAL TO CHANGE THE METHOD**
18 **OF RECOVERY OF TEXAS MARGIN TAX EXPENSE, WHICH RESULTS**
19 **IN THE REGULATORY ASSET THE COMPANY IS REQUESTING.**
20 **DOES THE COMPANY CONTINUE TO REQUEST APPROVAL OF THE**
21 **CHANGE IN METHODOLOGY AND RECOVERY OF THE TMT**
22 **REGULATORY ASSET?**

23 A. Yes, my testimony above defends the Company's original request, which it stands
24 by. If, however, as a result of the Intervenor and Staff positions, the Company's

⁶¹ Direct Testimony of Lane Kollen at 36.

⁶² Direct Testimony of Kristie L. Colvin, Bates page 875:3.

1 proposal to change its methodology of recording Texas Margin Tax for cost
2 recovery purposes is not adopted, the Company will continue using the current one-
3 year lag methodology that results in the 2017 payment being reflected in the cost
4 of service and 2018 expense being record as a regulatory asset.

5 **Q. WHAT STEPS MUST BE TAKEN TO REMOVE THE PROPOSED**
6 **CHANGE TO THE METHOD OF RECOVERING TEXAS MARGIN TAX**
7 **IF THE COMMISSION ADOPTS THE INTERVENOR AND STAFF**
8 **POSITIONS?**

9 A. The steps taken to make the transition as outlined in my Direct Testimony must be
10 reversed. The Company provided the detailed steps in response to PUC08-01,
11 which is attached as Exhibit R-KLC-05.

12 **2. Hurricane Harvey**

13 **Q. IS THERE SUPPORT FOR THE COMPANY’S REQUEST TO INCLUDE**
14 **CARRYING CHARGES RELATED TO HURRICANE HARVEY?**

15 A. Yes. Staff agrees that the Company should recover carrying charges related to
16 Hurricane Harvey.⁶³ Further, Staff witness Mr. Ordonez states that “it is important
17 to assure utilities that the Commission will allow them to recover prudently
18 incurred costs, including carrying costs, associated with hurricane restoration.”⁶⁴
19 In addition, the Company’s request is supported by the PURA, the Company’s past
20 practice with Hurricane Ike and Commission decisions in other cases.

⁶³ Direct Testimony of Jorge Ordonez at 39.

⁶⁴ *Id.* at 39:18-20.

1 **Q. MR. NALEPA PROPOSES ADJUSTMENTS TO REMOVE EXPENSES**
 2 **FROM THE HURRICANE HARVEY REGULATORY ASSET. PLEASE**
 3 **EXPLAIN THE COMPANY’S POSITION ON THESE PROPOSED**
 4 **ADJUSTMENTS.**

5 A. The Company does not agree with all of Mr. Nalepa’s adjustments made to remove
 6 Hurricane Harvey expenses based on the results of an internal Company audit.⁶⁵
 7 Please refer to the rebuttal testimony of Company’s witness Ms. Kelly Gauger for
 8 further information regarding \$77,983 that the Company agrees to remove from the
 9 Hurricane Harvey regulatory asset related to audit results.

10 In addition, Mr. Nalepa then proposes to remove \$18,713 related to
 11 employee awards and gifts and expensed capital costs.⁶⁶ The Company agrees with
 12 this adjustment. No other party challenges storm restoration costs included in the
 13 Hurricane Harvey regulatory asset.

14 **Q. SEVERAL INTERVENORS OPPOSE THE CARRYING CHARGES THE**
 15 **COMPANY SEEKS TO RECOVER AS PART OF THE HURRICANE**
 16 **HARVEY REGULATORY ASSET. ARE THEIR PROPOSED**
 17 **ADJUSTMENTS APPROPRIATE?**

18 A. No. Specifically, Intervenor witnesses Mr. Nalepa⁶⁷ and Mr. Kollen⁶⁸ oppose the
 19 Company’s request to recover Hurricane Harvey carrying charges. They suggest
 20 that the PURA does not provide guidance for whether a utility is allowed to recover
 21 carrying charges related to system restoration costs. Alternatively, Mr. Nalepa
 22 proposes to change the calculation of carrying charges to simple interest if the
 23 Company is authorized to recover carrying costs.

⁶⁵ Direct Testimony of Karl Nalepa at 15:12-13.

⁶⁶ *Id.* at 13.

⁶⁷ *Id.* at 22:6-7.

⁶⁸ Direct Testimony of Lane Kollen at 37 n. 41.

1 The Company should be authorized to recover carrying charges due to
2 statutory language in PURA, the Company's rate recovery of Hurricane Ike costs
3 and other Commission decisions.

4 **Q. DOES PURA SUPPORT THE COMPANY'S REQUEST TO RECOVER**
5 **CARRYING CHARGES FOR HURRICANE HARVEY-RELATED STORM**
6 **RESTORATION COSTS?**

7 A. Yes. PURA §36.405(a) states that,

8 An electric utility is entitled to recover system restoration costs consistent
9 with the provisions of this subchapter and **is entitled to seek recovery of**
10 **amounts not recovered under this subchapter**, including system
11 restoration costs not yet incurred at the time an application is filed under
12 Subsection (b), **in its next base rate proceeding or through any other**
13 **proceeding authorized by Subchapter C or D.**

14
15 The heading of the subchapter of PURA that contains this statute includes a
16 reference to securitization. This language, however, states that a utility can seek
17 recovery of system restoration costs that are not recovered under the subchapter. In
18 addition, this rate filing is a proceeding authorized by subchapter C of PURA. This
19 means it is appropriate for the Company to request recovery of system restoration
20 cost related to Hurricane Harvey in this filing.

21 In addition, PURA §36.402(b) states that,

22 **System restoration costs shall include carrying costs** at the electric
23 utility's weighted average cost of capital as last approved by the
24 commission in a general rate proceeding from the date on which the system
25 restoration costs were incurred until the date that transition bonds are issued
26 **or until system restoration costs are otherwise recovered pursuant to**
27 **the provisions of this subchapter.**

28 This statutory language supports the Company's request to include carrying costs
29 related to Hurricane Harvey. In addition, the fact that this language refers to
30 transition bonds, which are issued following a securitization proceeding, or "until
31 system restoration costs are otherwise recovered" confirms that it is appropriate for

1 the Company to be requesting recovery of carrying charges for storm restoration
2 cost under \$100 million in this rate case.

3 **Q. IN ADDITION TO PURA, HOW DOES THE COMPANY'S PRIOR**
4 **RECOVERY OF HURRICANE IKE COST SUPPORT THE COMPANY'S**
5 **REQUEST TO RECOVER CARRYING COSTS FOR HURRICANE**
6 **HARVEY?**

7 A. The Company's recovery of Hurricane Ike storm restoration costs included carrying
8 costs. As Mr. Kollen notes, those costs were securitized, but that distinction does
9 not prohibit the Company's request to include carrying costs for the \$64 million in
10 Hurricane Harvey storm restoration costs. In addition, the Company's request to
11 return Hurricane Ike residual costs includes carrying charges required to be applied
12 based on the Commission's order in Docket No. 36918.⁶⁹ The Company's request
13 to recover Hurricane Harvey restoration costs plus carrying costs is consistent with
14 the Commission's approval of Hurricane Ike system restoration costs.

15 **Q. IS THERE ANY OTHER SUPPORT FOR THE COMPANY'S REQUEST**
16 **TO INCLUDE CARRYING CHARGES RELATED TO HURRICANE**
17 **HARVEY?**

18 A. Yes. In addition to Staff's support, in Docket No. 48401, the Commission approved
19 a settlement agreement that permitted Texas-New Mexico Power Company to
20 recover carrying charges related to Hurricane Harvey.⁷⁰

⁶⁹ *Application of CenterPoint Energy Houston Electric, LLC for Determination of Hurricane Restoration Costs*, Docket No. 36918, Final Order at Finding of Fact 24 (Aug. 14, 2009).

⁷⁰ *Application of Texas-New Mexico Power Company to Change Rates*, Docket 48401, Final Order at Finding of Fact 62 (Dec. 20, 2018).

1 **Q. MR. NALEPA CHALLENGES THE COMPANY'S USE OF A MONTHLY**
 2 **COMPOUND INTEREST FORMULA FOR CALCULATING CARRYING**
 3 **COSTS ON THE HURRICANE HARVEY REGULATORY ASSET. IS HE**
 4 **CORRECT?**

5 A. No. The monthly compound interest is necessary to recognized that the Company
 6 incurs additional carrying costs each month until it collects the balance of the
 7 Hurricane Harvey regulatory asset. The monthly compounding method was used
 8 to calculate carrying charges for Hurricane Ike.⁷¹ The monthly compounding
 9 method is also reflected in Docket No. 48401 for TNMP's Hurricane Harvey
 10 costs.⁷² In addition, Staff witness Mr. Jorge Ordonez agrees with the Company's
 11 calculation of Hurricane Harvey carrying charges.⁷³

12 **Q. WHAT IS YOUR RESPONSE TO MS. DIVELY'S PROPOSAL FOR**
 13 **HURRICANE HARVEY?**

14 A. Ms. Dively recommends moving the Company's Hurricane Harvey restoration
 15 costs, plus carrying charges, to be recovered through a rider.⁷⁴ Please see
 16 Section III.C.7 below for further discussion.

17 **Q. MR. NALEPA SUGGESTS THE HURRICANE HARVEY REGULATORY**
 18 **ASSET SHOULD BE FUNCTIONALIZED TO TRANSMISSION AND**
 19 **DISTRIBUTION. DO YOU AGREE?**

20 A. Yes. Rate Base Schedule II-B-12 shows the correct functionalization for the
 21 Regulatory Asset for Hurricane Harvey between transmission and distribution
 22 using the same percentages as stated in Mr. Nalepa's testimony.⁷⁵ The Company

⁷¹ *Application of CenterPoint Energy Houston Electric, LLC for Determination of Hurricane Restoration Costs*, Docket No. 36918, Final Order at Finding of Fact 18 (Aug. 14, 2009).

⁷² Docket 48401, Testimony in Support of Stipulation at Exhibit SRW-S-2, page 2 of 12 (Nov. 12, 2018).

⁷³ Direct Testimony of Jorge Ordonez at 39:15.

⁷⁴ Direct Testimony of June Dively at 14.

⁷⁵ Direct Testimony of Karl Nalepa at 50:7-8.

1 made a necessary revision to Schedule II-E-4.1 as well as the testimony bates page
2 871 to reflect the amortization expense resulting from the functionalization. This
3 information was filed with the Commission on June 14, 2019.

4 **3. Bad Debt**

5 **Q. PLEASE DESCRIBE MS. DIVELY'S POSITION REGARDING BAD**
6 **DEBT.**

7 A. Ms. Dively recommends reducing the Company's bad debt regulatory asset by
8 \$1 million as noted below.⁷⁶ She also recommends the Company not earn a return
9 on this regulatory asset.

10 **Q. WHY SHOULD THE COMPANY'S REQUEST TO INCLUDE THE BAD**
11 **DEBT REGULATORY ASSET IN RATE BASE BE ADOPTED?**

12 A. The Company recorded its bad debt regulatory asset resulting from Retail Electric
13 Provider ("REP") defaults based on Commission Rule 25.107, and it should be
14 included in rate base earning a return based on the final order in Docket
15 No. 46957.⁷⁷ In that docket, the Commission approved Oncor Electric Delivery
16 Company's request to recover a regulatory asset for bad debt.⁷⁸

17 **Q. HOW DO YOU RESPOND TO MS. DIVELY'S POSITION ON BAD DEBT?**

18 A. As mentioned in my direct testimony,⁷⁹ the Company's requested bad debt expense
19 consists of (1) bad debt expense related to Accounts Receivable Other incurred
20 during the test year, and (2) an adjustment for amortization of a regulatory asset for
21 bad debt related to Retail Electric Provider ("REP") defaults. Ms. Dively agrees the
22 Company is allowed to follow 16 TAC §25.107(f)(3)(B) when recording the

⁷⁶ Direct Testimony of June Dively at 32:3-8.

⁷⁷ *Application of Oncor Electric Delivery Company, LLC for Authority to Change Rates*, Docket No. 46957, Final Order at Finding of Fact 48 (Oct. 13, 2017).

⁷⁸ Docket No. 46957, Final Order at Finding of Fact 48 and Schedule II-B-12.

⁷⁹ Direct Testimony of Kristie Colvin at Bates page 846.

1 regulatory asset for the REP defaults and the bad debt amounts included in base
 2 rates, which is what the Company has done.⁸⁰ She alleges because the amount in
 3 base rates from Docket No. 38339 is a credit that does not relate to REP bad debt.⁸¹

4 The bad debt balance in the test year is related to REP defaults as follows:
 5 Abacus Resources Energy, LLC defaulted on \$0.1 million on February 8, 2011;
 6 TexRep1, LLC defaulted on \$0.7 million on July 20, 2012; and TruSmart Energy,
 7 LLC defaulted on \$0.4 million March 21, 2016.⁸²

8 Following 16 TAC §25.107(f)(3)(B) the bad debt expense amount in base
 9 rates must be included in the regulatory asset calculation. In this instance, the bad
 10 debt expense included in current base rates was a credit and the rule does not state
 11 the amount has to be a debit nor does it require the additional justification
 12 Ms. Dively is suggesting.⁸³ Please see Exhibit R-KLC-06 for the REP default
 13 credits during the Docket No. 38339 test year.

14 4. Smart Meter Texas

15 **Q. DOES THE COMPANY AGREE WITH MR. NALEPA'S PROPOSED**
 16 **ADJUSTMENT TO SMART METER TEXAS EXPENSES?**

17 A. No, please refer to Company witness John R. Hudson's rebuttal testimony for
 18 further information.

19 **Q. DOES THE COMPANY AGREE WITH MS. DIVELY'S ADJUSTMENTS**
 20 **TO CHANGE THE AMORTIZATION PERIOD OF THE SMART METER**
 21 **TEXAS REGULATORY ASSET?**

22 A. No. The Company's position on amortization periods is discussed below.⁸⁴

⁸⁰ Direct Testimony of June Dively at 30.

⁸¹ *Id.* at 31.

⁸² See WP/II-D-2.2a.1.

⁸³ Direct Testimony of June Dively at 31.

⁸⁴ See Section III.C.7 Regulatory Asset and Liability Amortization.

1 **5. Medicare Part D**

2 **Q. DOES THE COMPANY AGREE WITH MS. DIVELY'S PROPOSED**
3 **ADJUSTMENTS TO THE RECOVERY OF THE MEDICARE PART D**
4 **REGULATORY ASSET?⁸⁵**

5 A. No. The Company's position on amortization is discussed below.⁸⁶

6 **Q. DOES THE COMPANY AGREE WITH MR. KOLLEN'S PROPOSAL TO**
7 **DENY RECOVERY OF THE MEDICARE PART D REGULATORY**
8 **ASSET?**

9 A. No. Please see the rebuttal testimony of Mr. Pringle for further discussion.

10 **6. Pension and Other Postemployment Benefits ("OPEB")**
11 **Regulatory Liability**

12 **Q. DOES THE COMPANY AGREE WITH MS. DIVELY'S ADJUSTMENTS**
13 **TO REMOVE REGULATORY ASSETS FROM RATE BASE WHILE**
14 **LEAVING THE PENSION AND OPEB REGULATORY LIABILITY IN**
15 **RATE BASE?**

16 A. No. The Company's position on this issue is discussed below.

17 **7. Regulatory Asset and Liability Amortization Excluding Rider**
18 **Unprotected Excess Deferred Income Tax ("UEDIT")**

19 **Q. WHAT ARE THE STAFF AND INTERVENOR POSITIONS FOR**
20 **AMORTIZATION OF REGULATORY ASSETS AND LIABILITIES?**

21 A. Pointing to Commission Rule 25.247(b)(1), which addresses the frequency of rate
22 cases, Staff proposes that certain regulatory assets and liabilities be recovered over

⁸⁵ Direct Testimony of June Dively at 18.

⁸⁶ See Section III.C.7 Regulatory Asset and Liability Amortization.

1 a five-year period in order to complete the amortization prior to setting rates in the
 2 Company's next rate base filing.⁸⁷

3 Ms. Dively proposes certain regulatory assets be removed from rate base
 4 for recovery through riders over a five-year period. She makes this
 5 recommendation for regulatory assets for Hurricanes Harvey and Ike, Medicare
 6 Part D, and SMT. She also proposes to exclude return for the REP bad debt asset
 7 in rate base and recovery of the regulatory asset amount as bad debt expense in
 8 account 9040.

9 **Q. WHAT IS THE COMPANY'S RESPONSE TO THE PROPOSALS TO**
 10 **EXTEND THE AMORTIZATION PERIODS FOR REGULATORY**
 11 **ASSETS AND LIABILITIES?**

12 **A.** The Company continues to request a consistent three-year amortization period for
 13 all its regulatory assets and liabilities in this case, including all components of Rider
 14 UEDIT, to provide equitable treatment to both the ratepayer and the Company. In
 15 contrast, the Intervenors support a one-sided approach that would require the
 16 Company to prolong recovery of costs included in regulatory assets and leave the
 17 regulatory liability for Pension and OPEB at three years.

18 The requested three-year period is the same time-period approved in Docket
 19 No. 38339 to recover regulatory assets and recovery of rate case expenses in prior
 20 dockets. A three-year period also more closely aligns the return or recovery of
 21 costs with the customers that existed at the time the costs were incurred, as
 22 Ms. Dively noted as preferred in rate making.⁸⁸

⁸⁷ Direct Testimony of Mark Filarowicz at 31:14-16.

⁸⁸ Direct Testimony of June Dively at 12:10-12.

1 **Q. SHOULD THE REGULATORY LIABILITIES BE AMORTIZED OVER**
 2 **THE SAME PERIOD AS THE REGULATORY ASSETS?**

3 A. Yes. Both the ratepayer and the Company should be afforded the same treatment
 4 with respect to recovery of regulatory assets and regulatory liabilities. Notably,
 5 Intervenors recommended moving regulatory assets into a rider so the Company
 6 will not “over-recover” costs for these items. They do not, however, recommend
 7 comparable treatment for the Company’s pension and OPEB liability, even though
 8 if the amount of the liability was recovered through base rates the Company runs
 9 the risk of “over-refunding” the amounts to customers. Staff in contrast
 10 acknowledges the need to account for regulatory assets and liabilities in a similar
 11 way, either all through base rates or all through a rider.⁸⁹

12 **Q. ALTERNATIVELY, STAFF SUPPORTS THE USE OF A RIDER FOR**
 13 **RECOVERY OF REGULATORY ASSETS AND LIABILITIES.⁹⁰ WHAT IS**
 14 **THE COMPANY’S RECOMMENDATION?**

15 A. If the Commission supports the use of a rider to collect costs for regulatory assets
 16 and liabilities, the Company recommends that all of the Company’s requested
 17 regulatory assets and liabilities, other than the TMT regulatory asset based on the
 18 discussion above⁹¹ and Rider UEDIT, be included into a single rider that would be
 19 amortized over a three-year period. Upon creation of the rider, the Company’s
 20 authorized rate of return should be applied across all of the items included in the
 21 rider. Please refer to Company witnesses Mr. Robert McRae and Mr. Hevert for

⁸⁹ See Direct Testimony of Mark Filarowicz at 31-32.

⁹⁰ *Id.* at page 32:10-14.

⁹¹ See Section III.C.1 Texas Margin Tax

1 rebuttal testimony for further discussion on the rate of return. The same rate of
2 return should also be applied to amounts included in Rider UEDIT.

3 **Q. WHY SHOULD THE COMPANY BE ALLOWED A RATE OF RETURN**
4 **ON ITS REGULATORY ASSET AND LIABILITIES INCLUDED IN THE**
5 **PROPOSED RIDER, IF THE COMMISSION APPROVES THAT**
6 **TREATMENT?**

7 A. As noted in my direct testimony, the Commission has previously approved the
8 inclusion and treatment of these type of regulatory assets and liabilities in rate base.
9 The combined regulatory asset and liability balance results in a significant amount
10 of funds the Company has yet to recover. Based on the date when new rates will be
11 effective following this case and the length of the amortization period for regulatory
12 assets and liabilities, including a return is appropriate for the Company to be made
13 whole. This is consistent with the proposed Rider UEDIT, which is a regulatory
14 liability and includes a return.

15 **Q. HAS MS. DIVELY PROPERLY CALCULATED THE ADJUSTMENT**
16 **THAT WOULD BE NEEDED TO THE REVENUE REQUIREMENT IF**
17 **THE HURRICANE HARVEY REGULATORY ASSET WAS MOVED TO A**
18 **RIDER?**

19 A. No, she has not. Her adjustment to increase ADFIT excludes the ADFIT on
20 carrying charges of \$1.8 million.⁹² This error impact the Texas Gross Margin and
21 Federal Income Taxes adjustments.

⁹² See Response to RFI PUC08-14, Attachment 1.

1 **Q. PLEASE SUMMARIZE THE COMPANY'S POSITION ON**
2 **REGULATORY ASSET AND LIABILITY AMORTIZATION,**
3 **EXCLUDING TMT.**

4 A. The Company continues to request approval of the regulatory assets and regulatory
5 liabilities as proposed in its direct case, which means these items should remain in
6 rate base to be recovered over a consistent period of three years for all regulatory
7 assets and liabilities. Alternatively, if the regulatory assets and liabilities are
8 included in a proposed rider, all regulatory assets and liabilities, excluding TMT and
9 UEDIT, must be included and should be recovered over a three-year period
10 including a return using the Company's authorized rate of return.

11 **D. Depreciation and Amortization**

12 **Q. HAVE THE INTERVENORS PROPOSED ADJUSTMENTS TO**
13 **DEPRECIATION RATES IN THE FILING?**

14 A. Yes. Company witness Mr. Watson responds to Intervenor's recommendations
15 regarding depreciation rates in his rebuttal testimony.

16 **Q. DO YOU AGREE WITH GCCC WITNESS MR. KOLLEN'S**
17 **CALCULATION OF THE ADJUSTMENT TO DEPRECIATION EXPENSE**
18 **USING THE DEPRECIATION RATES RECOMMENDED BY TCUC**
19 **WITNESS GARRETT?⁹³**

20 A. No. As noted above, the Company made adjustments to its depreciable plant in its
21 Errata-1 filing. Adjustments have been made on WP/II-E-1 adj 1 and WP/II-E-1 adj
22 1a. Mr. Kollen did not include the Errata-1 adjustments in his calculation of
23 depreciation expense.

⁹³ Direct Testimony of Lane Kollen at 50.

1 **E. Non-electric Revenues**

2 **Q. WHAT IS MR. NALEPA'S POSITION ON THE COMPANY'S**
 3 **ADJUSTMENT FOR THE LOSS ON THE SALE OF LAND?**

4 A. Mr. Nalepa recommends that customers not be assigned 50% of the loss on the sale
 5 of land and that the utility controls if and when a sale on land occurs.⁹⁴ In addition,
 6 Mr. Nalepa states that if there is a loss on the sale of land, the utility is expected to
 7 document its actions to show reasonableness.⁹⁵ He claims the Company is
 8 misinterpreting the Commission's order in Docket No. 38339⁹⁶ and argues "the
 9 decision to share equally between shareholders and customers was limited to a *gain*
 10 on the sale of land."

11 **Q. WHAT IS THE COMPANY'S RESPONSE TO MR. NALEPA'S POSITION?**

12 A. The Company has properly followed the Commission's decision in Docket
 13 No. 38339. When the Company filed its application in Docket No. 38339, the
 14 Company had only incurred a gain on the sale of land and had not experienced a
 15 loss on the sale of land during the test year. Thus, when the Commission approved
 16 the sharing treatment its order in Docket No. 38339, Finding of Fact 139B in the
 17 Order on Rehearing specifically addresses the events that occurred during the
 18 Company's test year in that docket. In Finding of Fact 137 in that order, however,
 19 makes clear the Commission determined customers should share on any gain or
 20 loss resulting from the sale of land.⁹⁷ It is not reasonable to allow customers to share

⁹⁴ Direct Testimony of Karl Nalepa at 26-27.

⁹⁵ *Id.* at 26:7-9.

⁹⁶ Docket No. 38339, Order on Rehearing, Finding of Fact 139B.

⁹⁷ *Id.* at Finding of Fact 137. Finding of Fact 137 states, "land is not a depreciable asset, and customers have not paid any depreciation expense associated with the land. This does not mean ratepayers have no claim on any gain or loss resulting from the sale of land."

1 on a gain on the sale of land yet expect the utility to bear the entire loss. Therefore,
 2 the Company's proposed apportionment of 50% of the loss on the sale of land
 3 correctly applies the Commission's decision in Docket No. 38339. Company
 4 witness Mr. Narendorf's rebuttal testimony addresses the purpose of the land
 5 purchase, why the loss occurred and why the sale was reasonable.

6 **F. Functionalization**

7 **1. FERC Accounts 5860 and 5970**

8 **Q. HOW DOES MS. PEVOTO PROPOSE TO FUNCTIONALIZE FERC**
 9 **ACCOUNTS 5860 AND 5970 FOR THE PAYROLL ALLOCATOR,⁹⁸ AND**
 10 **WHAT IS YOUR RESPONSE?**

11 **A.** Ms. Pevoto suggests that FERC Accounts 5860 and 5970, should be functionalized
 12 to the meter function when determining the payroll allocator. When the Company
 13 calculated its payroll allocator, FERC Accounts 5860 and 5970 were functionalized
 14 to the distribution function.⁹⁹ I agree that FERC Accounts 5860-Meter Expenses
 15 and 5970 – Maintenance of Meters should be assigned to the meter function when
 16 determining the payroll allocator.

17 **2. Texas Margin Tax**

18 **Q. DOES THE COMPANY AGREE WITH THE STAFF'S POSITION FOR**
 19 **THE TEXAS MARGIN TAX FUNCTIONALIZATION FACTOR?**

20 **A.** Yes.

⁹⁸ Errata Direct Testimony of Kit Pevoto at 7.

⁹⁹ Payroll allocator was based on Schedule II-D-3.

1 **3. FERC Account 9302**

2 **Q. WHAT IS STAFF'S POSITION FOR THE FERC ACCOUNT 9302**
3 **FUNCTIONALIZATION FACTOR?**

4 A. Staff witness Mr. Murphy grouped Staff's position for the functionalization of
5 FERC Account 9302 as follows:¹⁰⁰

6 1. Staff accepts the Company's payroll functionalization factor for support
7 services;

8 2. Staff proposes that Technology Operations services expenses related to
9 personnel should be functionalized based on payroll and customer-related
10 expenses should be functionalized based on total O&M expense, and

11 3. Staff proposes that Telecommunication Services expenses are to be directly
12 assigned to retail cost of service.

13 **Q. HOW DOES THE COMPANY RESPOND TO STAFF'S POSITIONS ON**
14 **THE FUNCTIONALIZATION OF FERC ACCOUNT 9302?**

15 A. The Company agrees with Staff's recommendations for the functionalization
16 factors for FERC Account 9302.

17 **G. Other Considerations**

18 **Q. INTERVENORS AND STAFF INCLUDE THE FLOW THROUGH**
19 **IMPACTS OF ADJUSTMENTS IN THEIR RECOMMENDATIONS.**
20 **WHAT IS YOUR RESPONSE?**

21 A. If any adjustments are made to the Company's requested recovery amount, then all
22 attendant impacts should be recalculated accordingly.

¹⁰⁰ Direct Testimony of Brian Murphy at 36-38.

1 **IV. RATE BASE**

2 **A. Other Taxes Prepayments**

3 **Q. DOES THE COMPANY AGREE WITH MS. DIVELY'S ADJUSTMENT TO**
4 **PREPAYMENTS FOR OTHER TAXES?**

5 A. No. Ms. Dively erroneously assumed that franchise taxes are paid on a quarterly
6 basis when, in fact, they are paid monthly.¹⁰¹ Certain franchise taxes are required
7 to be paid on the 1st of every month. As the Company noted in response to
8 OPC05-03, in order to be timely on its payment, a prepayment is made only when
9 the 1st of the month occurs on a Saturday and Sunday, or Monday (if a holiday).
10 Therefore, the 13-month average is calculated based on the prepayments recorded
11 for those months where the Company had to prepay for an expense that occurs in
12 the following month. The Company does not make quarterly payments.

13 **B. Prepaid Pension Asset**

14 **Q. MR. KOLLEN MAKES SEVERAL ASSERTIONS RELATED TO THE**
15 **PREPAID PENSION ASSET THE COMPANY IS REQUESTING IN RATE**
16 **BASE. WHAT IS THE COMPANY'S POSITION ON HIS ASSERTIONS?**

17 A. Other than the items that are address below, please see the rebuttal testimony of
18 Mr. Sanger for further discussion of why Mr. Kollen's positions should be rejected
19 and the associated treatment in this filing of the components of the pension
20 obligation.

¹⁰¹ Direct Testimony of June Dively at 34:6-26.

1 **Q. MR. KOLLEN STATES THE COMMISSION SHOULD APPROVE THE**
2 **USE OF THE DECEMBER 31, 2018 PREPAID PENSION ASSET**
3 **BALANCE RATHER THAN THE 13-MONTH AVERAGE TO**
4 **CALCULATE THE PREPAID PENSION ASSET IN RATE BASE.¹⁰² DO**
5 **YOU AGREE?**

6 **A.** No. As noted in the RFP instructions¹⁰³ for Schedule II-B-10 Prepayment, the
7 amounts are to be shown as 13-month averages. The Company followed the
8 Commission's instructions when preparing Schedule II-B-10 by using the
9 13-month average to calculate the prepaid pension asset.

10 **Q. HOW DO YOU RESPOND TO MR. KOLLEN'S ASSERTIONS THAT THE**
11 **COMPANY'S PREPAID PENSION ASSET SHOULD BE REDUCED BY**
12 **THE CAPITALIZED PORTION IF THE COMMISSION INCLUDES THE**
13 **PREPAID PENSION ASSET IN RATE BASE?¹⁰⁴**

14 **A.** If the prepaid pension asset is included in rate base, the Company accepts
15 Mr. Kollen's recommendation to bifurcate the prepaid pension asset between O&M
16 and capital components identified as construction work in progress ("CWIP") by
17 Mr. Kollen. The Company must also be allowed to apply and recover an allowance
18 for funds used during construction ("AFUDC") amount on the CWIP portion.
19 Consistent with Docket Nos. 39896 and 40443, this Commission has allowed other

¹⁰² Direct Testimony of Lane Kollen at 19-20.

¹⁰³ See Project No. 39548, TDU Investor-Owned Utilities Rate Filing Package for Cost-Of-Service Determination.

¹⁰⁴ Direct Testimony of Lane Kollen at 18:17-19.

1 utilities to recover a return on capitalized amounts of a prepaid pension asset at the
2 AFUDC rate.¹⁰⁵

3 **C. Postretirement Liability and Regulatory Liability**

4 **Q. MR. KOLLEN RECOMMENDS THE INCLUSION OF THE**
5 **POSTRETIREMENT REGULATORY LIABILITY IN RATE BASE.¹⁰⁶ DO**
6 **YOU AGREE?**

7 A. No. Please see the rebuttal testimony of Mr. Sanger for additional information.

8 **V. CAPITALIZATION ADJUSTMENTS**

9 **Q. MR. NALEPA SUGGESTS AN ADJUSTMENT TO REMOVE CAPITAL**
10 **COSTS THAT HE DEEMED AS ROUTINE OR CORRECTIVE IN**
11 **NATURE. ARE COSTS FOR THE PROJECTS MR. NALEPA IDENTIFIES**
12 **CORRECTLY CAPITALIZED?**

13 A. Yes, the costs he challenges are required to be capitalized. Mr. Nalepa recommends
14 a reduction to plant in service for three projects: AB1Z, HLP/00/0011, and
15 HLP/00/0012 because he claims the costs were routine or corrective. Although a
16 project may be labeled as routine or corrective, the work is appropriately classified
17 as capital if retirement units are replaced. Per the FERC USOA,¹⁰⁷ all property is
18 considered to be either a discrete retirement unit or a minor item of property.
19 Replacements of retirement units are required to be capitalized. Each utility is
20 required to maintain a written retirement unit listing to use when accounting for
21 additions, replacements, and retirements of plant. When a defined retirement unit

¹⁰⁵ See Docket No. 39896, Order on Rehearing Discussion on Prepaid Pension Asset Balance; *See Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 40443, Order on Rehearing at Finding of Fact 137 (Oct. 10, 2013).

¹⁰⁶ Direct Testimony of Lane Kollen at 27.

¹⁰⁷ See Exhibit R-KLC-07.

1 is added to or retired from electric plant, the cost of that activity shall be applied to
 2 the appropriate capital account. Mr. Nalepa attempts to show these projects should
 3 be expensed simply due to the label of the project without considering the actual
 4 work required to complete the project. The requirements of FERC and the
 5 Company policy and procedures as addressed above support the capitalization of
 6 these costs. Therefore, this disallowance should be rejected.

7 **Q. SHOULD WEB DESIGN SERVICES BE RECORDED AS AN EXPENSE**
 8 **RATHER THAN CAPITAL AS RECOMMENDED BY MR. NALEPA?**

9 A. No. Mr. Nalepa contends there is no basis for capitalizing a website design and
 10 argues Project ENTD086 – Corporate Website Redesign is more properly recorded
 11 as an expense and should be removed from plant in service.¹⁰⁸ GAAP accounting
 12 standards do not support Mr. Nalepa’s position. The Corporate Website Redesign
 13 is appropriately classified as an asset under accounting rules. Exhibit R-KLC-08 is
 14 FASB ASC 350-50, which provides GAAP standards for the recording of costs for
 15 website development. GAAP requires that some of the costs be expensed and
 16 others capitalized, dependent upon the stage of the website development project.
 17 The Company appropriately capitalized costs that were incurred during the
 18 Application Development Stage as outlined in the GAAP standard.

19 **Q. SHOULD MR. NALEPA’S THIRD ADJUSTMENT TO REMOVE**
 20 **CAPITALIZED TOOLS BE ALLOWED?**

21 A. No. Mr. Nalepa asserts that the Company is not entitled to capitalize tools per
 22 FERC rules.¹⁰⁹ This statement is not accurate. According to the FERC USOA, the

¹⁰⁸ See Direct Testimony of Karl Nalepa at 37.

¹⁰⁹ *Id.* at 38.

1 cost of tools and equipment used in construction and/or repair work are eligible for
 2 capitalization to FERC Account 3940.¹¹⁰ Tools included in this account are not
 3 simple hand tools. Each item has a value of more than \$500 per tool and is
 4 anticipated to provide multiple years of benefit. Consequently, it is appropriate to
 5 capitalize the tools and allocate the costs over the period that the tools are expected
 6 to provide benefits, which is what the Company has done.¹¹¹

7 **Q. SHOULD MR. NALEPA'S PROPOSED ADJUSTMENTS DUE TO THE**
 8 **REMOVAL OF FOUNDATION INSTALLATION AND ALLEGED COST**
 9 **OVERRUNS BE ADOPTED?**

10 A. No. Please refer to the rebuttal testimony of Mr. Narendorf on those subjects.

11 **Q. MR. NORWOOD RECOMMENDS REMOVING COSTS FOR THE**
 12 **UNDERGROUND CABLE ASSESSMENT AND LIFE EXTENSION**
 13 **PROGRAM. DO YOU AGREE?**

14 A. No. Please refer to the rebuttal testimony of Mr. Pryor for additional information
 15 on those projects.

16 **Q. STAFF WITNESS MR. MURPHY RECOMMENDS THAT IF THERE ARE**
 17 **PLANT DISALLOWANCES APPROVED BY THE COMMISSION, A**
 18 **SEPARATE COMPLIANCE FILING IS NECESSARY TO DETERMINE**
 19 **THE AMOUNTS TO BE REFUNDED TO RATEPAYERS. DO YOU**
 20 **AGREE?**

21 A. Yes, the Company agrees that if there are plant disallowances for costs that are
 22 currently being recovered through Interim Transmission Cost of Service ("TCOS")

¹¹⁰ See Exhibit R-KLC-07.

¹¹¹ See Direct Testimony of Dane Watson at 17-18.

1 or DCRF rates, a separate compliance filing is necessary to allow parties an
2 opportunity to review the true-up calculations as a result of this filing.

3 **Q. STAFF WITNESS MR. BLAKE IANNI RECOMMENDS THREE**
4 **ADJUSTMENTS TO PLANT. WHAT IS YOUR RESPONSE TO HIS**
5 **RECOMMENDATIONS?**

6 A. The Company's positions are as follows:

- 7 1. The Company agrees an adjustment to remove \$8,160 from transmission
8 invested capital is appropriate because it should have been reflected as an
9 expense.
- 10 2. Contrary to Mr. Ianni's recommendations, the land costs for the three
11 substation facilities that are not yet energized are appropriate rate base
12 items. If the land were not already included in FERC Account 3600 Land
13 and Land Rights, it would still be classified as Plant Held for Future Use in
14 FERC Account 1050. According to the FERC USOA, FERC Account 1050
15 shall include the original cost of land and land rights held for future use
16 under a defined plan. A defined plan exists for these assets, as substation
17 projects are currently under construction on the three tracts of land. Under
18 either FERC Account 3600 or FERC Account 1050, the land is
19 appropriately classified as a rate base item functionalized to distribution.
- 20 3. The Company properly capitalized costs related to Project
21 Number HLP/00/1055, which Mr. Ianni disputes. As stated in the response
22 to discovery request PUC06-22, the Company performs Lidar surveys on
23 approximately 20% of the transmission system each year to identify and

1 remediate transmission line clearance issues. Once the issues are identified,
2 the resulting capital work charged to Project 1055 includes the replacement
3 of poles, conductors, and other capital assets. These items are classified in
4 the Company's continuing property records as retirement units. As stated
5 previously, when a defined retirement unit is added to or retired from
6 electric plant, the cost thereof shall be applied to the appropriate capital
7 account. Although Project 1055 represents on-going project work to
8 maintain compliance with National Electrical Safety Code clearance
9 standards, the work is appropriately classified as capital when retirement
10 units are replaced.

11 **VI. CAPITALIZATION POLICY**

12 **Q. MR. NORWOOD AND MR. NALEPA ARGUE THAT THE COMPANY**
13 **HAS IMPROPERLY CAPITALIZED O&M EXPENSE IN ITS**
14 **REQUESTED CAPITAL PROJECTS. WHAT IS YOUR RESPONSE?**

15 **A.** The contention that Mr. Norwood and Mr. Nalepa make is incorrect.
16 Mr. Norwood's assertion on corporate overhead capitalization is addressed below.
17 Company witness Mr. Pryor describes in his Direct Testimony the Company's
18 processes, controls, and training related to work orders to ensure the proper
19 classification of distribution and transmission capital investment. It should be
20 noted that the Company follows the applicable accounting rules established by
21 GAAP and the FERC USOA for public utilities. These rules are implemented
22 consistently through policies and guidelines established by the Company. In fact,
23 under Commission Rule 25.72, the Company is required to keep its books and
24 records in compliance with the USOA. Yet Mr. Nalepa's proposes disallowances

1 to projects that contain investment that the Company must, under the FERC USOA,
2 record as capital investment.

3 The procedures described by Mr. Pryor, the FERC requirements, and the
4 Company's capitalization policy attached to my direct testimony as
5 Exhibit KLC-11 show Mr. Nalepa's claims of improper inclusion of costs as capital
6 in this filing are misplaced and should be rejected.

7 **Q. MR. NALEPA RECOMMENDS THAT ALL UNDERGROUND PROGRAM**
8 **ASSESSMENT COSTS DUE TO THE COMPANY'S CHANGE IN**
9 **CAPITALIZATION POLICY BE DISALLOWED FROM PLANT IN**
10 **SERVICE.¹¹² IS THIS APPROPRIATE?**

11 A. No. Mr. Nalepa states that the Company has improperly applied the FERC
12 guidance on the underground program assessment costs capitalization and should
13 therefore be disallowed.¹¹³ He further incorrectly concludes that the program was
14 much more like an ongoing assessment program, which FERC has confirmed
15 should be expensed.¹¹⁴ The Underground Cable Assessment Program is a discrete
16 project associated with specific rehabilitation of the Company's underground cable
17 assets. Although it is a multi-year project, it is not an ongoing inspection program
18 that revisits the same assets on a regular and reoccurring basis. Instead, each
19 segment of underground cable is assessed one time and the results are used to
20 determine the need for capital rehabilitation. The Underground Cable Assessment
21 Program should be treated as a one-time major rehabilitation project that must be

¹¹² Direct Testimony of Karl. Nalepa at 31.

¹¹³ *Id.* at 29.

¹¹⁴ *Id.* at 31.

1 undertaken and the project will extend the overall electric cable system's useful life
2 beyond the estimated service life. Therefore, Mr. Nalepa's proposed disallowance
3 should be rejected. Company Witness Mr. Pryor addresses the program in his
4 rebuttal testimony.

5 **Q. MR. NALEPA ARGUES THE COMPANY'S CHANGES IN**
6 **CAPITALIZATION POLICY RESULT IN DUPLICATE RATE**
7 **RECOVERY FOR COSTS THAT ARE ALREADY BEING RECOVERED**
8 **THROUGH BASE RATES FOLLOWING THE COMPANY'S LAST RATE**
9 **CASE IN DOCKET NO. 38339.¹¹⁵ DO YOU AGREE?**

10 A. No. Rates are established based on adjusted test year amounts with the
11 understanding that the amounts represent a level of costs that is necessary to allow
12 the Company to recover future costs and not necessarily costs for the specific items
13 included in adjusted test year amounts. Efforts to equate the historic costs used to
14 develop base rates with actual expenses incurred subsequent to implementing those
15 base rates is not realistic or consistent with sound ratemaking theory. Historical
16 test year costs are used to determine base rates and serve only to allow the
17 calculation of the total expected reasonable cost of providing electric utility service
18 during the time period those rates are in effect.

¹¹⁵ See *Id.* at 30.

1 **Q. MR. NALEPA EXPRESSES CONCERN REGARDING THE POTENTIAL**
 2 **DOUBLE COUNTING OF COSTS ASSOCIATED WITH CHANGES IN**
 3 **THE COMPANY’S ACCOUNTING RULES OR PRACTICES.¹¹⁶ ARE HIS**
 4 **CONCERNS VALID?**

5 **A.** No. As I explain above, the historical costs used to calculate the Company’s base
 6 rates in its last rate case are used as representative of the cost of providing electric
 7 service during the time those base rates are in effect. The expenses used to calculate
 8 the Company’s base rates cannot and should not be subject to reconciliation against
 9 the actual expenses incurred by the utility during a particular time period. Rather,
 10 prudent operations require that the utility regularly review costs to determine
 11 whether changes in the capitalization policy are appropriate. The Company
 12 exercised that due diligence in determining that a portion of its Property
 13 Accounting, Accounts Payable and Call Center costs should be capitalized to reflect
 14 the fact that those activities support construction projects. This decision was made
 15 in conformance with FERC accounting guidelines. These facts refute any
 16 suggestion that the Company has arbitrarily engaged in accounting changes
 17 designed to maximize its capital investment or that recovery of these capital costs
 18 in new base rates will result in an improper double recovery.

¹¹⁶ *Id.* at 31.

1 **Q. WHY HAVE THERE BEEN CHANGES IN THE COMPANY’S**
 2 **ACCOUNTING RULES OR PRACTICES SINCE ITS LAST BASE RATE**
 3 **PROCEEDING?**

4 A. The Company has an obligation to maintain its financial records, reflecting the
 5 results of the capitalization policy, in accordance with GAAP and FERC standards
 6 under Commission Rule 25.72. In order to ensure compliance, the Company
 7 routinely monitors and reviews its accounting policies and practices for compliance
 8 with GAAP and FERC standards. Changes are made, when necessary, to ensure
 9 that costs continue to be categorized and accounted for consistent with the work
 10 being performed.

11 For instance, as my direct testimony noted, under 18 CFR Part 101, Electric
 12 Plant Instructions 4. *Overhead Construction Costs*, a utility is authorized to include
 13 overhead costs, such as general office salaries and expenses, applicable to
 14 construction as a part of its assets.¹¹⁷ Consistent with this FERC Instruction, the
 15 Company began in 2014 to include a portion of CenterPoint Energy, Inc.’s (“CNP”)
 16 Property Accounting and Accounts Payable departments in overhead construction
 17 cost. In 2015, the Company began to include a portion of CNP’s Call Center in
 18 overhead construction costs. These changes ensure that costs, which are directly
 19 related to capital activities, are accounted for in a manner that properly follows that
 20 function.

¹¹⁷ Direct Testimony of Kristie L. Colvin, Bates page 931:17-19; See Exhibit R-KLC-07 for FERC instruction No. 4.

1 **Q. DOES THE COMPANY CONSIDER THE TIMING OF RATEMAKING**
 2 **PROCEEDINGS WHEN DECIDING WHETHER TO MAKE A CHANGE**
 3 **IN ITS ACCOUNTING PRACTICES?**

4 A. No. Changes in accounting rules or practices are a fluid part of process
 5 improvements and due diligence that occur without regard to the timing of potential
 6 rate relief. The Company considers necessary and appropriate accounting changes
 7 in the normal course of its business in order to comply with GAAP and FERC
 8 requirements. In addition, the Company must necessarily determine accounting
 9 treatment for any new items—such as underground cable assessment—or changes
 10 in technology such as luminaires, microprocessor control devices, FERC
 11 Account 1060 Construction Completed but Not Classified as identified in my direct
 12 testimony,¹¹⁸ that emerge between rate cases.

13 **Q. IS MR. NORWOOD’S RECOMMENDATION TO REMOVE \$2.6 MILLION**
 14 **IN CORPORATE COSTS APPROPRIATE?**¹¹⁹

15 A. No. Mr. Norwood incorrectly interprets corporate costs related to Property
 16 Accounting, Accounts Payable and Call Center that have been unable to be assigned
 17 to each individual work order to be “indirect corporate costs.”¹²⁰ This is incorrect.
 18 The Company included only direct corporate costs in its DCRF filings, which is
 19 required by the DCRF Rule. Mr. Norwood’s interpretation is not supported by the
 20 Commission’s Order regarding this issue in Project No. 39465.¹²¹ See the rebuttal
 21 testimony of Ms. Townsend for additional information.

¹¹⁸ See Exhibit R-KLC-07.

¹¹⁹ Direct Testimony of Scott Norwood at 21:4.

¹²⁰ See *Id.* at 20.

¹²¹ *Rulemaking Relating to Periodic Rate Adjustment*, Project No. 39465, Order at 33 (emphasis added).

VII. RIDERS

A. Rider UEDIT

Q. WHAT AMOUNT IS THE COMPANY PROPOSING TO RETURN TO RATEPAYERS THROUGH THE RIDER UEDIT?

A. As shown in the Company's Errata-1 filing, the Company is proposing to return protected EDIT of \$18.7 million, unprotected EDIT of \$64.9 million and tax gross-up of \$21.9 million for a total balance of \$105.5 million as shown in the CEHE RFP Workpapers Errata – 1.xlsx, tab "WP Rider UEDIT." Please refer to the direct and rebuttal testimony of Company witness Matthew Troxle for further discussion on Rider UEDIT.

Q. MS. LACONTE PROPOSES CHANGES TO THE RIDER UEDIT TO SHORTEN THE PERIOD OF TIME IT TAKES TO RETURN THE AMOUNT TO RATEPAYERS. WHAT IS YOUR RESPONSE?

A. Ms. LaConte does not acknowledge the Company acted as quickly as it could to begin refunding tax expense related to the change in the corporate income tax rate and associated UEDIT balances through TCOS and DCRF filings. Ms. LaConte proposes a one-year amortization for the reclassified protected EDIT and a two-year amortization period for all other unprotected EDIT.¹²² The Company disagrees. The total Rider UEDIT balance should be amortized over a three-year period consistent with other regulatory assets and liabilities as outlined above in Section III.C.7.

¹²² Direct Testimony of Billie LaConte at 9:8-11.

Specifically, for UEDIT, the Company disagrees with Ms. LaConte's proposed two-year amortization period for two reasons. First, as a matter of equity until the next rate case is filed, the Company firmly believes a three-year amortization period is fair to both the Company and customers. Second, it is also consistent with the Company's treatment of its regulatory assets and liabilities as the three-year period was derived from the time-period approved in Docket No. 38339 to recover regulatory assets. Furthermore, Ms. LaConte's reference to other utilities refunding UEDIT balances to their customers over shorter time periods¹²³ is not relevant because we do not know all the facts surrounding those cases.

B. Merger Savings Rider

Q. MR. KOLLEN SUGGESTS THE COMPANY SHOULD ADOPT A MERGER SAVINGS RIDER OR AN ADJUSTMENT SHOULD BE MADE TO THE REVENUE REQUIREMENT FOR MERGER-RELATED SAVINGS.¹²⁴ DO YOU AGREE?

A. No. Any concerns Mr. Kollen has concerning potential savings can be addressed through the Company's EMR filings. Per Commission Rule 25.73, the Commission uses the EMR as the way to properly monitor a utility's earnings. The Commission's order approving the EMR filing package in Project No. 39040 states that the "report has been used as a tool to review a utility's actual earnings for an historical period."¹²⁵ The EMR provides information necessary to determine if a

¹²³ *Id.* at 8:19-20 – 9:1.

¹²⁴ Direct Testimony of Lane Kollen at 48.

¹²⁵ *Project to Revise Earnings Monitoring Report Forms for Electric Utilities*, Docket No. 39040, Final Order at 31 (Jan. 7, 2012).

1 utility is earning above its authorized return and can file a DCRF, for example. At
2 any point in time the Company can be compelled to file a base rate case if the
3 Commission believes the Company is over-earning.

4 **Q. IF THE COMMISSION WERE TO ADOPT A MERGER SAVINGS RIDER**
5 **OR MAKE AN ADJUSTMENT TO THE REVENUE REQUIREMENT FOR**
6 **MERGER RELATED SAVINGS WHAT SHOULD BE CONSIDERED?**

7 A. To properly reflect all of the impacts of the Vectren acquisition, both cost savings
8 and costs to achieve those savings should be tracked or reflected in the revenue
9 requirement if this approach is adopted. Company witness Mr. Myerson also
10 addresses Vectren-related issues in his rebuttal testimony.

11 **VIII. EDIT ASSOCIATED WITH SECURITIZATION BONDS**

12 **A. Background**

13 **Q. COMMISSION STAFF WITNESS MR. DARRYL TIETJEN AND GCCC**
14 **WITNESS MR. LANE KOLLEN BOTH ADDRESS ISSUES RELATED TO**
15 **ACCUMULATED DEFERRED FEDERAL INCOME TAXES (“ADFIT”)**
16 **ON REGULATORY ASSETS ASSOCIATED WITH THE COMPANY’S**
17 **TRANSITION AND SYSTEM RESTORATION SECURITIZED BONDS.**
18 **WHY DOES THE COMPANY HAVE RATES RELATED TO TRANSITION**
19 **AND SYSTEM RESTORATION BONDS?**

20 A. The Company’s transition and system restoration bond rates relate to two primary
21 events: the creation of the competitive electric market in Texas and the cost to
22 rebuild portions of CenterPoint Houston’s transmission and distribution system
23 following Hurricane Ike. The Company’s transition bonds were obtained to
24 compensate the Company for transition costs resulting from the “unbundling” of

the Texas electric market approximately 20 years ago. The Company's System Restoration Charges ("SRC") Rider was established to reimburse the Company for system restoration costs associated with the devastation caused by Hurricane Ike in 2008. It was approved pursuant to Public Utility Regulatory Act's ("PURA") storm securitization provisions. The following table identifies each of the Company's securitized bond companies with associated schedules/riders, Commission dockets, and a description of the securitized amounts:

| Bond Company | Schedule/Rider | Dockets | Description |
|-----------------------------|---------------------------|----------------|---|
| CNP Transition Bond Co. II | Schedule TC 2 | 29526 30485 | True-up amounts and other qualified costs |
| CNP Transition Bond Co. III | Schedule TC 3 | 34448 | CTC amounts pursuant to HB 624 |
| CNP Transition Bond Co. IV | Schedule TC 5 | 39504 39809 | True-up remand amounts |
| CNP Restoration Bond Co. | Rider SRC Rider ADFITC | 37200 | Hurricane Ike system restoration costs |

Q. CAN YOU PROVIDE A BRIEF EXPLANATION OF THE CIRCUMSTANCES SURROUNDING UNBUNDLING AND THE CREATION OF THE COMPANY'S TRANSITION BONDS?

A. Yes. Generally speaking, the competitive energy market was created by requiring utilities in Texas, like CenterPoint Houston, to remain transmission and distribution utilities, subject to the Commission's rate jurisdiction, while Retail Electric Providers ("REPs") (the sellers of energy to end use customers) and generators (the creators of energy) were not. Following the unbundling, market forces were permitted to drive the costs charged by REPs to end use customers and generators to REPs, while the Commission retained jurisdiction to set rates for "poles and wires" companies such as the unbundled CenterPoint Houston. Put differently,

1 CenterPoint Houston remained a “monopoly” utility, subject to the Commission’s
2 rate jurisdiction, while the prices charged by REPs and generators were governed
3 by the competitive market.

4 **Q. WHAT EFFECT DID UNBUNDLING HAVE ON UTILITIES LIKE**
5 **CENTERPOINT HOUSTON?**

6 A. Having previously been a fully integrated or “fully bundled” electric utility, one of
7 the effects on CenterPoint Houston of “unbundling” was the need to quantify
8 transition costs. Transition costs included costs that had already been incurred by
9 the former integrated utility to build its generation facilities, and which would not
10 be recoverable in the then new market structure. The Legislature remedied this
11 issue by allowing transmission and distribution utilities to recover transition costs
12 in processes approved by the Commission. The Commission established a
13 methodology for determining the amount of those transition costs and the
14 Company’s TC 2 and TC 3¹²⁶ charges have been recovering those transition costs
15 through non-bypassable charges since approximately 2005. The Company’s TC 5
16 charge, also an unbundling related Rider, resulted from the appeal of the
17 Commission’s decision in the valuation portion of CenterPoint Houston’s transition
18 costs proceeding – where the Commission established the value of the Company’s
19 transition costs. Ultimately, the Texas Supreme Court found that the Commission
20 initially undervalued the Company’s total transition costs and ordered the recovery
21 of additional transition costs. TC 5 was then established in 2012 in a remand case

¹²⁶ The Company’s transition costs recovered through rider TC 3 were initially recovered through a Competitive Transition Charge. CenterPoint Houston initially sought to securitize the assets recovered through TC 3 in Docket No. 30485, but its request was denied. The Company was permitted to securitize the amounts in TC 3 after the Legislature passed HB 624 in 2007.

1 to the Commission to recover the additional transition costs. The Supreme Court's
2 decision that led to the establishment of TC 5 also contains a good synopsis of the
3 background related to "unbundling." It is attached to my rebuttal testimony as
4 Exhibit R-KLC-9, for reference.

5 **Q. WERE THE AMOUNTS TO BE COLLECTED IN THE COMPANY'S**
6 **SECURITIZATION RIDERS ESTABLISHED PURSUANT TO**
7 **TRADITIONAL BASE RATE RATEMAKING PRINCIPLES?**

8 A. No. The amounts recovered vis-à-vis Riders TC 2, TC 3, TC 5 and SRC were
9 determined in proceedings designed to identify only the specific costs to be
10 included in the riders. Those costs, because the amounts were large in nature, were
11 then securitized, to arrive at the final amounts to be collected in the riders
12 themselves.

13 **Q. WHAT IS SECURITIZATION?**

14 A. Generally speaking, securitization involves the sale of bonds to recover regulatory
15 assets.¹²⁷ For TC 2, TC 3, TC 5 and SRC, bonds effectively secured by the future
16 transition cost charges and system restoration charges were sold after the
17 Commission proceedings establishing the amount of transition costs (for TC 2 and
18 TC 3), additional transition costs (for TC 5), and final Hurricane Ike system
19 restoration costs (for SRC). Through the sale of bonds to recover the costs
20 associated with those events, ratepayers paid the principle and only the interest

¹²⁷ See PURA §§ 39.301 and 39.310 (note that Section 39.310 states: "The state pledges, however, for the benefit and protection of financing parties and the electric utility, that it will not take or permit any action that would impair the value of transition property, or, except as permitted by Section 39.907 (related to the 45-day financing order true-up), reduce, alter, or impair the transition charges to be imposed, collected, and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related transition bonds have been paid and performed in full.") (internal reference added).

1 component related to the bond itself (instead of a utility's authorized rate of return).
2 The result essentially allowed ratepayers to pay a lower interest rate on very specific
3 large and reasonably incurred utility costs. This is in contrast to circumstances
4 where those costs might be recovered in traditional base rates where the utility earns
5 a rate of return that is higher than the cost of debt (interest rates on bonds).

6 **Q. ARE RATEPAYERS CURRENTLY PAYING CENTERPOINT HOUSTON**
7 **FOR THE BONDS ASSOCIATED WITH TC 2, TC 3, TC 5 AND SRC?**

8 A. No. And, this is an important distinction. Ratepayers are currently paying rates in
9 TC 2, TC 3, TC 5 and SRC that are designed solely to pay the bondholders for the
10 principal and interest on the bonds themselves. CenterPoint Houston simply
11 "passes through" the revenue collected from ratepayers in TC 2, TC 3, TC 5 and
12 SRC to the bondholders to pay off the principal and interest on the bonds.
13 CenterPoint Houston receives no compensation for this pass through, other than a
14 servicing fee. In fact, it is a condition of the bond covenants that only those costs
15 and exactly those costs be recovered via the riders. That condition was critical in
16 providing security to the investors that provided low interest financing to Texas
17 ratepayers based on their belief that the risk of nonpayment on the bonds was very
18 low.

1 **B. Staff and Intervenor Positions**

2 **Q. BOTH MR. TIETJEN AND MR. KOLLEN NOTE THAT THE COMPANY**
 3 **HAS ADFIT ON REGULATORY ASSETS RELATED TO THE**
 4 **TRANSITION AND STORM RESTORATION BONDS. CAN YOU**
 5 **EXPLAIN WHY ADFIT WAS RECORDED ON ASSETS RELATED TO**
 6 **THE BONDS?**

7 A. Yes. The ADFIT associated with the regulatory assets are recorded on the books
 8 and records of CenterPoint Houston, but the ADFIT is the result of the regulatory
 9 assets and contra regulatory assets established pursuant to prior Commission orders
 10 related only to transition costs and system restoration costs. The ADFIT balance is
 11 reduced as bond revenue is collected.

12 **Q. CAN YOU EXPLAIN THE CONCEPTS OF REGULATORY ASSETS,**
 13 **CONTRA REGULATORY ASSETS, AND LIABILITIES?**

14 A. A regulatory asset simply represents a specific item that a utility has deferred to its
 15 balance sheet. The amount would otherwise appear on the company's income
 16 statement as an expense. The purpose of booking regulatory assets and contra
 17 regulatory assets (which reverse existing regulatory assets) is to match revenues
 18 and expenses. Some regulatory assets are related to expenses that ratepayers are
 19 required to reimburse the Company for (such as the Hurricane Harvey asset
 20 requested by the Company in this case). Some regulatory liabilities are related to
 21 amounts that the Company must reimburse ratepayers for (such as the PURA Other
 22 Postemployments and Benefits Liability included in the Company's cost of
 23 service).

1 **Q. DID THE COMMISSION UNDERSTAND THAT ADFIT WOULD BE**
2 **RECORDED ON THE AMOUNT COLLECTED THROUGH THE BONDS**
3 **WHEN IT ESTABLISHED THE AMOUNTS THAT THE BONDS WOULD**
4 **ULTIMATELY COLLECT?**

5 A. Yes. As noted in the securitization testimony attached to Mr. Tietjen's direct
6 testimony, the Commission recognized at the time it established the final transition
7 costs that ADFIT would be recorded on the final transition costs. In order to
8 compensate ratepayers for that accrual, it credited ratepayers upfront with the
9 benefits from the value of the ADFIT. As noted in Mr. Pringle's direct
10 testimony,¹²⁸ ratepayers typically receive the benefit of ADFIT through a credit
11 against rate base in a traditional base rate case. For purposes of establishing
12 transition costs, the Commission determined at the outset to reduce the Company's
13 transition costs by the amount of the benefit to be derived from the ADFIT. For
14 instance, with respect to Riders TC 2 and TC 3, the ADFIT credit given to
15 ratepayers totaled \$313,620,745, using a then in existence tax rate of 35% and a
16 then existing pre-tax weighted average cost of capital of 11.075%. That credit
17 reduced the amount that was ultimately securitized and correspondingly, the
18 amount CenterPoint Houston recovered. With respect to Riders TC 5 and SRC, as
19 Mr. Tietjen recognizes on pages 21-22 of his testimony, both of those amounts were
20 established pursuant to settlement agreements wherein the parties recognized that
21 an ADFIT credit would be necessary in establishing the final amount to be
22 recovered in those riders. With respect to SRC, the ADFIT credit, currently

¹²⁸ See Direct Testimony of Charles W. Pringle at 14:21-23.

1 recovered through its own rider, was substantial (including a return on the
 2 remaining balance of ADFIT of initially approximately \$207 million related to the
 3 system restoration costs being securitized, plus a return of and on a principal
 4 amount of \$6.5 million over the life of the bonds at an interest rate of 11.075%,
 5 with levelized payments).¹²⁹ As I note below, the settlement amount for TC 5 was
 6 even more substantial in nature.

7 **Q. WHY IS IT IMPORTANT THAT ADFIT WAS CONSIDERED AND**
 8 **CALCULATED WHEN INITIALLY ESTABLISHING THE COSTS TO BE**
 9 **RECOVERED IN TC 2, TC 3, TC 5 AND SRC?**

10 A. Because those proceedings were intended to finally resolve all issues associated
 11 with transition costs and system restoration, including the associated ADFIT
 12 (current and future). As such, the securitized costs included a credit (either
 13 explicitly with Riders TC 2, TC 3 and SRC or implicitly with Rider TC 5, because
 14 it was settled) associated with that ADFIT (to the ratepayers' benefit). Those
 15 credits were calculated using a higher tax rate (35%) than is now in existence
 16 (21%). As such, the credits—which reduced amounts payable by ratepayers—were
 17 set at amounts that are higher than they would be set under similar circumstances
 18 today.

19 **Q. WHAT WAS THE COMPANY'S UNDERSTANDING OF THE FINALITY**
 20 **OF THE FINAL ORDERS IN THESE DOCKETS?**

21 A. The Company understood at the time of those dockets that, while various factors
 22 related to calculation of the securitization amounts could change over time, those

¹²⁹ See *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 37200, Settlement Agreement at 2-3 (Aug. 18, 2009).

1 proceedings were final and the amounts would not be recalculated. A prime
 2 example of a factor that could change, and indeed has changed, since those dockets
 3 is the Company's pre-tax weighted average cost of capital ("WACC") of 11.075%
 4 used to calculate the ADFIT credit calculated in Docket No. 30485. Use of the
 5 Company's proposed pre-tax WACC in this case of 8.77% would have reduced the
 6 benefit of the ADFIT credit to the ratepayers.

7 **Q. HAVE THE REGULATORY ASSETS AND CONTRA REGULATORY**
 8 **ASSETS FOR WHICH THE ADFIT AT ISSUE WAS CALCULATED BEEN**
 9 **INCLUDED IN RATE BASE IN THIS FILING?**

10 A. No. The regulatory assets and contra regulatory assets associated with Riders TC 2,
 11 TC 3, TC 5 and SRC were not included in rate base in this filing because the rates
 12 on those charges are not at issue in this filing. This is a proceeding to address the
 13 Company's base rates. Therefore, any ADFIT associated with Riders TC 2, TC 3,
 14 TC 5 and SRC is not at issue in this filing.

15 **Q. DID CENTERPOINT HOUSTON EXCLUDE THIS ADFIT IN PRIOR**
 16 **RATE CASES AND OTHER FILINGS?**

17 A. Yes. CenterPoint Houston excluded this ADFIT associated with TC 2, TC 3, TC 5
 18 and SRC in Docket Nos. 38339¹³⁰ and Docket No. 32093.¹³¹ The same ADFIT has
 19 also been consistently excluded in CenterPoint Houston's annual Earnings Reports,
 20 Transmission Cost of Service, and DCRF filings because the regulatory assets and
 21 contra regulatory assets are not related to the transmission and distribution utility,

¹³⁰ See Docket No. 38339, Direct Testimony of Alan D. Felsenthal at 34:10-20.

¹³¹ See *Petition by Commission Staff for a Review of the Rates of CenterPoint Energy Houston Electric, LLC Pursuant to PURA §36.151*, Docket No. 32093, Direct Testimony of James S. Brian at 86:6-22 (Apr. 14, 2006).

1 i.e. CenterPoint Houston.

2 **Q. DO YOU AGREE WITH MR. KOLLEN THAT THE COMMISSION**
 3 **SHOULD REQUIRE CENTERPOINT HOUSTON TO REFUND EDIT**
 4 **RELATED TO TRANSITION COSTS?**

5 A. No. The amounts identified by Mr. Kollen are related to the revaluation of deferred
 6 taxes associated with transition and system restoration bonds, they are not a
 7 regulatory liability. With respect to Riders TC 2 and TC 3 it is undisputed that
 8 those riders included the benefit of ADFIT calculated at the then existing tax rate
 9 of 35% and a then existing pre-tax weighted average cost of capital of 11.075%.
 10 The benefits totaled \$313,620,745 and were applied against the Company's
 11 competition transition charge recovery.¹³² The effect of the Tax Cuts and Jobs Act
 12 of 2017 was to lower that rate to 21%. As such, if the initial credit were recalculated
 13 today, it would be less. I would also note that with respect to Riders TC 2 and TC
 14 3, those Riders are expected to end soon, August 2019 for Rider TC 2 and February
 15 2020 for Rider TC 3.

16 With respect to Riders TC 5 and SRC, the amounts in those riders were the
 17 result of settlements that took into account the need to credit the future ADFIT
 18 benefit against the securitized amount – again, at the time of those settlements using
 19 a 35% tax rate, and a then existing pre-tax weighted average cost of capital of
 20 11.075%. Notably, the settled TC 5 amount was over \$600 million less than the
 21 Company's requested amount in that case – a difference of approximately three
 22 times the grossed up amount of EDIT Mr. Kollen suggests should be returned to

¹³² See *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 30485, Order Quantifying Benefit Derived from ADFIT at 1 (Mar. 16, 2005).

1 ratepayers in this case. Finally, the Settlement Agreement for SRC includes the
2 following language:

3 The ADFIT Credits to be provided through this paragraph are a full and
4 complete settlement of all issues and *all potential issues* regarding treatment
5 of the ADFIT associated with the system restoration costs being securitized.
6 The Signatories agree that ADFIT benefits associated with such system
7 restoration costs shall not be applied to reduce the securitizable balance and
8 that the ADFIT balance shall not be used to reduce rate base in future
9 proceedings.¹³³

10 **Q. IS THE FINALITY LANGUAGE RELATED TO ADFIT AND**
11 **SETTLEMENT AMOUNTS IN PRIOR SECURITIZATION**
12 **SETTLEMENTS IMPORTANT FOR PURPOSES OF CONSIDERATION**
13 **OF THE ADJUSTMENT RECOMMENDED BY MR. KOLLEN?**

14 A. It is. That language recognizes the parties' then existing natural expectation that
15 tax rates, and consequently ADFIT amounts, could change in the future. Regardless
16 of that change, the finality language in those settlement agreements and orders
17 (along with the substantial amounts credited to ratepayers) was intended to ensure
18 that the ADFIT benefit for ratepayers, and consequently the amount to be credited
19 to ratepayers, was never litigated again. Mr. Kollen's proposed adjustment is
20 precisely what the parties agreed would never happen again.

21 **Q. WAS THE GULF COAST COALITION OF CITIES A SIGNATORY TO**
22 **THOSE SETTLEMENT AGREEMENTS?**

23 A. It was.¹³⁴

¹³³ See Docket No. 37200, Settlement Agreement at 4. (emphasis added)

¹³⁴ *Id.*; Remand of Docket No. 29526 (Application of CenterPoint Energy Houston Electric LLC, Reliant Energy Retail Services, LLC and Texas Genco, LP to Determine Stranded Costs and Other True-up Balances Pursuant to PURA §39.262), Docket No. 39504, CenterPoint Energy Houston Electric, LLC's Submission of Unopposed Stipulation, Draft Final Order and Testimony Supporting Stipulation (Oct. 5, 2011).

1 **Q. DOES MR. TIETJEN RECOGNIZE THE DIFFICULTY IN ATTEMPTING**
2 **TO EXTRACT AN EDIT AMOUNT TO BE RETURNED TO**
3 **RATEPAYERS USING THE RESULTS OF A CASE IN WHICH AN ADFIT**
4 **CREDIT AMOUNT WAS SETTLED?**

5 A. He does. And, he rightly recognizes the potential uncertainty such a result could
6 produce if bond holders were to perceive that previously agreed to bond amounts
7 were subject to re-visitation and review.

8 **Q. ON PAGE 60 OF MR. KOLLEN'S TESTIMONY, HE STATES THE**
9 **COMPANY DID NOT LIMIT ITSELF TO ONLY TRANSMISSION AND**
10 **DISTRIBUTION BASE REVENUE REQUIREMENT BECAUSE THE**
11 **SECURITIZATION BOND RECOVERIES ARE INCLUDED IN**
12 **SCHEDULE I-A OF THE COMPANY'S RATE FILING PACKAGE. DO**
13 **YOU AGREE?**

14 A. No. What Mr. Kollen refuses to recognize is that in column 2 of that schedule,
15 there are no adjustments to existing rates for the transition charges because those
16 items are not addressed in this filing. Moreover, Mr. Kollen's reference to FERC
17 Opinion No. 173 presupposes that the underlying rates for transition charges are at
18 issue in this case, which they are not.

1 **Q. MR. TIETJEN PROVIDES A GENERAL OVERVIEW OF ADFIT, EDIT,**
2 **AND THE VARIOUS SECURITIZED BOND ISSUANCES FOR**
3 **CENTERPOINT HOUSTON FROM PAGE 17, LINE 12 THROUGH PAGE**
4 **22, LINE 25 OF HIS TESTIMONY. DO YOU AGREE WITH**
5 **MR. TIETJEN'S OVERVIEW AND EXPLANATION?**

6 A. Yes. I generally agree with Mr. Tietjen's overview and explanation.

7 **Q. MR. TIETJEN REFERS TO COMMISSION PROJECT NO. 47945. WHAT**
8 **HAS THE COMPANY DONE TO COMPLY WITH THE COMMISSION'S**
9 **ORDER IN THAT PROJECT RELATED TO EDIT?**

10 A. The Company swiftly complied with the Commission's 2018 Amended Accounting
11 Order in Project No. 47945. In compliance with that order, the Company has agreed
12 to refund approximately \$835.2 million through its 2018 DCRF and TCOS
13 proceedings and through this base rate case.

14 **Q. WHY DID THE COMPANY NOT INCLUDE SECURITIZATION**
15 **RELATED EDIT AMOUNTS IN THOSE PROCEEDINGS?**

16 A. As noted above, the deferred tax revaluation related to the securitization bonds
17 resulting from the tax change was excluded from this filing and prior filings. Such
18 exclusion recognizes that the Commission's orders in the securitization
19 proceedings addressed all issues related to ADFIT.

20 **Q. HAVE YOU REVIEWED MR. TIETJEN'S REASONS FOR WHY MR.**
21 **KOLLEN'S SIMPLE SYNOPSIS AND RECOMMENDATION**
22 **REGARDING THIS ISSUE SHOULD BE DENIED?**

23 A. Yes. Mr. Tietjen identifies five issues that should be considered when evaluating

1 this issue: (1) the fact that transition bonds included credits to ensure that ratepayers
 2 received the benefit of ADFIT;¹³⁵ (2) any re-characterization or reconciliation of
 3 the initial benefit amount would require updated information and new calculations
 4 (not provided by Mr. Kollen); (3) TC 5 used a different approach for reflecting
 5 ADFIT and it was settled; (4) not all ADFIT, and consequently EDIT, is attributable
 6 to ratepayer supplied capital; and (5) to recalculate or reverse decisions and rates
 7 resulting from settled cases could cause capital markets to reappraise the risk of
 8 utility bonds in Texas. I agree those are valid issues. His concerns as they are
 9 applicable to TC 2, TC 3, TC 5 and SRC individually are noted in the chart below:

| Concern | TC 2 | TC 3 | TC 5 | SRC |
|---|------|------|------|-----|
| ADFIT Benefits Credit Included Originally | X | X | X | X |
| Updated Information Needed | X | X | X | X |
| Settled Case | | | X | X |
| EDIT May Not Be Attributable to Ratepayer Capital | X | X | X | X |
| Market Risk | X | X | X | X |

10 **Q. IS IT IN THE PUBLIC INTEREST TO REVISIT SETTLED FINAL**
 11 **ORDERS?**

12 A. No. As noted above, similar to the rates in SRC, the rates in TC 5 were arrived at
 13 pursuant to a settlement agreement – a settlement agreement in which the Company
 14 agreed to an amount that was *\$600 million* less than its originally requested amount.
 15 Through the Company's agreement to avoid controversy and forgo \$600 million of
 16 its request, ratepayers received a substantial benefit associated with the
 17 establishment of TC 5 that greatly exceeds any EDIT now attributable to those
 18 bonds. I would also note that the Company's settlement agreement on TC 5 was

¹³⁵ As noted above, the credit for CenterPoint Houston was applied against its competitive transition charge.

1 important from a timing perspective – as substantial carrying costs were accruing
 2 each day on the balance. The Commission worked diligently in that proceeding to
 3 produce a final order quickly, so as to stop the imposition of carrying costs.

4 **Q. ARE THERE ANY OTHER ISSUES RELATED TO ATTEMPTING TO**
 5 **RESET RATES THAT RESULT FROM A SETTLED PROCEEDING?**

6 A. Yes. The re-visitation of settled cases, such as those that produced Riders SRC and
 7 TC 5, is likely to have a chilling effect on settlements generally. One of the primary
 8 benefits to settlement is an end to any controversy associated with the issues
 9 presented. Yet, Mr. Kollen is using this base rate proceeding to attempt to change
 10 approved settlement agreements addressing the vast majority of the securitization
 11 related EDIT. Specifically, the EDIT related to the settled dockets for TC 5 and
 12 SRC is approximately \$110 million of the \$158 million.

13 **Q. MR. TIETJEN NOTES THAT SOME AMOUNTS OF THE ADFIT**
 14 **BALANCES MAY NOT BE ATTRIBUTABLE TO RATEPAYER**
 15 **SUPPLIED CAPITAL. DO YOU AGREE?**

16 A. Yes.

17 **Q. SHOULD EDIT THAT IS NOT RELATED TO RATEPAYER SUPPLIED**
 18 **CAPITAL BE REFUNDED OR REVISITED?**

19 A. No.

20 **Q. COULD A COMMISSION DECISION TO REVISIT PRIOR**
 21 **SECURITIZATION DECISIONS IMPACT ANY OTHER UTILITIES IN**
 22 **THE STATE OF TEXAS?**

23 A. Yes. It is my understanding that both Entergy Texas, Inc. and AEP Texas both

1 have storm-related securitization riders.

2 **Q. SHOULD THE COMMISSION ACCEPT MR. KOLLEN'S PROPOSED**
3 **ADJUSTMENT RELATED TO EDIT ON SECURITIZATION BONDS?**

4 A. No. As demonstrated above neither the facts at issue nor sound policy support
5 Mr. Kollen's proposed adjustment.

6 **Q. SHOULD THE COMMISSION REQUIRE THE COMPANY TO FILE A**
7 **SEPARATE PROCEEDING TO ADDRESS THESE ISSUES, AS MR.**
8 **TIETJEN RECOMMENDS?**

9 A. No. The evidence supplied in my testimony above is sufficient for the Commission
10 to determine as a factual and policy matter that Mr. Kollen's proposed adjustment
11 should be denied. However, if the Commission determines a separate proceeding
12 is necessary, CenterPoint Houston will comply with any order related to
13 establishing such a proceeding.

14 **IX. CONCLUSION**

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

16 A. Yes.

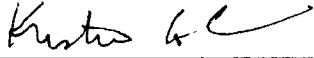
STATE OF TEXAS §
 §
COUNTY OF HARRIS §

AFFIDAVIT OF Kristie L. Colvin

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

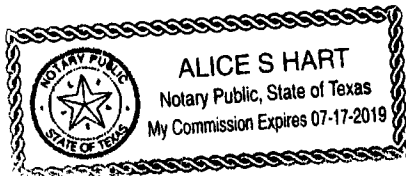
1. “My name is Kristie L. Colvin. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
2. I have prepared the foregoing Rebuttal Testimony and the information contained in this document is true and correct to the best of my knowledge.”


Further affiant sayeth not.



Kristie L. Colvin

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





Notary Public in and for the State of Texas

My commission expires: 07/17/2019

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864**

**PUBLIC UTILITY COMMISSION OF TEXAS
REQUEST NO.: PUC08-14**

QUESTION:

Miscellaneous

Please reference the Microsoft (MS) Excel workbook "*CEHE RFP Workpapers (redacted)*" filed with CenterPoint Energy Houston Electric, LLC's (CEHE's) April 5, 2019 application. In MS worksheet "WP II-E-4.1.1," CEHE shows The Original Amount to be Amortized amount of \$64,406,143 associated with the regulatory asset balance related to the Hurricane Harvey restoration cost (Hurricane Harvey Regulatory Asset). This Hurricane Harvey Regulatory Asset amount of \$64,406,143 was derived from MS worksheet "WP II-B-12b Hurricane Harvey" in the same MS workbook "*CEHE RFP Workpapers (redacted)*".

Please, respond the following questions:

- a. Does the Hurricane Harvey Regulatory Asset amount of \$64,406,143 include carrying costs?;
- b. If the answer to part "a" of this question is "yes," please provide, in electronic spreadsheet format with cell references and formulae intact, the calculation of such carrying costs;
- c. If the answer to part "a" of this question is "no," has CEHE included any carrying charges associated with the Hurricane Harvey Regulatory Asset amount of \$64,406,143 somewhere in its April 5, 2019 application? If "yes," please indicate where in CEHE's April 5, 2019 application such carrying charges were included and provide in, electronic spreadsheet format with cell references and formula intact, the calculation of such carrying charges;
- d. If CEHE has not included anywhere in its April 5, 2019 filing carrying charges associated with the Hurricane Harvey Regulatory Asset amount of \$64,406,143, please explain why?; and
- e. If CEHE has not included anywhere in its April 5, 2019 filing carrying charges associated with the Hurricane Harvey Regulatory Asset amount of \$64,406,143 and believes that such carrying charges should be included, please provide in electronic spreadsheet format with cell references and formula intact, the amount of carrying charges that the Company believes that should be recovered in rates.

ANSWER:

- a. CenterPoint Houston's original filing did not request carrying costs in or on the Hurricane Harvey Regulatory Asset. Therefore, the \$64.4 million balance did not include carrying costs. See response to (e) below for additional information.
- b. CenterPoint Houston is requesting carrying charges on Hurricane Harvey regulatory asset in its errata filing on May 20, 2019. See response to (e) below.
- c. Consistent with CenterPoint Houston's errata filing, CenterPoint Houston is requesting a Hurricane Harvey Regulatory Asset balance of \$73,148,639 as of December 31, 2018, which will be reflected on revised Schedule II-B-12, line 7 and on Schedule II-B, line 22 as part of rate base. The carrying charges associated with this regulatory asset will also be reflected in the return on rate base line 30 of Schedule II-B.
- d. Please see response to item (c). CenterPoint Houston inadvertently excluded the carrying charges from its initial filing.

- e. Please see PUC08-14e Attachment 1 for the amount of carrying charges that is included in the errata filing on May 20, 2019.

SPONSOR (PREPARER):
Kristie Colvin (Kristie Colvin)

RESPONSIVE DOCUMENTS:
PUC08-14e Attachment 1.xlsx

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864**

**GULF COAST COALITION OF CITIES
REQUEST NO.: GCCC01-06**

QUESTION:

Refer to the calculation of the annual revenue requirement for the proposed Rider UEDIT labeled as "Schedule Rider UEDIT" sponsored by Ms. Colvin and the related WP/WP Rider UEDIT, which shows the regulatory liability balances with the income tax gross-up and the removal of the income tax gross-up to calculate the negative amortization expense without the income tax gross-up.

- a. Confirm that this calculation reflects a negative amortization expense equal to the three-year straight-line amortization of the EDIT regulatory liability after removing the income tax gross-up.
- b. Explain why the Company did not include the income tax gross-up to calculate the revenue requirement resulting from the negative amortization expense. If the Company believes that its calculation is correct then provide a copy of all authoritative support for this position. In addition, provide a copy of all internal correspondence and external correspondence wherein this issue was addressed. Further, identify the person and position of the decision-maker who decided not to include the income tax gross-up.
- c. If, upon further review, the Company now believes that the negative amortization expense should be grossed-up to calculate the revenue requirement, then provide a corrected Schedule Rider UEDIT.

ANSWER:

- a. The income tax gross-up was not included in the calculation
- b. The Company had inadvertently excluded the income tax gross-up
- c. Please see GCCC01-06 Attachment 1 for the corrected Schedule Rider UEDIT.

SPONSOR (PREPARER):

Kristie Colvin / Charles Pringle (Kristie Colvin / Charles Pringle)

RESPONSIVE DOCUMENTS:

GGCC01-06 Attachment 1.xlsx

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864
GULF COAST COALITION OF CITIES
REQUEST NO.: GCCC03-08**

QUESTION:

Refer to WP II-D-2 Adj 6.1, which shows the calculation of pension expense based on the 2019 actuarial amounts for CEHE and the Service Company allocations to CEHE. Explain why there is no allocation of the Service Company charges to capital. Provide a copy of all accounting procedure guidelines and other documentation that address this issue.

ANSWER:

The Service Company allocation on WP II-D-2 Adj 6.1 inadvertently left out capital charges and will be corrected in an errata filing.

SPONSOR (PREPARER):

Kristie Colvin / Michelle Townsend (Kristie Colvin / Michelle Townsend)

RESPONSIVE DOCUMENTS:

None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864
GULF COAST COALITION OF CITIES
REQUEST NO.: GCCC03-04**

QUESTION:

Refer to Schedule II-B-11 page 1 of 2 and the adjustment to reduce the Reg Liability Pension BRP and Postretirement by \$61.612 million. Refer also to Exhibit KLC-08b page 2 of 3 Note 22, which refers to this adjustment and states: "This adjustment is to remove balances that are required under GAAP that have no impact on rate making."

- a. Confirm that the Company had a regulatory liability of \$68.522 million on its accounting books in account 254 at December 31, 2018. Provide a copy of the source documents for this amount, including the relevant account balances from the Company's trial balance and the relevant pages from the actuarial reports. To the extent that the Company made any calculations to determine the amount recorded on its accounting books compared to the amounts set forth in the actuarial reports, provide a reconciliation, along with an explanation for each reconciling difference.
- b. Explain why the \$68.522 million was recorded as a regulatory liability under GAAP. Provide a copy of all supporting documentation for the Company's accounting and all documentation reviewed and/or relied on for your response.
- c. Confirm that the \$68.522 million is the cumulative amount of the difference between the BRP and postretirement benefit expense recovered in rates and the funding of these plans, i.e., the analog of the pension expense regulatory liability of \$60.482 million also shown on Schedule II-B-11.
- d. Explain why the Company believes that it should not be required to reduce rate base by the amount of the \$68.522 million recorded on its accounting books. Provide a copy of supporting documentation reviewed and relied on for this position and for your response.
- e. Explain why the Company did not reflect the negative \$6.910 million calculated on WP/WP II-B-11 Adj 8 as a separate adjustment to reduce rate base in the same manner that it included the \$170.369 million on WP/WP II-B-11 Adj 8 as a separate adjustment to increase prepayments on Schedule II-B-10 for prepaid pension assets.
- f. If, upon further reflection, the Company believes that it made an error with respect to the effective elimination of the \$68.522 million BRP and postretirement regulatory liability, then provide revised schedules to reflect the correction of this error. If the Company does not believe it made an error, then explain why it does not.

ANSWER:

- a. Please see GCCC03-04a Attachment 1.xlsx for the account balance from CenterPoint Houston's trial balance and GCCC03-04a Attachment 2 (confidential).xlsx for the relevant pages of the actuarial report.
- b. The \$68.522 million represents the unrecognized gains, primarily due to cumulative plan design changes in the CenterPoint Energy Postretirement Plan, as of December 31, 2018 that has not yet been reflected in CenterPoint Houston's postretirement benefit cost. This amount will be recognized as a component of the actuarially measured net postretirement benefit cost for the future periods. Under Accounting Standards Codification (ASC) 715-30-35 (GCCC03-04b Attachment 1 ASC 715-30-35.pdf), the unrecognized gains or losses from the plan's re-measurement are required to be recorded on a company's book as other comprehensive income(loss), or, for regulated entities pursuant to ASC 980-340-25 (GCCC03-04b Attachment 2 ASC 980-340-25.pdf), as a regulatory asset or liability, respectively.

- c. Deny. Please see response to (b). Amounts related to the BRP are not included in this amount.
- d. Please see response to (b) and response to GCCC01-08.
- e. CenterPoint Houston did in fact reduce rate base by \$6.910 million as reflected on Schedule II-B-11, line 18. However, it should be reflected on Schedule II-B-7 as Other Accumulated Provisions and will be corrected in an errata filing.
- f. CenterPoint Houston does not believe it made an error as explained in the responses above. Also note, amounts related to the BRP are not included in this amount.

Attachment GCCC03-04a Attachment 2 (confidential).xlsx is confidential and is being provided pursuant to the Protective Order issued in Docket No. 49421.

SPONSOR (PREPARER):
Kristie Colvin (Kristie Colvin)

RESPONSIVE DOCUMENTS:
GCCC03-04a Attachment 1.xlsx
GCCC03-04a Attachment 2 (confidential).xlsx
GCCC03-04b Attachment 1 ASC 715-30-35.pdf
GCCC03-04b Attachment 2 ASC 980-340-25.pdf

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864**

**ALLIANCE FOR RETAIL MARKET
REQUEST NO.: ARM03-04**

QUESTION:

Please calculate the UEDIT Rider credits for each rate class based on a two-year amortization period. Please provide a side-by-side comparison of those UEDIT Rider credits and the proposed UEDIT Rider credits in CenterPoint's application.

ANSWER:

A revision to the proposed UEDIT Rider was made in GCCC01-06. The side-by-side comparison of the credits for each rate class below reflects that revision.

| Class | 3 Yr Amount | 2 Yr Amount | 3 Yr Rates | 2 Yr Rates |
|------------------------|------------------------|------------------------|-------------------|-------------------|
| Residential | \$ (21,143,270) | \$ (30,548,168) | \$ (0.000725) | \$ (0.001048) |
| Secondary | | | | |
| =<10 Kva | (528,787) | (764,001) | (0.000576) | (0.000832) |
| >10 Kva | (12,854,242) | (18,572,034) | (0.156695) | (0.226396) |
| Primary | (1,216,286) | (1,757,311) | (0.090356) | (0.130549) |
| Transmission | (2,834,514) | (4,095,355) | (0.095129) | (0.137444) |
| Street Lighting | (1,022,952) | (1,477,979) | (0.005008) | (0.007235) |
| Miscellaneous Lighting | (54,165) | (78,259) | (0.001106) | (0.001597) |
| TOTAL | \$ (39,654,216) | \$ (57,293,107) | | |

SPONSOR (PREPARER):

Kristie Colvin/Matthew Troxle (Kristie Colvin/Matthew Troxle)

RESPONSIVE DOCUMENTS:

None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864**

**CITY OF HOUSTON
REQUEST NO.: COH03-35**

QUESTION:

Retirement plans: Please provide copies of the actuary reports supporting the test year level of pension costs for each retirement plan or post-retirement benefits.

ANSWER:

Please see the following pages of the actuarial report provided for the adjusted test year pension and postretirement costs as shown on WP II-D-2 Adj 6.1.

The attachments are confidential and is being provided pursuant to the Protective Order issued in Docket No. 49421.

The requested information is also voluminous and will be provided to the propounding party only in electronic format on CD. Please contact Alice Hart at (713) 207-5322 to request a copy of the CD. Please see index of voluminous material below.

| DATE | TITLE | PREPARER | PAGE NO (S) | ACTUARIAL REPORT PAGE |
|---------|--|----------------|-------------|-----------------------|
| Undated | COH03-35 CNP Postretirement AV 2018 (confidential).pdf | Kristie Colvin | 1-75 | 44 |
| Undated | COH03-35 CNP Retirement AV-2018 (confidential).pdf | Kristie Colvin | 1-53 | 13 |
| Undated | COH03-35 CNP BRP AV 2018 (confidential).pdf | Kristie Colvin | 1-22 | 12 |

SPONSOR (PREPARER):

Kristie Colvin (Kristie Colvin)

RESPONSIVE DOCUMENTS:

COH03-35 CNP Postretirement AV 2018 (confidential).pdf
COH03-35 CNP Retirement AV-2018 (confidential).pdf
COH03-35 CNP BRP AV 2018 (confidential).pdf

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864**

**CITY OF HOUSTON
REQUEST NO.: COH03-40**

QUESTION:

Regulatory Assets and Liabilities: For each regulatory asset and liability, provide an explanation of the item, the reason for including it in rate base, and any related statutes, orders, legal precedent or other available documentary support for including the item in rate base.

ANSWER:

Please see Schedule II-B-12a for Regulatory Assets explanation, the reason for including it in rate base, and the related statutes, order, legal precedent or other documentary support.

Please see below for Regulatory Liabilities explanation, the reason for including it in rate base, and the related statutes, order, legal precedent or other documentary support.

1. Regulatory Liability-Pension - PURA 36.065, Docket No. 38339 Order on Rehearing Finding of Fact 60.

PURA 36.065 allows a utility to defer the difference between actual pension and postemployment benefit costs and the amounts approved in the utility's last general rate case proceeding.

2. Regulatory Liability Pension BRP and Postretirement - This item is not a regulatory liability and was inadvertently included on II-B-11. It should have been on II-B-7 Rate Base Accounts - Accum. Provisions and will be corrected in an errata filing.

3. Regulatory NC Liability EDIT - Plant - ASC 740

Under ASC 740 a regulatory liability must be established for a change in tax rate if it is probable the excess deferred taxes will be refunded to customers. Protected EDIT is reversed under Average Rate Assumption Method and is protected under normalization rules. These balances are included in rate base to maintain rate base neutrality before and after the rate change.

Please see the direct testimony of Kristie L. Colvin on bates pages 906 and 907 for a list of regulatory assets and liabilities previously approved by the commission to be in rate base.

SPONSOR (PREPARER):

Kristie Colvin / Charles Pringle (Kristie Colvin / Charles Pringle)

RESPONSIVE DOCUMENTS:

None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864**

**CITY OF HOUSTON
REQUEST NO.: COH09-06**

QUESTION:

Please refer to Page 18 of 27 of WP/Streetlight Rate Design and answer the following questions:

- a. Please explain in detail how the initial investments for Luminaire for the LED Lighting were determined.
- b. Please explain in detail how the \$18.32 initial investment for the Photovol TAIC Electric Relay (PER) for the LED Lighting was determined.
- c. Please explain in detail how the \$46.34 initial investment for the Mounting Bracket for the LED Lighting was determined.
- d. Please explain in detail how the \$20 initial investment for the 100' SPan - #4-2C Twist @ \$.20/FT for the LED Lighting was determined.
- e. Please explain in detail how the \$7.53 initial investment for the Arm Wiring /Splices/Misc. Components for the LED Lighting was determined.
- f. Please explain in detail how the \$134.35 initial investment for the Installation Cost (Labor) for the LED Lighting was determined.
- g. Please explain in detail how the initial investments for the Overhead (Stores & Engr.) for the LED Lighting were determined.
- h. Please explain in detail how the \$36.64 Fixture Replacement Cost for the LED Lighting was determined.
- i. Please explain in detail how the \$19.95 Transportation Cost for the LED Lighting was determined.
- j. Please explain in detail how the \$94.89 Labor Cost/hr for the LED Lighting was determined.
- k. Please explain in detail how the \$109.13 Replacement Cost (Labor) for the LED Lighting was determined.
- l. Please explain in detail how the \$6.92 Overhead (Store) for the LED Lighting was determined.

ANSWER:

- a. The initial investment for Luminaires for the LED lighting was determined by taking the cost of the initial investment of material, labor cost, and the overhead factors. The total initial investments for material and labor cost were the result of complete contract negotiations with the respective CenterPoint Houston vendors, added with the overhead factors after applied accordingly as shown in response COH09-11 (c)and (d).
- b. The \$18.32 initial investment for the Photovol TAIC Electric Relay (PER) for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- c. The \$46.34 initial investment for the Mounting Bracket for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- d. The \$20 initial investment for the 100' Span - #4-2C Twist @ \$.20/FT for the LED Lighting was determined by the actual cost of the #4-2C Twist at \$.20/FT in the test year 2018.
- e. The \$7.53 initial investment for the Arm Wiring/Splices/Misc. Components for the LED Lighting was determined by the actual costs of the Arm Wiring/Splices/Misc. Components in the test year 2018.

- f. The \$134.35 initial investment for the Installation Cost (Labor) for the LED Lighting was determined by the total labor required to install the 120 Volt LED luminaire fixture with 100' Span of #4-2C Twist. The total labor cost was determined by the rates designated because of complete contract negotiations with the respective CenterPoint Houston vendor.
- g. The Overhead (stores & engineering/construction) cost is included in the initial total investment cost of each LED street light type because the Overhead is added to the purchase price of plant when it is capitalized. The Overhead initial investment cost for LED lighting is the result of applying the Test Year 2018 engineering/construction overhead factor and stores overhead factor to the established Test Year 2018 initial investment material and labor cost for each lamp type accordingly. [Please see response COH09-11 (c) and (d)].
- h. The O&M fixture replacement cost \$36.64 for LED Lighting was determined using the Test Year 2018 initial investment material cost for LED Photovoltaic Electric Relay ("PER") and applying the estimated number of occurrences (two) which properly reflects the expense to replace an LED PER over the used and useful life of an existing LED installation.
- i. The O&M transportation cost consist of the expense associated with the use of a single bucket truck to maintain, repair, replace, and/or install a street light. The transportation cost is the result of the cost of a single bucket truck for one half manhour and applying the estimated number of occurrences (two) that properly reflect the transportation expense over the used and useful life of an existing LED installation.

Please see response COH09-12 attachment COH09-12 Assumptions for Cost Calculations at tab "Sheet 1" for a detailed explanation of the derivation of the \$19.95 transportation cost. It should be noted the Test Year 2018 average transportation cost per lamp type was applied to all street light types, based on the weighted average of the used and useful life of a High-Pressure Sodium and LED lamp, to provide a reasonable and conservative basis of the total transportation cost to service each lamp.

- j. The \$94.89 Labor Cost/hr for the LED Lighting was determined by complete contract negotiations with the respective CenterPoint Houston vendor.
- k. The O&M Replacement labor cost representative the cost of one service employee at one half manhour, and the coordination cost associated with the service dispatch for LED lighting, then applying the estimated number of occurrences (two) to properly reflect the O&M replacement labor expense to repair an LED over the used and useful life of an existing LED installation.

Due to a formula error in the WP/Streetlight Rate Design the Coordination cost factor should be \$0.89 resulting in the O&M replacement labor cost value of 96.67, this will be corrected in the filed ERRATA.

- l. The Overhead (Store) cost \$6.92 is the result of applying the Stores Overhead factor to the O&M fixture replacement cost to properly reflect the cost of stores. [Please see response COH09-11 (d) for explanation for store overhead rate factor.]

SPONSOR (PREPARER):

Matthew Troxle/Julienne Sugarek (Matthew Troxle, Julienne Sugarek)

RESPONSIVE DOCUMENTS:

None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864**

**CITY OF HOUSTON
REQUEST NO.: COH09-07**

QUESTION:

Please refer to Page 20 of 27 of WP/Streetlight Rate Design and answer the following questions:

- a. Please explain in detail how the initial investments for Luminaire for the LED Lighting were determined.
- b. Please explain in detail how the \$18.32 initial investment for the Photovol TAIC Electric Relay (PER) for the LED Lighting was determined.
- c. Please explain in detail how the \$75 initial investment for the Mounting Bracket/ARM(8' Arm) for the LED Lighting was determined.
- d. Please explain in detail how the \$674 initial investment for the 30' Base Plate Type Pole for the LED Lighting was determined.
- e. Please explain in detail how the \$298.18 initial investment for the Foundation Rebar. Anchor Bolt Kit (SAP 243140) for the LED Lighting was determined.
- f. Please explain in detail how the \$10.39 initial investment for the Pole Wire/Splices/Misc. Components for the LED Lighting was determined.
- g. Please explain in detail how the \$33 initial investment for the OH Wire@150' - Source To Pole @.20/FT for the LED Lighting was determined.
- h. Please explain in detail how the \$876.25 initial investment for the Installation Cost (Labor) for the LED Lighting was determined.
- i. Please explain in detail how the initial investments for the Overhead (Stores & Engr.) for the LED Lighting were determined.
- j. Please explain in detail how the \$36.64 Fixture Replacement Cost for the LED Lighting was determined.
- k. Please explain in detail how the \$9.98 Transportation Cost for the LED Lighting was determined.
- l. Please explain in detail how the \$90.48 Labor Cost/hr for the LED Lighting was determined.
- m. Please explain in detail how the \$104.7 Replacement Cost (Labor) for the LED Lighting was determined.
- n. Please explain in detail how the \$6.92 Overhead (Store) for the LED Lighting was determined.

ANSWER:

- a. The initial investment for Luminaires for the LED lighting was determined by taking the cost of the initial investment of material, labor cost, and the overhead factors. The total initial investments for material and labor cost were the result of complete contract negotiations with the respective CenterPoint Houston vendors, added with the overhead factors after applied accordingly as shown in response COH09-11 (c)and (d).
- b. The \$18.32 initial investment for the Photovol TAIC Electric Relay (PER) for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- c. The \$75 initial investment for the Mounting Bracket/ARM (8' Arm) for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- d. The \$674 initial investment for the 30' Base Plate Type Pole for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.

- e. The \$298.18 initial investment for the Foundation Rebar. Anchor Bolt Kit (SAP 243140) for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- f. The \$10.39 initial investment for the Pole Wire/Splices/Misc. Components for the LED Lighting was determined by the actual costs of the Pole Wire/Splices/Misc. Components in the test year 2018.
- g. The \$33 initial investment for the OH Wire@150' -Source to Pole @.20/FT for the LED Lighting was determined by the actual cost of the OH Wire in the test year 2018.
- h. The \$876.25 initial investment for the Installation Cost (Labor) for the LED Lighting was determined by the total labor required to install the base plate foundation mounted type pole with 150' Span of OH Wire. The total labor cost was determined by the rates designated because of complete contract negotiations with the respective CenterPoint Houston vendor.
- i. The Overhead (stores & engineering/construction) cost is included in the initial total investment cost of each LED street light type because the Overhead is added to the purchase price of plant when it is capitalized. The Overhead initial investment cost for LED lighting is the result of applying the Test Year 2018 engineering/construction overhead factor and stores overhead factor to the established Test Year 2018 initial investment material and labor cost for each lamp type accordingly. [Please see response COH09-11 (c) and (d)].
- j. The O&M fixture replacement cost \$36.64 for LED Lighting was determined using the Test Year 2018 initial investment material cost for LED Photovoltaic Electric Relay ("PER") and applying the estimated number of occurrences (two) which properly reflects the expense to replace an LED PER over the used and useful life of an existing LED installation.
- k. The O&M transportation cost consist of the expense associated with the use of a single bucket truck to maintain, repair, replace, and/or install a street light. The transportation cost is the result of the cost of a single bucket truck for one half manhour and applying the estimated number of occurrences (two) that properly reflect the transportation expense over the used and useful life of an existing LED installation.

Please see response COH09-12 attachment COH09-12 Assumptions for Cost Calculations at tab "Sheet 1" for a detailed explanation of the derivation of the \$19.95 transportation cost. It should be noted the Test Year 2018 average transportation cost per lamp type was applied to all street light types, based on the weighted average of the used and useful life of a High-Pressure Sodium and LED lamp, to provide a reasonable and conservative basis of the total transportation cost to service each lamp.

Due to a formula error in the WP/Streetlight Rate Design \$9.98 transportation cost value should be \$19.95, this will be corrected in the filed ERRATA.

- l. The \$90.48 Labor Cost/hr for the LED Lighting was determined by complete contract negotiations with the respective CenterPoint Houston vendor.
- m. The O&M Replacement labor cost representative the cost of one service employee at one half man-hour, and the coordination cost associated with the service dispatch for LED lighting, then applying the estimated number of occurrences (two) to properly reflect the O&M replacement labor expense to repair an LED over the used and useful life of an existing LED installation.

Due to a formula error in the WP/Streetlight Rate Design the Coordination cost factor should be \$0.89 resulting in the O&M replacement labor cost value of 92.24, this will be corrected in the filed ERRATA.

- n. The Overhead (Store) cost \$13.84 is the result of applying the Stores Overhead factor to the O&M fixture replacement cost to properly reflect the cost of stores. [Please see response COH09-11 (d) for explanation for store overhead rate factor.]

SPONSOR (PREPARER):

Matthew Troxle/Julienne Sugarek (Matthew Troxle, Julienne Sugarek)

RESPONSIVE DOCUMENTS:

None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864**

**CITY OF HOUSTON
REQUEST NO.: COH09-08**

QUESTION:

Please refer to Page 22 of 27 of WP/Streetlight Rate Design and answer the following questions:

- a. Please explain in detail how the initial investments for Luminaire for the LED Lighting were determined.
- b. Please explain in detail how the \$36.64 initial investment for the Photovol TAIC Electric Relay (PER) for the LED Lighting was determined.
- c. Please explain in detail how the \$150.96 initial investment for the Mounting Bracket/ARM(8' Arm) for the LED Lighting was determined.
- d. Please explain in detail how the \$674 initial investment for the 30' Base Plate Type Pole for the LED Lighting was determined.
- e. Please explain in detail how the \$298.18 initial investment for the Foundation Rebar, Anchor Bolt Kit (SAP 243140) for the LED Lighting was determined.
- f. Please explain in detail how the \$12.31 initial investment for the Pole Wire/Splices/Misc. Components for the LED Lighting was determined.
- g. Please explain in detail how the \$33 initial investment for the OH Wire@150' - Source To Pole @.20/FT for the LED Lighting was determined.
- h. Please explain in detail how the \$876.25 initial investment for the Installation Cost (Labor) for the LED Lighting was determined.
- i. Please explain in detail how the initial investments for the Overhead (Stores & Engr.) for the LED Lighting were determined.
- j. Please explain in detail how the \$73.28 Fixture Replacement Cost for the LED Lighting was determined.
- k. Please explain in detail how the \$19.95 Transportation Cost for the LED Lighting was determined.
- l. Please explain in detail how the \$94.89 Labor Cost/hr for the LED Lighting was determined.
- m. Please explain in detail how the \$109.13 Replacement Cost (Labor) for the LED Lighting was determined.
- n. Please explain in detail how the \$13.84 Overhead (Store) for the LED Lighting was determined.

ANSWER:

- a. The initial investment for Luminaires for the LED lighting was determined by taking the cost of the initial investment of material, labor cost, and the overhead factors. The total initial investments for material and labor cost were the result of complete contract negotiations with the respective CenterPoint Houston vendors, added with the overhead factors after applied accordingly as shown in response COH09-11 (c) and (d).

- b. The \$36.64 initial investment for the Photovol TAIC Electric Relay (PER) for the LED Lighting was determined by taking the moving average price (MAP) from the test year 2018 and applying the number of relays required for initial installation (2). The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- c. The \$150.96 initial investment for the Mounting Bracket/ARM (8' Arm) for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- d. The \$674 initial investment for the 30' Base Plate Type Pole for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- e. The \$298.18 initial investment for the Foundation Rebar, Anchor Bolt Kit (SAP 243140) for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- f. The \$12.31 initial investment for the Pole Wire/Splices/Misc. Components for the LED Lighting was determined by the actual costs of the Pole Wire/Splices/Misc. Components in the test year 2018.
- g. The \$33 initial investment for the OH Wire@150' -Source to Pole @.20/FT for the LED Lighting was determined by the actual cost of the OH Wire in the test year 2018.
- h. The \$876.25 initial investment for the Installation Cost (Labor) for the LED Lighting was determined by the total labor required to install the base plate foundation mounted type pole with 150' Span of OH Wire. The total labor cost was determined by the rates designated because of complete contract negotiations with the respective CenterPoint Houston vendor.
- i. The Overhead (stores & engineering/construction) cost is included in the initial total investment cost of each LED street light type because the Overhead is added to the purchase price of plant when it is capitalized. The Overhead initial investment cost for LED lighting is the result of applying the Test Year 2018 engineering/construction overhead factor and stores overhead factor to the established Test Year 2018 initial investment material and labor cost for each lamp type accordingly. [Please see response COH09-11 (c) and (d)].
- j. The O&M fixture replacement cost \$73.28 for LED Lighting was determined by the Test Year 2018 established initial investment material cost for LED Photovoltaic Electric Relay ("PER") and applying the estimated number of occurrences (two) to properly reflect the expense to replace an LED PER over the used and useful life of an existing LED installation.
- k. The O&M transportation cost consist of the expense associated with the use of a single bucket truck to maintain, repair, replace, and/or install a street light. The transportation cost is the result of the cost of a single bucket truck for one half manhour and applying the estimated number of occurrences (two) that properly reflect the transportation expense over the used and useful life of an existing LED installation.

Please see response COH09-12 attachment COH09-12 Assumptions for Cost Calculations at tab "Sheet 1" for a detailed explanation of the derivation of the \$19.95 transportation cost. It should be noted the Test Year 2018 average transportation cost per lamp type was applied to all street light types, based on the weighted average of the used and useful life of a High-Pressure Sodium and LED lamp, to provide a reasonable and conservative basis of the total transportation cost to service each lamp.

- l. The \$94.89 Labor Cost/hr for the LED Lighting was determined by complete contract

negotiations with the respective CenterPoint Houston vendor.

- m. The O&M Replacement labor cost representative the cost of one service employee at one half manhour, and the coordination cost associated with the service dispatch for LED lighting, then applying the estimated number of occurrences (two) to properly reflect the O&M replacement labor expense to repair an LED over the used and useful life of an existing LED installation.

Due to a formula error in the WP/Streetlight Rate Design the Coordination cost factor should be \$0.89 resulting in the O&M replacement labor cost value of 96.67, this will be corrected in the filed ERRATA.

- n. The Overhead (Store) cost \$13.84 is the result of applying the Stores Overhead factor to the O&M fixture replacement cost to the estimated number of occurrences (two) to properly reflect the expense to replace an LED PER over the used and useful life of an existing LED installation.

SPONSOR (PREPARER):

Matthew Troxle/Julienne Sugarek (Matthew Troxle, Julienne Sugarek)

RESPONSIVE DOCUMENTS:

None

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
2019 CEHE RATE CASE
DOCKET 49421-SOAH DOCKET NO. 473-19-3864**

**CITY OF HOUSTON
REQUEST NO.: COH09-09**

QUESTION:

Please refer to Page 24 of 27 of WP/Streetlight Rate Design and answer the following questions:

- a. Please explain in detail how the initial investments for Luminaire for the LED Lighting were determined.
- b. Please explain in detail how the \$18.32 initial investment for the Photovol TAIC Electric Relay (PER) for the LED Lighting was determined.
- c. Please explain in detail how the \$51 initial investment for the Mounting Bracket/ARM(2') for the LED Lighting was determined.
- d. Please explain in detail how the \$371 initial investment for the 30' Direct Embedded Pole for the LED Lighting was determined.
- e. Please explain in detail how the \$29.71 initial investment for the Pole Wire/Splices/Misc. Components for the LED Lighting was determined.
- f. Please explain in detail how the \$63 initial investment for the UG Wire@150' - Source To Pole @.42/FT for the LED Lighting was determined.
- g. Please explain in detail how the \$787.97 initial investment for the Installation Cost (Labor) for the LED Lighting was determined.
- h. Please explain in detail how the initial investments for the Overhead (Stores & Engr.) for the LED Lighting were determined.
- i. Please explain in detail how the \$36.64 Fixture Replacement Cost for the LED Lighting was determined.
- j. Please explain in detail how the \$19.95 Transportation Cost for the LED Lighting was determined.
- k. Please explain in detail how the \$90.46 Labor Cost/hr for the LED Lighting was determined.
- l. Please explain in detail how the \$104.70 Replacement Cost (Labor) for the LED Lighting was determined.
- m. Please explain in detail how the \$6.92 Overhead (Store) for the LED Lighting was determined.

ANSWER:

- a. The initial investment for Luminaires for the LED lighting was determined by taking the cost of the initial investment of material, labor cost, and the overhead factors. The total initial investments for material and labor cost were the result of complete contract negotiations with the respective CenterPoint Houston vendors, added with the overhead factors after applied accordingly as shown in response COH09-11 (c)and (d).
- b. The \$18.32 initial investment for the Photovol TAIC Electric Relay (PER) for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- c. The \$51 initial investment for the Mounting Bracket/ARM (2') for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.
- d. The \$371 initial investment for the 30' Direct Embedded Pole for the LED Lighting was determined by the moving average price (MAP) from the test year 2018. The moving average price is determined by taking the average of each individual unit purchase price over the history of the part and averaging them to produce the MAP.

- e. The \$29.71 initial investment for the Pole Wire/Splices/Misc. Components for the LED Lighting was determined by the actual costs of the Pole Wire/Splices/Misc. Components in the test year 2018.
- f. The \$63 initial investment for the UG Wire@150' - Source to Pole @.42/FT for the LED Lighting was determined by the actual costs of the UG Wire in the test year 2018.
- g. The \$787.97 initial investment for the Installation Cost (Labor) for the LED Lighting was determined by the total labor required to install a direct embedded pole with 150' of bored underground service conductor. The total labor cost was determined by the rates designated because of complete contract negotiations with the respective CenterPoint Houston vendor.
- h. The Overhead (stores & engineering/construction) cost is included in the initial total investment cost of each LED street light type because the Overhead is added to the purchase price of plant when it is capitalized. The Overhead initial investment cost for LED lighting is the result of applying the Test Year 2018 engineering/construction overhead factor and stores overhead factor to the established Test Year 2018 initial investment material and labor cost for each lamp type accordingly. [Please see response COH09-11 (c) and (d)].
- i. The O&M fixture replacement cost \$36.64 for LED Lighting was determined using the Test Year 2018 initial investment material cost for LED Photovoltaic Electric Relay ("PER") and applying the estimated number of occurrences (two) which properly reflects the expense to replace an LED PER over the used and useful life of an existing LED installation.
- j. The O&M transportation cost consist of the expense associated with the use of a single bucket truck to maintain, repair, replace, and/or install a street light. The transportation cost is the result of the cost of a single bucket truck for one half manhour and applying the estimated number of occurrences (two) that properly reflect the transportation expense over the used and useful life of an existing LED installation.

Please see response COH09-12 attachment COH09-12 Assumptions for Cost Calculations at tab "Sheet 1" for a detailed explanation of the derivation of the \$19.95 transportation cost. It should be noted the Test Year 2018 average transportation cost per lamp type was applied to all street light types, based on the weighted average of the used and useful life of a High-Pressure Sodium and LED lamp, to provide a reasonable and conservative basis of the total transportation cost to service each lamp.

- k. The \$90.46 Labor Cost/hr for the LED Lighting was determined by complete contract negotiations with the respective CenterPoint Houston vendor.
- l. The O&M Replacement labor cost representative the cost of one service employee at one half manhour, and the coordination cost associated with the service dispatch for LED lighting, then applying the estimated number of occurrences (two) to properly reflect the O&M replacement labor expense to repair an LED over the used and useful life of an existing LED installation.

Due to a formula error in the WP/Streetlight Rate Design the Coordination cost factor should be \$0.89 resulting in the O&M replacement labor cost value of 92.24, this will be corrected in the filed ERRATA.

- m. The Overhead (Store) cost \$6.92 is the result of applying the Stores Overhead factor to the O&M fixture replacement cost to properly reflect the cost of stores. [Please see response COH09-11 (d) for explanation for store overhead rate factor.]

SPONSOR (PREPARER):

Matthew Troxle/Julienne Sugarek (Matthew Troxle, Julienne Sugarek)

RESPONSIVE DOCUMENTS:
None