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| APPLICATION OF CENTERPOINT<br>ENERGY HOUSTON ELECTRIC, LLC<br>FOR AUTHORITY TO CHANGE<br>RATES | §<br>§<br>§<br>§ | BEFORE THE STATE OFFICE<br>OF<br>ADMINISTRATIVE HEARINGS |
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Cross-Rebuttal Testimony

of

**JEFFRY POLLOCK**

On Behalf of

**Texas Industrial Energy Consumers**

June 19, 2019



**J . P O L L O C K**  
I N C O R P O R A T E D

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AFFIDAVIT OF JEFFRY POLLOCK

State of Missouri     )  
                                  )  
County of St. Louis    )     SS

Jeffry Pollock, being first duly sworn, on his oath states:

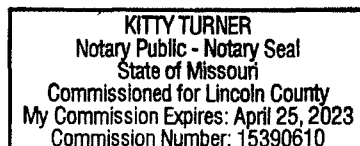
1. My name is Jeffry Pollock. I am President of J. Pollock, Incorporated, 12647 Olive Blvd., Suite 585, St. Louis, Missouri 63141. We have been retained by Texas Industrial Energy Consumers to testify in this proceeding on its behalf;

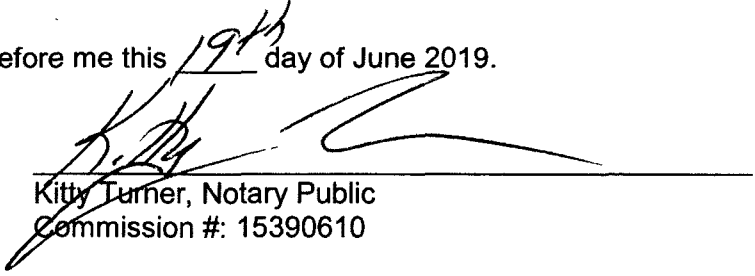
2. Attached hereto and made a part hereof for all purposes is my Cross-Rebuttal Testimony, which has been prepared in written form for introduction into evidence in SOAH Docket No. 473-19-3864 and Public Utility Commission of Texas Docket No. 49421; and,

3. I hereby swear and affirm that my answers contained in the testimony are true and correct.

  
Jeffry Pollock

Subscribed and sworn to before me this 19<sup>th</sup> day of June 2019.



  
Kitty Turner, Notary Public  
Commission #: 15390610

My Commission expires on April 25, 2023.

## GLOSSARY OF ACRONYMS

| Term        | Definition                               |
|-------------|--|
| 4CP         | Four Coincident Peak                     |
| CenterPoint | CenterPoint Energy Houston Electric, LLC |
| CCOSS       | Class Cost-of-Service Study              |
| ERCOT       | Electric Reliability Council of Texas    |
| NCP         | Non Coincident Peak                      |
| TIEC        | Texas Industrial Energy Consumers        |

**CROSS-REBUTTAL TESTIMONY OF JEFFRY POLLOCK**

1    **Q     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    A     Jeffry Pollock; 12647 Olive Blvd., Suite 585, St. Louis, MO 63141.

3    **Q     WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

4    A     I am an energy advisor and President of J. Pollock, Incorporated.

5    **Q     ARE YOU THE SAME JEFFRY POLLOCK WHO PREVIOUSLY SUBMITTED**  
6       **DIRECT TESTIMONY ON BEHALF OF TEXAS INDUSTRIAL ENERGY**  
7       **CONSUMERS (TIEC)?**

8    A     Yes.

9    **Q     WHAT IS THE PURPOSE OF YOUR CROSS-REBUTTAL TESTIMONY?**

10   A     I address the recommendations of Mr. Karl Nalepa, testifying on behalf of the Office of  
11       Public Utility Counsel, to directly assign certain customer service expenses in FERC  
12       Account No. 907 to the transmission class. I will also address the recommendation of  
13       Mr. George W. Presses, testifying on behalf of H-E-B, LP, to change the allocation of  
14       wholesale transmission costs from the current ERCOT four coincident peak (4CP) to  
15       a non-coincident peak (NCP) method.

16   **Rebuttal to Mr. Nalepa**

17   **Q     WHAT CHANGE IS MR. NALEPA PROPOSING TO THE ALLOCATION OF**  
18       **CUSTOMER SERVICE EXPENSES?**

19   A     Mr. Nalepa is proposing to directly assign \$678,154 of expenses to the transmission  
20       class. The \$678,154 represents one-third of the test-year expenses associated with  
21       the Transmission and Key Accounts Department of CenterPoint Energy Houston

1 Electric, LLC (CenterPoint).<sup>1</sup> Mr. Nalepa's proposal is in contrast to CenterPoint's  
2 class cost-of-service study (CCOSS), which allocates these expenses to all customer  
3 classes.

4 **Q WHY IS MR. NALEPA DIRECTLY ASSIGNING ONE-THIRD OF CENTERPOINT'S**  
5 **TRANSMISSION AND KEY ACCOUNTS DEPARTMENT EXPENSES TO THE**  
6 **TRANSMISSION CLASS?**

7 A Mr. Nalepa's proposal is based on the testimony of CenterPoint witness, Julienne P.  
8 Sugarek. Specifically, Ms. Sugarek stated that the Transmission and Key Accounts  
9 Department is responsible for the interconnection of large industrial customers and  
10 generators to the transmission system.<sup>2</sup> Thus, Mr. Nalepa apparently believes that  
11 some portion of test-year expense can be directly traced to the interconnection of large  
12 industrial customers to the transmission system.

13 **Q WHAT IS THE BASIS FOR MR. NALEPA'S PROPOSAL TO ASSIGN ONE-THIRD**  
14 **OF THE TRANSMISSION AND KEY ACCOUNTS DEPARTMENT EXPENSES TO**  
15 **THE TRANSMISSION CLASS?**

16 A Mr. Nalepa did not provide any workpapers or analysis revealing that directly assigning  
17 one-third of the Transmission and Key Accounts Department expenses would reflect  
18 the expenses incurred by CenterPoint during the test year to interconnect large  
19 industrial customers to the transmission system. However, according to Ms. Sugarek,  
20 the Transmission and Key Accounts Department is involved in three broad functions:

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<sup>1</sup> Direct Testimony of Karl Nalepa at 51.

<sup>2</sup> Direct Testimony of Julienne P. Sugarek at 7.

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- **Transmission Accounts and Support group:** this group is responsible for the interconnection of large industrial customers and generators to the transmission system, *approval and payment of Transmission Cost of Service payments to other Transmission Service Providers, and coordination of regulatory filings for CenterPoint Houston transmission projects, including the monthly construction reports, final cost reports and Certificate of Convenience and Necessity applications.*
- **Key Accounts group:** this group is responsible for *maintaining relationships with major distribution customers* and coordinating special service arrangements with identified key accounts and major customers, as needed. Key Accounts consultants are each assigned specific distribution customers and serve as the customer's primary point of contact. They interface with other internal groups on the customer's behalf to address any issues the customer may have.
- **Street Lighting Design group:** this group designs lighting systems for roadways, bridges, walkways, hike and bike trails, and parks *at the request of the municipal government and residential and commercial customers.* They also assist customers with billing, material and inventory issues, and interface regularly with the distribution operations group responsible for installation, maintenance and repair of street lighting systems.<sup>3</sup> (emphasis added)

Because there are three separate groups within the Transmission and Key Accounts Department, it appears that Mr. Nalepa assumed that interconnecting large industrial customers to the transmission system would account for approximately one-third of the total Transmission and Key Accounts Department test-year expenses.

**Q DOES CENTERPOINT INCUR EXPENSES TO INTERCONNECT INDUSTRIAL CUSTOMERS TO THE TRANSMISSION GRID?**

**A** Yes. However, as discussed in my direct testimony, transmission level customers are

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<sup>3</sup> *Id.* at 7-8 (emphases added).



1 required to pay the entirety of all costs incurred to interconnect to CenterPoint's  
2 transmission system. Therefore, even if the Transmission Accounts and Support  
3 group incurs expenses to interconnect large industrial customers to the transmission  
4 system, these expenses are already paid for by the transmission customer.

5 **Q IS MR. NALEPA'S RECOMMENDATION CONSISTENT WITH SOUND COST**  
6 **ALLOCATION PRACTICES?**

7 A No. Directly assigning one-third of the total Transmission and Key Accounts  
8 Department expenses is totally arbitrary because it is based solely on the unsupported  
9 assumption that the interconnection expenses comprise one-third of the test-year  
10 expenses for the entire Transmission and Key Accounts Department. This, in turn,  
11 assumes that two-thirds of the Department's test-year expenses are incurred to  
12 support the remaining activities of the Transmission Accounts and Support group and  
13 all of the activities of the Key Accounts and Street Lighting Design groups. As Mr.  
14 Nalepa did not investigate the specific expenses incurred by the three groups, his  
15 assumptions cannot be validated.

16 Further, Mr. Nalepa could have directly assigned the test-year expenses of  
17 both the Key Accounts and Street Lighting Design groups to the distribution-level  
18 classes and Street Lighting classes, respectively. He chose not to do so.

19 Finally, Mr. Nalepa's proposal focuses solely on one specific customer service  
20 expense while ignoring the possibility that other expenses (which are currently being  
21 allocated to all customer classes) should have been directly assigned to specific  
22 distribution classes.

1    **Q     CAN YOU PROVIDE AN EXAMPLE?**

2    A     Yes. CenterPoint incurred \$1.6 million of expense for Power Quality Solutions. As  
3       described in Ms. Sugarek's testimony, the Power Quality Solutions department is  
4       comprised of three distinct teams. They are:

- 5           • **Power Quality:** *this team supports the overall reliability performance*  
6           *of the distribution system by providing customer level and circuit*  
7           *level technical support to Service Consultants and individual*  
8           *customers, including primary metered and premium rollover*  
9           *services. Service Consultants serve as the front line of*  
10          *communications for CenterPoint's residential, commercial, or small*  
11          *industrial customers connecting to the distribution system.*
- 12          • **Distribution Energy Resources:** *this team is responsible for*  
13          *interfacing with both residential and commercial customers to*  
14          *facilitate the interconnection process for distributed energy*  
15          *resources on the distribution system.*
- 16          • **Research & Development:** *this team is responsible for evaluating,*  
17          *developing and implementing pilots, proof of concept projects and*  
18          *technologies focused on improving system reliability performance*  
19          *and technology advancement.*<sup>4</sup>

20       Mr. Nalepa's testimony is silent on how Power Quality Solutions costs should be  
21       allocated. Although, it is clear from the description of these expenses that none of the  
22       activities of the Power Quality Solutions department would affect retail transmission  
23       customers.

24    **Q     WHAT DO YOU RECOMMEND?**

25    A     Mr. Nalepa's proposed direct assignment is clearly opportunistic and calculated to  
26       shift more costs onto the transmission class. Further, his recommendation is not  
27       supported by any evidence and is contrary to CenterPoint's policy requiring

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<sup>4</sup> Id. at 5-6 (emphases added).

1 transmission customers to fully pay for all interconnection costs. For all of the above  
2 reasons, the Commission should reject Mr. Nalepa's proposed direct assignment.

3 **Rebuttal to Mr. Presses**

4 **Q IS MR. PRESSES PROPOSING TO CHANGE HOW TRANSMISSION COSTS ARE**  
5 **ALLOCATED?**

6 A Yes. Mr. Presses is proposing to allocate all transmission and distribution costs using  
7 the NCP method. He asserts that the NCP method more fairly allocates costs among  
8 those that use the electric grid and better aligns with the market principles of ERCOT's  
9 energy-only market.<sup>5</sup>

10 **Q HOW ARE WHOLESALE TRANSMISSION COSTS CURRENTLY BEING**  
11 **ALLOCATED?**

12 A Currently, wholesale transmission costs are allocated based on each distribution  
13 service provider's contributions to the ERCOT 4CP demands. Further, all investor-  
14 owned distribution providers in ERCOT (American Electric Power, CenterPoint, Oncor  
15 Electric Delivery and Texas-New Mexico Power Company) also currently use the  
16 ERCOT 4CP to allocate wholesale transmission costs to their respective retail  
17 customer classes. The ERCOT 4CP method has been used since retail competition  
18 began on January 1, 2002.

19 **Q WHAT IS THE NCP METHOD?**

20 A The NCP method measures cost responsibility based on the maximum demand of  
21 each customer class, irrespective of when it occurs. For example, if a customer class

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<sup>5</sup> Direct Testimony of George W. Presses at 19.

1 peaks in the winter months, that winter peak demand would be used to determine the  
2 class's share of wholesale transmission costs. Similarly, the NCP method would  
3 allocate a significant portion of transmission costs to customer classes that consume  
4 power primarily during off-peak hours, such as Street Lighting.

5 **Q DOES MR. PRESSES ACKNOWLEDGE THE CRITICAL NATURE OF THE**  
6 **SUMMER PEAK MONTHS?**

7 A Yes. Mr. Presses acknowledges that failing to align cost allocation with peak usage  
8 periods on the ERCOT system can have reliability consequences. In opposing the  
9 use of CenterPoint's 4CP method, Mr. Presses states:

10 That will mean that loads are not focusing on curtailing during the  
11 ERCOT 4CP, which may negatively impact ERCOT's reserve margins  
12 by decreasing the amount of load that is off-line during ERCOT 4CP  
13 events. Should this set a precedent for other utilities, the ERCOT  
14 reserve margin that relies on large loads attempting to avoid the  
15 ERCOT 4CP in order to keep the system reliable will be further at risk.  
16 As a result, the potential ramifications from a CenterPoint 4CP  
17 allocation would likely be to the detriment of reliability in ERCOT.<sup>6</sup>

18 **Q DOES THE NCP METHOD REFLECT COST-CAUSATION?**

19 A No. As Mr. Presses acknowledges, the ERCOT system peaks occur during the  
20 summer months of June, July, August and September. Usually, the peak demands  
21 occur during the hours of 4 and 5 p.m. A reliable transmission grid, thus, must be  
22 sized to meet the projected maximum summer on-peak demands. In other words,  
23 summer on-peak demands are the primary cost driver for transmission investment  
24 throughout ERCOT. As previously stated, the NCP method would totally ignore the  
25 summer on-peak demands for those classes that peak during the non-summer months

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<sup>6</sup> *Id.* at 21.

1 or use power primarily during off-peak hours. Thus, the NCP method would not  
2 allocate costs based on cost-causation and would fail to provide an incentive for  
3 customers to avoid using the transmission system during critical summer peak  
4 months, when demand is at its highest.

5 **Q MR. PRESSES ASSERTS THAT ALLOCATING WHOLESALE TRANSMISSION**  
6 **COSTS USING THE ERCOT 4CP WOULD DISTORT THE PRICE SIGNALS IN THE**  
7 **ERCOT ENERGY-ONLY MARKET. DO YOU AGREE?**

8 A No. First, many factors can cause retail customers to use less electricity during a  
9 given period. The Commission has not, and should not, attempt to limit legitimate  
10 actions by customers to manage their costs or operate efficiently based on incidental  
11 impacts on electricity prices. For example, industrial customers might use less  
12 electricity during plant maintenance, in response to an increase in feedstock prices, or  
13 a reduction in demand for their product—in addition to managing their regulated utility  
14 charges. It is not a “distortion” of wholesale energy prices if customers use less power  
15 for any legitimate reason of their choosing. As a matter of basic ratemaking, regulated  
16 utility charges should be allocated based on cost-causation to **enable** customers to  
17 manage their charges, rather than in a manner that intentionally **defies** cost-causation  
18 to **prevent** customers from manage their costs, as Mr. Presses proposes.

19 Second, Mr. Presses is making unsupported assumptions about how load  
20 would otherwise behave, and what electricity prices might be, without 4CP curtailment.  
21 Most customers that are able to curtail to minimize demand during the 4CPs are also  
22 able to curtail to avoid high energy prices. Therefore, if high electricity prices would  
23 result without 4CP curtailments, many of these flexible loads would curtail their usage  
24 anyway to avoid those prices, independent of reducing their transmission costs. As a

1 result, Mr. Presses' argument is unsupported, speculative, and ignores the behavioral  
2 changes that would occur with higher energy prices.

3 **Q WHAT DO YOU RECOMMEND?**

4 A Mr. Presses' proposal to replace the ERCOT 4CP with the NCP method is contrary to  
5 cost-causation. Further, any change would be at odds with Commission rules,  
6 specifically 16 T.A.C. §§ 25.192 and 25.193, which require the allocation of wholesale  
7 transmission costs using the ERCOT 4CP method. Finally, Mr. Presses himself  
8 acknowledges that removing the signals to reduce demand under the ERCOT 4CP  
9 method could have adverse reliability impacts. It would not be in anyone's benefit to  
10 replace this methodology as he is recommending. Accordingly, the Commission  
11 should reject Mr. Presses' proposal.

12 **Q DOES THIS CONCLUDE YOUR CROSS-REBUTTAL TESTIMONY?**

13 A Yes.