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OFFICE OF PUBLIC UTILITY COUNSEL
LORI COBOS, CHIEF EXECUTIVE & PUBLIC COUNSEL

June 21, 2019

The Honorable Steven D. Arnold
The Honorable Meaghan Bailey
The Honorable Elizabeth Drews
State Office of Administrative Hearings
300 West 15th Street, Suite 504
Austin, Texas 78701-1649

Re: SOAH Docket No. 473-19-3864; PUC Docket No. 49421; *Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates*

Dear Judges Arnold, Bailey, and Drews:

The Office of Public Utility Counsel ("OPUC") and CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston") have conferred to limit the amount of redactions in Karl Nalepa's direct testimony. CenterPoint Houston has agreed to declassify the information contained in pages 15 to 18 of Mr. Nalepa's direct testimony. The revised pages are attached. In addition, the copies of prefiled testimony that OPUC will offer into evidence at the hearing will reflect this change.

Respectfully submitted,

Cassandra Quinn
Assistant Public Counsel
State Bar No. 24053435
OFFICE OF PUBLIC UTILITY COUNSEL
512-936-7500 (Telephone)
512-936-7525 (Facsimile)
cassandra.quinn@opuc.texas.gov
opuc_eservice@opuc.texas.gov (Service)

cc: All Parties of Record

1 A. The Company's regulatory asset balance for Hurricane Harvey restoration costs as of
2 December 31, 2018, was \$64.406 million, which includes operating and maintenance
3 ("O&M") costs of \$75.693 million, less actual insurance proceeds of \$11.287 million.³³
4 The Company's Errata 1 filing also added a request for \$8.742 million in carrying
5 charges to the regulatory asset.

6 **Q. HAVE YOU IDENTIFIED ANY EXPENSES THAT SHOULD BE REMOVED**
7 **FROM THE REGULATORY ASSET?**

8 A. Yes. I have identified several categories of expenses that should be removed from the
9 regulatory asset.

10 **Q. PLEASE DESCRIBE THE EXPENSES THAT SHOULD BE REMOVED FROM**
11 **THE REGULATORY ASSET.**

12 A. There are two sources for these expenses. The first source is the results from the internal
13 audit conducted by CenterPoint Houston to validate expenses for Hurricane Harvey
14 related costs. The second source is the Company's known and measurable changes to the
15 regulatory asset.

16 **Q. WHAT WAS THE PURPOSE OF CENTERPOINT HOUSTON'S INTERNAL**
17 **AUDIT?**

18 A. The primary objectives of the Company's internal audit review included the following:³⁴
19 1. Assess process and procedures to capture, identify, and accurately record storm-
20 related costs;
21 2. Evaluate the process to ensure that only Hurricane Harvey-related expenses were
22 charged as storm costs;

³³ Direct Testimony of Kristie Colvin at 34-35 and response to PUC RFI 8-14e, Attachment 1.

³⁴ Response to PUC RFI 7-6, Hurricane Harvey EOP Expense Validation Review at 3 (Confidential).

1 3. Determine if there were adequate internal controls in place to validate that
2 appropriate storm-related expenses were charged as storm costs, and to ensure
3 that payments were properly charged to the correct accounts; and

4 4. Verify whether consistent and adequate documentation was retained to support
5 storm-related expenses.

6 **Q. WHAT DID THE INTERNAL AUDIT CONCLUDE?**

7 A. The internal audit's overall conclusion was that the Company's Emergency Operations
8 Plan ("EOP") expense validation effort provided reasonable justification for Hurricane
9 Harvey-related expenses.³⁵

10 **Q. DESPITE ITS OVERALL CONCLUSION, DID THE INTERNAL AUDIT FIND**
11 **ANY PROBLEMS WITH CENTERPOINT HOUSTON'S HURRICANE**
12 **HARVEY-RELATED COSTS?**

13 A. Yes. The internal audit identified a number of instances where costs were incorrect or
14 not adequately documented by the Company.

15 **Q. CAN YOU DESCRIBE THESE INSTANCES?**

16 A. Yes. These costs were primarily centered on three areas: EOP Hotel Expenses, EOP
17 Catering and Logistics, and EOP OnePay Expenses.

18 Regarding EOP Hotel Expenses, the review sampled 18 invoices representing
19 81% of the total audit population. It found two samples totaling \$3,496 that had
20 unresolved invoice discrepancies and five samples totaling \$218,796 that did not have

³⁵ *Id.* at 4.

1 complete or consistent documentation.³⁶ Grossing up for the percentage sampled
2 suggests that \$274,435³⁷ in hotel expenses had inadequate documentation.

3 Regarding EOP Catering and Logistics Expenses, the review sampled 4 invoices
4 representing 89% of the total audit population. One invoice of \$2 million had services
5 that were procured and paid for by the same manager in violation of Company policy and
6 had incomplete documentation. A second invoice of \$3.41 million had no supporting
7 documentation. A third invoice of \$957,344 had inconsistently applied contract rates and
8 lacked documentation on a portion of the expenses. Finally, a fourth invoice included
9 vendor agreements of \$1.52 million that were not signed when the services were rendered
10 by the vendor.³⁸ Grossing up for the percentage sampled suggests that \$8.858 million³⁹
11 in catering and logistics expenses were incorrect or had inadequate documentation.

12 Regarding EOP OnePay⁴⁰ Expenses, the review sampled 50 expenses representing
13 36% of the total audit population. The review found six samples totaling \$5,937 of hotel
14 occupancy taxes that had been suspended by the Governor during hurricane relief efforts.
15 The review also found 5 samples totaling \$128,283 that lacked complete
16 documentation.⁴¹ Grossing up for the percentage sampled suggests that \$373,833⁴² in
17 OnePay expenses were incorrect or had inadequate documentation.

³⁶ *Id.* at 6.

³⁷ $(\$218,796 + \$3,496) / 81\% = \$274,435$.

³⁸ Response to PUC RFI 7-6, Hurricane Harvey EOP Expense Validation Review at 8-9 (Confidential).

³⁹ $(\$2.003 \text{ million} + \$3.407 \text{ million} + 957,344 + \$1.517 \text{ million}) / 89\% = \8.858 million .

⁴⁰ OnePay is an expense approval and reimbursement system.

⁴¹ Response to PUC RFI 7-6, Hurricane Harvey EOP Expense Validation Review at 13 (Confidential).

⁴² $(\$5,937 + \$128,282) / 36\% = \$372,833$.

1 **Q. WHAT IS YOUR RECOMMENDATION BASED ON THESE INTERNAL AUDIT**
2 **FINDINGS?**

3 A. Although the internal audit review concluded that the EOP expense validation effort
4 provided reasonable justification for Hurricane Harvey-related expenses, it is clear that
5 the audit also found specific instances when contemporaneous documentation of
6 expenses was incorrect or inadequate. The Company has the burden of proving its
7 expenses are reasonable, and if the Company cannot for lack of documentation, then the
8 expenses must be removed from the Company's request. Therefore, I recommend that
9 the expenses identified above be disallowed, which reduces the regulatory asset by
10 \$9.505 million,⁴³ along with associated carrying charges.

11 **Q. DID YOU IDENTIFY ANY CHANGES THAT CENTERPOINT HOUSTON**
12 **PROPOSES TO MAKE TO THE EXPENSES INCLUDED IN THE**
13 **REGULATORY ASSET?**

14 A. Yes. CenterPoint Houston has proposed three "known" changes to the regulatory asset:⁴⁴

- 15 1. A reduction to labor and materials of \$3,735, of which \$2,911 was allocated to
16 expense;
- 17 2. Employee awards and gifts of \$29,434, of which \$6,493 was incorrectly
18 capitalized; and
- 19 3. Capital costs of \$15,678, of which \$12,220 should have been expensed.

20 These expenses total \$15,802, which the Company proposes to add to the regulatory
21 asset.

⁴³ (\$274,435 + \$8.858 million + \$372,833) = \$9.505 million.

⁴⁴ WP/II-B-12 Adj 2.