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

June 27, 2019

Contact: Denise Hardcastle
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CENTERPOINT ENERGY HOUSTON ELECTRIC LLC
2019 CEHE RATE CASE
DOCKET 49421 – SOAH DOCKET NO. 473-19-3864

TEXAS COAST UTILITIES COALITION
REQUEST NO.: TCUC04-36U

QUESTION:

Regarding Ellen Lapson Rebuttal Testimony:

With reference to page 57, lines 16-19, please: define 'credit negative' as used by Moody's; and (2) indicate whether 'credit negative' means 'credit downgrade.'

ANSWER:

(1) Ms. Lapson believes that 'credit negative' as used by Moody's means tending to reduce the support for the current credit rating. (2) Based upon the attached press release published by Moody's on June 26, 2019, it is evident that Moody's comment referred to a change in the rating outlook of CenterPoint Houston from Stable to Negative. See Exhibit TCUC 04-36U.

SPONSOR (PREPARER):
Ellen Lapson (Ellen Lapson)

RESPONSIVE DOCUMENTS:
Moody's Press Release dated June 26, 2019, "Moody's affirms CenterPoint Energy Houston Electric ratings; outlook changed to negative"

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms CenterPoint Energy Houston Electric ratings; outlook changed to negative

26 Jun 2019

Up to $4,300 Million of Debt Securities Affected

New York, June 26, 2019 -- Moody's Investors Service ("Moody's") affirmed the ratings of CenterPoint Energy Houston Electric, LLC (CEHE), including its A3 senior unsecured and Issuer rating, A1 senior secured rating and changed the outlook to negative from stable.

Outlook Actions:

..Issuer: CenterPoint Energy Houston Electric, LLC

....Outlook, Changed To Negative From Stable

Affirmations:

..Issuer: CenterPoint Energy Houston Electric, LLC

.... Issuer Rating, Affirmed A3

....Senior Secured Regular Bond/Debenture, Affirmed A1

....Senior Unsecured Bank Credit Facility, Affirmed A3

....Senior Secured First Mortgage Bonds, Affirmed A1

....Underlying Senior Secured First Mortgage Bonds, Affirmed A1

RATINGS RATIONALE

"The negative cash flow implications of tax reform, along with higher debt incurred to fund its elevated capital investment plan, are expected to weaken CenterPoint Energy Houston Electric's key financial metrics more than we had projected when tax reform was passed," said Robert Petrosino, Vice President - Senior Analyst. "Going forward, we expect cash flow from operations before changes in working capital (CFO pre-WC) to debt will be in the 15% to 17% range, lower than historical levels of closer to 20% and weakly positioning CEHE from a financial metric standpoint." The outcome of the utility's pending rate case, expected by October, will be important in determining the future financial strength of the utility.

On 5 April 2019, CEHE filed its first full rate case request since 2010, seeking approval for a base rate revenue increase of approximately $161 million, including recovery on approximately $64 million in expenses related to Hurricane Harvey restoration efforts not currently reflected in rates. The filing was premised upon a 10.4% return on equity (ROE), 50% equity layer, a test year ending December 2018, and a 7.39% return on assets with a rate base valuation of $6.5 billion. In addition, CEHE also requested a prudency determination on all of its capital investments made since 2010 as well as the formation of a separate rider to refund approximately $97 million in unprotected Excess Deferred Income Tax (EDIT) to its customers over the next three years.

As of 13 June 2019, four interveners had provided testimony supporting a lower ROE and lower equity layer than CEHE is seeking. Additionally, on 12 June 2019, the PUCT staff weighed in on the matter, recommending a 9.45% ROE and a 40% equity layer, significantly lower than the company had requested. A final rate case outcome that provides CEHE with an ROE materially below its current 10% ROE and an equity layer lower than its current 45% may further pressure credit measures.

CEHE's credit profile also reflects its low business risk as a transmission and distribution (T&D) utility operating in Texas, where we view the regulatory environment governed by the Public Utility Commission of Texas (PUCT) to be generally constructive. The Texas regulatory framework provides several rate mechanisms and securitization policies for the recovery of utility expenses such as bad debt, pension expenses and weather related restoration costs. Importantly, the framework also allows for timely rate base recognition of investments in transmission and distribution assets between rate cases through its Transmission Cost of Service (TCOS) and Distribution Cost Recovery Factor (DCRF) mechanisms.

CEHE has low carbon transition risk within the regulated electric and gas utility sector as a transmission and distribution utility but is it is exposed to environmental risk, most notably from the increasing severity of major hurricanes in the Gulf of Mexico which can have destructive impacts on Houston and the surrounding service territory. Nevertheless, the financial risk associated with such storms is mitigated by the PUCT which allows Texas utilities to securitize prudently incurred costs to recover and restore service from storms.

Outlook

CEHE's negative outlook reflects its declining credit measures despite a financial policy that is targeting a 50% debt to capital ratio. Over the next few years, we see the ratio of CFO pre-WC to debt in the 15% to 17% range, weakly positioning CEHE from a financial metric standpoint, barring a supportive rate case outcome later this year.

Factors that could lead to an upgrade

Given the negative outlook and expected pressure on CEHE's credit measures, a ratings upgrade is unlikely over the next 12 to 18 months. However, the rating outlook could be stabilized if there is a supportive outcome of its pending rate case, or if the regulatory environment otherwise becomes more constructive leading to an improvement in CEHE's financial performance such that its CFO pre-WC to debt returns closer to historical levels. An upgrade could occur if CFO pre-W/C to debt rises above 22% on a sustainable basis.

Factors that could lead to a downgrade

CEHE's ratings could be downgraded if the utility's pending rate case or financial policies does not lead to a material improvement in projected financial metrics, including CFO pre-WC to debt below 18% on a sustained basis; there is a less supportive regulatory environment for transmission and distribution utilities in Texas overall, or there is a greater reliance on dividends from CEHE to support parent CNP's high leverage.

Profile

CenterPoint Energy Houston Electric, LLC is a rate-regulated electric transmission and distribution (T&D) utility serving approximately 2.5 million metered customers in the greater Houston, Texas area. CEHE is regulated by the Public Utility Commission of Texas (PUCT) and the cities in which it operates. CEHE is a core subsidiary of CenterPoint Energy, Inc. (CNP, Baa2 stable), a holding company that also owns regulated electric and natural gas utility subsidiaries and non-regulated businesses, primarily a joint venture interest in the Enable Midstream Partners, LP (Enable, Baa3 stable) master limited partnership (MLP).

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

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CERTIFICATE OF SERVICE

I hereby certify that on the 27th day of June 2019, a true and correct copy of the foregoing document was serviced on all parties of record in accordance with 16 Tex. Admin. Code § 22.74.

Andrea Moore Stover

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