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

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

ERRATA TO COMMISSION STAFF'S INITIAL BRIEF

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files the attached Errata to Commission Staff's Initial Brief.

Staff files the following Errata to Commission Staff's Initial Brief, originally filed on July 9, 2019. This errata blacks out the area where confidential information would have been. The confidential information was filed separately in a sealed envelope pursuant to 16 Texas Administrative Code § 22.71.

Dated: July 11, 2019

Respectfully Submitted,

PUBLIC UTILITY COMMISSION OF TEXAS LEGAL DIVISION

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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on July 11, 2019 in accordance with 16 TAC § 22.74.

Rustin Tawater

CEHE's 2017 Return on Equity Given Staff's Recommended Capital Structure			
	Staff Recommended Capital Structure	**Cost**	**Weighted Cost**
Equity	40%[5]	***10.53%***[6]	4.21%[7]
Debt	60%[8]	4.48%[9]	2.43%[10]
		Rate of Return	**6.64%**[11]

As may be seen above, CEHE earned a weather adjusted return on equity of 10.53% in 2017, using Staff's proposed capital structure of 60% debt and 40% equity as is recommended for transmission and distribution utilities in Staff's analysis of earnings monitoring reports.[12]

CEHE is not required to file an earnings report while a base rate case is pending. However, during 2017 and the test year, CEHE's short term incentives paid as a result of CenterPoint Energy Inc.'s (CenterPoint) earnings per share reached the highest achievement level in five years.[13] [redacted][14] In fact, CEHE employees did not receive any short term incentive compensation based upon earnings per share goals in 2014 and 2015.[15] [redacted]

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[5] TIEC Ex. 14 at 3.

[6] 10.53% = Weighted Average Cost of Debt (4.21%) / Equity in Staff Recommended Capital Structure (40%).

[7] 4.21% = Overall Rate of Return (6.64%) – Weighted Average Cost of Debt (2.43%).

[8] TIEC Ex. 14 at 3.

[9] Staff Ex. 10 at 12.

[10] 2.43% = Debt from Staff Recommended Capital Structure (60%) x CEHE 2017 Cost of Debt (4.48%).

[11] Staff Ex. 10 at 7.

[12] TIEC Ex. 14 at 3.

[13] Staff Ex. 15a (Confidential).

[14] *Id.*

[15] *Id.*

[redacted],[16] which is not indicative of a utility that is unable to earn a reasonable return in excess of its reasonable and necessary operating expenses. CEHE witness Kristie Colvin explained that it may be reasonable to expect CEHE employees to earn incentive compensation based on an earnings per share metric because the metric is based on CenterPoint earnings per share rather than CEHE's earnings.[17] However, for the test year, when CEHE employees earned their highest achievement level and earned their highest amount of short term incentives based upon earnings per share, CEHE's net income provided 91% of CenterPoint's net income.[18]

CEHE did not file this base rate case willingly in an effort to increase revenues. CEHE filed this case in order to comply with the rate case review schedule requirements under 16 Texas Administrative Code § 25.247(c)(2)(B) ("TAC") and its commitment to the timing of a rate filing in Project No. 47945, *Proceeding to Investigate and Address the Effects of the Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies.*[19] As such, this case provides the Commission with the opportunity to set CEHE's retail and wholesale rates at a level that will allow CEHE to earn a reasonable return in excess of its reasonable and necessary operating expenses.

CEHE may only support its requested $149 million increase by requesting an excessive rate of return based upon a capital structure of 50% equity and 50% debt and a 10.4% return on equity,[20] which results in an $88.1 million differential from Staff's recommended rate of return and taxes.[21] CEHE also requests the recovery of financially based incentive compensation, which is a $33.5 million differential from Staff's recommended level of reasonable incentives that has been permitted for recovery by recent precedent.[22] CEHE also employed an outside consultant to perform a weather normalization that has the effect of understating normal usage,

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[16] *Id.*

[17] Tr. at 1315:7 - 1317:3 (Colvin Cross) (June 28, 2019).

[18] Tr. at 1317:15-25 (Colvin Cross) (June 28, 2019).

[19] Direct Testimony of Kenny Mercado, CEHE Exhibit 6 at 12.

[20] CEHE Exhibit 6 at 17, 21.

[21] Staff Ex. 11.

[22] Direct Testimony of Mark Filarowicz, Staff Ex. 4A at 15.