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

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

REPLY BRIEF

OF

THE GULF COAST COALITION OF CITIES

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ATTORNEYS FOR THE GULF COAST COALITION OF CITIES

JULY 16, 2019

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GULF COAST COALITION OF CITIES' REPLY BRIEF

COMES NOW, the Gulf Coast Coalition of Cities (GCCC) and files this Reply Brief in the above-referenced proceeding.

I. Introduction/Summary [Preliminary Order (PO) Issues 1, 2, 3]

In its Initial Brief,[1] GCCC sets forth support for its portion of the combined $210 million revenue requirement reduction that has been quantified by the municipal intervenors in this case. CenterPoint Energy Houston Electric, LLC's (CenterPoint, CEHE, or Company) own initial brief[2] repeats many of the same methodological errors and overstatements in which it has persisted throughout this case. GCCC's response to those points can be found on the pages that follow.

As a preliminary matter, GCCC notes that a number of the issues it has raised in this proceeding were not addressed in CenterPoint's Initial Brief. They are:

- CenterPoint's removal of $1.573 million in test year Vectren-related savings; GCCC addressed this issue on pages 22-23 of its Initial Brief in section IV(D)(1)(a);
- GCCC's recommended adjustment to Service Company's cost of capital to reflect Service Company's much lower, actual cost of capital; this item is addressed on page 26 of GCCC's Initial Brief in section IV(D)(4)(a);
- GCCC's proposal that CenterPoint's Hurricane Harvey restoration costs be recovered through a separate Hurricane Harvey Rider, rather than through base rates, described on pages 26-28 of GCCC's Initial Brief in section IV(F)(1).

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1 Initial Brief of the Gulf Coast Coalition of Cities (Jul. 9, 2019). (GCCC's Initial Brief).

2 CenterPoint Energy Houston Electric, LLC's Initial Post-Hearing Brief (Jul. 9, 2019). (CEHE's Brief).

- CenterPoint's proposed refund of certain of its Excess Accumulate Deferred Federal Income Taxes (EDFIT, or sometimes EDIT or EADFIT) through a poorly designed rider, addressed on pages 32-33 of GCCC's Initial Brief in section IX(A)(2).

The remainder of GCCC's issues that were addressed by CenterPoint are discussed below.

II. Rate Base [PO Issues 4, 5, 10, 11, 12, 15, 16, 17, 18, 19]

C. Prepaid Pension Asset

The Company's Initial Brief on prepaid pension asset[3] concedes one of the three errors identified by Mr. Kollen.[4] Regarding the other two errors identified by Mr. Kollen, CenterPoint's reply consists of misleading statements and non sequiturs and reflects a failure to prove that it is entitled to include any prepaid pension asset in its rate base.

The second paragraph of CEHE's Brief on prepaid pension asset begins with the statement, "The prepaid pension asset exists because cumulative cash contributions to the pension plan have exceeded the cumulative actuarially determined pension expense over the same period."[5] The Company provided no evidence that this statement is correct. To the contrary, the CenterPoint Energy, Inc. pension plan is *under*funded, meaning that the pension plan assets are less than the pension liability.[6] Further, the Company provided no evidence that the prepaid pension asset actually was funded or financed by the issuance of equity or debt. To the contrary, GCCC argues that this asset on CenterPoint Energy, Inc.'s accounting books is merely an accounting entry that was not funded or financed, as is the case with other so-called regulatory assets that are recorded merely to offset a related liability. Of course, one of those regulatory assets is the Company's Texas Margin Tax regulatory asset, which is equivalent, but the opposite sign of, the Company's Tax Margin Tax payable (liability). After initially claiming

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3 CEHE's Brief at 23-25.

4 CEHE's Brief at 25. As the Company puts it: "... the Company agrees with Mr. Kollen that if the Commission approves inclusion of the prepaid pension asset in rate base, the asset should be bifurcated between O&M expense and capital components."

5 CEHE's Brief's at 24.

6 Refer to Direct Testimony of Kristie L. Colvin, Exhibit KLC-09 at 965, row 3. I have attached a copy of KLC-09 as Exhibit A.

that the Texas Margin Tax regulatory asset was funded and financed by the Company, instead of by the liability itself, the Company conceded in its rebuttal testimony and confirmed in its brief that it now agrees that the Texas Margin Tax regulatory asset was not funded and financed by the Company and that it should NOT be included in rate base.[7] The facts support the same conclusion with respect to the Company's claim for a prepaid pension asset in rate base.

The Company's calculation of the prepaid pension asset is attached as Exhibit A to this brief. Although all amounts included in this calculation are as of December 31 each year, the amount included as the prepaid pension asset was the 13-month average for 2018.[8] The Company also proposes that the Commission use the 2019 actuarially calculated pension expense,[9] which uses the pension plan assets and liability at December 31, 2018, not the 13-month average for 2018. Nowhere in the Company's testimony or brief is there a justification for the mismatch reflected in the Company's filing.

As shown in Exhibit A, the Company's calculation subtracts the underfunded liability (plan assets at fair value, less pension obligation liability) of $200.073 million (at row 3) from rate base. It then adds the unrecognized losses of $370.442 million (at row 4) to rate base to calculate the net amount of $170.4 million (at row 5).

Exhibit A clearly shows that Ms. Colvin's calculation of a prepaid pension asset, instead of a liability (subtraction from rate base), depends solely on whether the unrecognized losses are included. But for those losses, the calculation would be a *reduction* to rate base, not an addition. Mr. Kollen was correct in focusing on unrecognized losses because they are the key to the Company's claim. If the unrecognized losses are irrelevant and confusing as alleged by Company rebuttal witness Sanger and the Company's Brief,[10] then they should be removed from rate base and the $200.073 underfunded liability should be subtracted from rate base. GCCC

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[7] Rebuttal Testimony of Kristie L. Colvin, CEHE Ex. 35 at 29; *see* GCCC's Initial Brief at 17-19.

[8] Direct Testimony of Lane Kollen, GCCC Ex. 1 at 17.

[9] *Id.*

[10] CEHE's Brief at 24.

opposes any amount of prepaid pension in rate base, be it the subtraction of the underfunded liability or the addition of unrecognized losses. However, the Company cannot have it both ways.

The Company pretends that the accounting entry for unrecognized losses is equivalent to a contribution to pension funds by shareholders. There is no evidence that any debt or equity has been issued for that purpose. There is no evidence that the statement: "CNP, on behalf of CEHE, has made significant payments to the pension plan with funds provided by investors and prior to the recovery from ratepayers through rates"[11] is correct. The evidence shows that CNP turned unrecognized losses into a regulatory asset, and that CEHE has claimed that this mere accounting entry is equivalent to a cash payment. That claim is false.

As explained in GCCC's Initial Brief, the Company has failed to demonstrate that the components of its calculation of the prepaid pension asset either reduced the Company's financing (through a net underfunded liability) or increased its financing (through unrecognized losses).[12] Instead, the prepaid pension asset is merely an accounting placeholder that was recorded initially when CNP adopted the Statement of Financial Accounting Standards No. 58 (SFAS 158) in 2006. The accounting placeholder was necessary to avoid a write off through the income statement when the plan assets and the plan liability were both recorded and the plan liability was greater than the plan assets. Over time, and through the calculation of pension cost each year, the plan assets and liability will converge.

For these reasons, the defense of its request for a prepaid pension asset should be denied. Nothing in CenterPoint's Initial Brief changes the analysis set forth in GCCC's Initial Brief—that correction of the errors in CenterPoint's proposed treatment of this issue brings the supposed prepaid pension asset to $0.[13]

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11 CEHE's Brief at 23.

12 GCCC's Initial Brief at 7-11

13 *Id.* at 11.

G. Regulatory Assets and Liabilities [PO Issues 18, 19, 59]

2. Hurricane Harvey

a. Carrying Charges on Hurricane Harvey Regulatory Asset

CenterPoint's Initial Brief continues its defense of its late-added interest on the balance of its Hurricane Harvey recovery costs. The Company cites to the Public Utility Regulatory Act's (PURA) provisions that establish procedures and standards for securitization of storm restoration cost, despite the fact that its Hurricane Harvey restoration cost balance does not qualify for securitization being that it is below the $100 million threshold set by the statute. In its brief, CenterPoint selects language from PURA Chapter 36 Subchapter I, which explicitly provides for "Securitization for Recovery of System Restoration Costs."[14] According to CenterPoint, language from PURA § 36.402(b)—which describes interest on securitization of system restoration costs—addresses system restoration costs more generally, and not only in the securitization context.[15] But a reading of the entire subchapter indicates that its focus is on securitization. It offers no details on how system restoration costs are to be recovered in a more general case. The statute neither speaks to whether the costs are recoverable through base rates or through a rider, nor offers guidance as to the recovery period. As Mr. Kollen testified in this case, the Company did not defer its Hurricane Harvey expenses pursuant to the securitization provisions in Chapter 36 that it now cites.[16]

As GCCC detailed in its Initial Brief, CenterPoint's request for interest on its storm restoration balance is belatedly arrived at and not envisioned by the relevant statute. The Company's request on this issue should be denied.

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[14] CEHE's Brief at 35.

[15] *Id.*

[16] GCCC Ex. 1 at 29.

3. Medicare Part D

As GCCC detailed in its Initial Brief, the Company's request for a Medicare Part D regulatory asset is fundamentally flawed and does not follow the Commission's specific direction for the calculation of the regulatory asset starting in 2013, the year that the subsidy became taxable. The Company failed to follow the "Commission's express order" in Docket No. 38339 despite the Company's frenetic reiteration of the claim that it did so in its brief.[17] The issue has nothing to do with the Medicare Part D subsidy itself. Instead, this is a question of *when* the subsidy was taxable, and the increase in income tax expense once it became taxable, the essential facts that CEHE obscures with its argument. The subsidy did not become taxable until 2013.[18] In Docket No. 38339, the Commission correctly concluded that the subsidy was not taxable when it set the base revenue requirement based on the 2009 historic test year.[19]

However, in recognition of the fact that the subsidy would be taxable starting in 2013, the Commission expressly authorized the Company to defer the increase in income tax expense for future consideration starting in 2013 due to this change in federal tax law.[20] As discussed in GCCC's Initial Brief, in Docket No. 38339, the Commission correctly concluded that there was nothing to defer prior to 2013. The Commission did not authorize a regulatory asset for the period prior to 2013, did not allow the Company's claimed regulatory asset in rate base, and did not allow the Company to amortize and recover its claimed regulatory asset.

Yet, almost ten years later, the Company seeks to relitigate the issue for the years prior to 2013 in disregard of the Commission's Order denying its request for a regulatory asset for those years. The Company offers no new arguments in this proceeding that were not already considered in Docket No. 38339.

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17 CEHE's Brief at 36.

18 *Application of CenterPoint Electric Delivery Company, LLC, for Authority to Change Rates*, Docket No. 38339, Order on Rehearing at 9 (Jun. 23, 2011).

19 *Id.*

20 *Id.* at Findings of Fact Nos. 157A, 159A.

The only Medicare Part D issue in this proceeding is the permissible amount of the regulatory asset pursuant to the Commission's express order in Docket No. 38339.[21] The Commission directed the Company to "accrue the difference between what their rates assume the Medicare Part [D] subsidy tax expense would be and the reality of what CenterPoint is required to pay as a regulatory asset to be addressed in CenterPoint's next rate case."[22] The accrual could only be prospective. The Commission could not in 2011 and cannot now retroactively establish a regulatory asset to allow a utility to recover expenses that it did not incur in prior years.

The Company now claims in its brief that the Commission authorized the Company to "monitor and accrue" the regulatory asset that it created in 2010 and to seek recovery in its next rate case.[23] This is simply not correct and is a mischaracterization of the Commission's Order and directive in Docket No. 38339. The Company's claim is based on its incorrect and strained interpretation of the Commission's direction to "continue to monitor and accrue."[24] The Company's preferred interpretation is that the term "continue" applies to the perpetuation of the regulatory asset that the Commission already rejected.

So, the critical question is: in Docket No. 38339, what was it that the Commission ordered to be continued? The term "continue" cannot refer to "accrue" because the actual directive is to "accrue the difference between what their rates assume the Medicare Part [D] subsidy tax expense would be and the reality of what CenterPoint is required to pay."[25] The phrase "rates assume" clearly is present tense. The phrase therefore does not refer to the past. The phrase "the reality of what CenterPoint is required to pay" clearly refers to the future because CenterPoint was not required to pay *any* tax on the subsidy until 2013, a fact cited repeatedly by the Commission in its Order. The only reasonable conclusion is that the

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21 *Id.*

22 *Id.* at 10.

23 *Id.* at 37.

24 CEHE's Brief at 39-40.

25 Docket No. 38339, Order on Rehearing at 10.

Commission meant for CenterPoint's monitoring to continue as before—the accrual was to occur only by the terms of the order. That is, the Company was to accrue the difference between what their rates assume the Medicare Part [D] subsidy tax expense would be and the reality of what CenterPoint is required to pay *once the tax became payable*.

In summary, the Company has failed to justify the retroactive authorization of a regulatory asset that the Commission rejected in Docket No. 38339, and it has failed to correctly calculate the regulatory asset authorized by the Commission starting in 2013. The Commission should reject this regulatory asset and the related amortization expense. In the alternative, the Commission should adopt Mr. Kollen's calculation for the years 2013 through 2018 as specified in GCCC's Initial Brief.[26]

4. Texas Margin Tax

CenterPoint's Initial Brief attempts to mount a defense of its proposed treatment of the Texas Margin Tax in its rates. As that defense pertains to Mr. Kollen, it is significantly flawed. Mr. Kollen correctly notes that no *substantive* reason was given for the Company's proposed change to how the Texas Margin Tax is handled in the Company's rates.[27] The Company's Initial Brief cites to the testimony of Ms. Colvin, who simply states again that the change was proposed to satisfy certain concerns raised by parties in the Company's previous DCRF cases.[28] The worth of this claim is unclear. Commission Staff, municipal intervenors, and the Office of Public Utility Counsel (OPUC) all oppose the Company's proposed change in this case.[29] If responsiveness to these parties' previous concerns is the supposed reasons for this change—though cities never requested it—then on the basis of their position in *this* case, that change should be withdrawn.

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[26] GCCC's Initial Brief at 15.

[27] GCCC Ex. 1 at 35.

[28] CEHE Ex. 35 at 24.

[29] *See* Direct Testimony of June Dively, OPUC Ex. 1 at 12; *and* Direct Testimony of Mark Filarowicz, Staff Ex. 4 a 29-30.

The Company's Brief also now claims that "CEHE would be harmed if the Commission were to disallow recovery of the regulatory asset because it would forever be denied recovery of these expenses."[30] The support for this claim in the brief is the rebuttal testimony of Ms. Colvin, who stated, "Under the current method, if the Company were to be unable to continue business in the following year it would not have collected from the ratepayers in the current year the amount it would still be required to pay to meet its [Texas Margin Tax] obligation in the following year."[31] But note the presumption that this statement rests upon—that the Company *becomes unable to continue business in the following year*. As a regulated entity with the authority to provide monopoly wires service in one of the fastest growing urban areas of the country, it is not at all clear how CenterPoint would ever become "unable to continue business." If that is the scenario that this new Texas Margin Tax methodology is targeting, that methodology can safely be rejected with little risk to CenterPoint.

CenterPoint asks, in this case, for approval to modify the way it recovers its Texas Margin Tax expense. Finding that it should not be permitted to make that change will not inflict harm on the Company. As Mr. Kollen observed, the current approach used by CenterPoint fully compensates the Company for this tax. It records a liability, or the Texas Margin Tax payable, and an equivalent, offsetting Texas Margin Tax regulatory asset each year on a quarterly basis. That regulatory asset is then amortized, and the Texas Margin Tax payable is reversed in the following year when the Company pays the tax.[32]

This method of addressing the Texas Margin Tax is complete, and accurate, and permits the Company to fully recovery this tax. CenterPoint's proposed changes to its Texas Margins Tax methodology should be rejected.

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30 CEHE's Brief at 35.

31 CEHE Ex. 35 at 29.

32 Direct Testimony of Charles W. Pringle, CEHE Ex. 13 at 37.

7. BRP Pension and Postretirement

CenterPoint's Initial Brief mounts an attack on GCCC's proposal to adjust its revenue requirement by the full amount of CenterPoint's Benefit Restoration Plan (BRP) regulatory liability in the amount of $68.5 million. While the accounting implication of CenterPoint's proposed treatment are complex, and thus, so is CenterPoint's argument on this point, GCCC's posture is straightforward. Simply put, CenterPoint had recorded a prepaid pension regulatory asset on its books for this item, and also a $68.5 million related liability.[33] It now seeks rates that reflect only the recovery of that asset. GCCC proposes to also reflect the liability, thereby providing an offset to the Company's proposed prepaid pension asset recovery.

CenterPoint's Initial Brief urges that the $68.5 million is unrelated to the BRP, but its brief on these key points regarding the calculation of the BRP amount cites to no record evidence, other than a table in its rate filing package.[34] The Company's Initial Brief also does not explain why, as Mr. Kollen pointed out, this amount was characterized as a "RegLiab –AOCI Offset."[35] For these reasons, GCCC stands by its recommendation that this regulatory liability be subtracted from rate base if any amount for a prepaid pension asset is added to rate base.

IV. Operating and Maintenance Expenses [PO Issues 4, 5, 21, 22, 25, 26, 28, 29, 33, 35, 36, 38, 39, 54, 55]

D. Affiliate Expenses [PO Issues 35, 36]

1. Vectren Issues

As GCCC observed in its Initial Brief, CenterPoint's acquisition of Vectren is targeted to achieve savings for CenterPoint. GCCC witness Lane Kollen proposes a Merger Savings Rider that would capture those savings, net of the expenses to achieve them, and reflect those net savings in rates.[36] The Company has specific targets for a variety of expected savings that have

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[33] GCCC Ex. 1 at 25, citing CEHE RFP workpapers (redacted).xlsx on Tab "TB-Year to Date."

[34] CEHE's Brief at 26.

[35] GCCC Ex. 1 at 25.

[36] GCCC's Initial Brief at 24.

been disclosed in discovery and that are record evidence in this case.[37] Indeed, in its highly sensitive protected material (HSPM) response to GCCC RFI 01-14,[38] CenterPoint provided a previous quantification of those savings targets. Notably, then, these targets were not composed by GCCC—they are CenterPoint's own. In its Initial Brief, CenterPoint does not mention these savings levels, but instead urges that all of the impact of the Vectren acquisition—including both cost savings and costs incurred—be eventually considered.[39] But GCCC's proposed rider would do what CenterPoint insists is necessary—it would capture both savings and related costs for a period of four years, and do so in a fair, apportioned way. Mr. Kollen's recommendation is that 75% of the annual gross merger savings targets, less the estimated expenses incurred to obtain those savings, be shared with customers through the Merger Savings Rider.[40] CenterPoint's Initial Brief does not mention the specifics of Mr. Kollen's proposal, and therefore overlooks the balanced nature of his recommendation; he does not propose to share all of the savings with ratepayers, and his proposed Merger Savings Rider does not ignore the costs that CenterPoint may incur to achieve those savings.

CenterPoint instead asks that customers wait to recognize these net effects in rates until the Company's next rate case, and states that the Commission's Earnings Monitoring Report process is sufficient to protect ratepayers on this point.[41] As GCCC noted in its Initial Brief, however, it is CenterPoint—not GCCC or any other party—who has specifically identified its savings targets for this acquisition, and there is no reason for customers to wait for those savings to be reflected in rates,[42] especially through a balanced mechanism (that reflects costs) such as GCCC's recommended Merger Savings Rider.

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[37] *Id.* at 23.

[38] GCCC Ex. 5.

[39] CEHE's Brief at 140.

[40] GCCC Ex. 1 at 48.

[41] CEHE's Brief at 142.

[42] GCCC's Initial Brief at 25.

VII. Functionalization and Cost Allocation [PO Issues 4, 5, 43, 44, 46]

B. Class Allocation

2. Municipal Franchise Fees [PO Issue 27]

In its Initial Brief, Texas Industrial Energy Consumers (TIEC) argues that CenterPoint's longstanding method of allocating municipal franchise fees and reflecting those fees in its rates should be changed to reflect differences in city franchise fee rates and the "mix of inside-city kWh deliveries by customer class by city."[43] GCCC will not address the entirety of this issue in this brief, as the City of Houston/Houston Coalition of Cities' (COH/HCC) witness Kit Pevoto provides expert testimony against it, and it stands against the long-standing Commission precedent as recognized in CenterPoint's last rate case.

However, GCCC does wish to highlight certain points of context for the Administrative Law Judges' (ALJ) consideration. The use of city rights-of-way for location of distribution lines and related infrastructure provides a benefit to the entire distribution system, not just to those customers within city limits. A municipal franchise fee is essentially a fee the utility pays the relevant city for the occupation and use of a portion of the public right-of-way—most commonly, to locate poles and distribution lines along or above city streets. TIEC's proposal would imply that CenterPoint's use of a particular city's right-of-way is somehow a benefit only to its customers within that city, and as such, CenterPoint's broader collection of its total franchise payments across its service territory is inappropriate. Yet CenterPoint's long-standing method of collecting its franchise fee expense in its distribution rates reflects the fact that CenterPoint's distribution system is a unified one, and that it is operated for the benefit of all of its customers. Customers outside of any city limits, and within all rate classes, benefit from a comprehensively planned distribution system that uses city rights-of-way where possible. For this reason, and those stated by COH/HCC witness Ms. Pevoto, GCCC recommends that TIEC's proposal on this point be rejected.

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43 Texas Industrial Energy Consumers' Initial Brief at 65 (Jul. 9, 2019). (TIEC Brief).

IX. Riders [PO Issues 4, 5, 43, 51, 52]

A. Rider UEDIT [PO Issue 51]

CenterPoint's Initial Brief continues to obscure issues related to its approximately $200 million in grossed-up EDIT identified by GCCC witness Lane Kollen. CenterPoint begins by acknowledging that it did indeed take the $158 million to income (at its non-grossed up amount), but oddly claims that this result was compelled by Generally Accepted Accounting Principles (GAAP). What GAAP requires, however, is not binding on the ALJs or Commission for ratemaking, a task governed instead by PURA, which requires that a utility may only charge rates that are just and reasonable. Instead, GAAP simply addresses how a utility's financial books should be kept—it is not a guide to ratemaking.

The Company further claims that the settlement and Order, in Docket No. 39504 addressed its ADFIT "forever,"[44] and therefore precludes the adjustment the GCCC's witness Mr. Kollen has proposed in this proceeding. CenterPoint makes a similar argument with respect to the EADFIT associated with its hurricane-related System Restoration Bonds.[45] The EDIT balance now under consideration in this case did not exist at that time, and only came into being after the passage of the Tax Cut and Jobs Act (TCJA) in late 2017, an event which very shortly preceded CenterPoint closing this EDIT balance to income.

CenterPoint's Brief also presses an argument that the basic nature of a securitization makes GCCC's proposed adjustment impossible.[46] GCCC first notes that CenterPoint implicitly must not believe that *no* disposition of the EADFIT amount is possible—after all, CenterPoint took that balance for itself in late 2017. But beyond that, CenterPoint's arguments assume a distance from the securitization "Bondcos" that have issued the bonds that does not exist. Those Bondcos are wholly-owned subsidiaries of CenterPoint.[47] Their accounting entries flow to

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44 CEHE's Brief at 137.

45 *Id.* at 139.

46 *Id.* at 138-139.

47 Tr. at 1281:5-10 (Colvin Rebuttal) (Jun. 28, 2019).

CenterPoint itself, and they appear on CenterPoint's own books.[48] In fact, CenterPoint's argument on this point—that these EADFIT dollars are somehow in the hands of the Bondcos, or are "locked" within securitizations—is belied by what actually happened to those dollars. Namely, they were taken as income by CenterPoint itself. This same fact undermines CenterPoint's arguments that "the related financing orders lay out the exclusive means by which securitized costs can be adjusted,"[49] that the TCJA "did not impact the payment obligations on the securitized bonds,"[50] and that nothing should be done to jeopardize the cash flow intended to pay the securitization bonds.[51] But such claims are a distraction. The EADIT at issue here has nothing to do with the repayment of the securitization bonds that CenterPoint references. This is why CenterPoint was able to enjoy that EDIT as income in late 2017. The record indicates that the amount at issue was not in existence at the time of the prior cases cited by CenterPoint, has no connection to the repayment of the securitization bonds, and was taken as income by CenterPoint in late 2018. Consistent with the intent of Rider UEDIT—that EDIT should be returned to the ratepayers who originally funded it—the $158 million in EDIT identified by Mr. Kollen should be returned to customers through Rider UEDIT.

XII. Conclusion

Nothing stated in the Company's Initial Brief changes GCCC's recommended reduction to CenterPoint's requested revenue requirement, as detailed in the Direct Testimony of Lane Kollen. Exhibit B to this brief contains proposed findings of fact addressing GCCC's issues.

For the reasons stated in this Reply Brief, GCCC's Initial Brief, and Mr. Kollen's testimony, GCCC continues to recommend that CenterPoint's rates be reduced by $210 million. GCCC further requests any and all relief to which they may be entitled.

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[48] Tr. at 1281:11-15 (Colvin Rebuttal) (Jun. 28, 2019).

[49] CEHE's Brief at 140.

[50] *Id.*

[51] *Id.*

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on July 16, 2019, a true and correct copy of the foregoing document was served on all parties of record in compliance with SOAH Order Nos. 2 and 10.

GEOFFREY M. GAY

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PREPAID PENSION ANALYSIS
(Thousands of Dollars)

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ACTUARIAL EXPENSE (INCOME)	[1]	42,859	31,134	27,128	29,778	24,761	26,420	34,770	44,105	41,372	24,190
PENSION EXPENSE AS INCLUDED IN RATES		5,881	20,255	20,255	20,255	20,255	20,255	20,255	20,255	20,255	20,255
CONTRIBUTIONS TO TRUST/PLAN	[2]	5,155	-	26,655	30,258	33,536	35,584	16,042	-	17,712	26,854
NET FUNDED (UNFUNDED) STATUS	[3]	(135,749)	(148,880)	(194,915)	(214,789)	(105,799)	(179,448)	(203,390)	(219,396)	(164,084)	(200,073)
LESS: ACCUMULATED UNRECOGNIZED GAINS/LOSSES OR ASSET AMOUNT	[4]	403,135	385,132	430,694	451,048	350,833	433,646	438,860	410,761	331,789	370,442
PREPAID (ACCRUED) PENSION COST	[5]	267,386	236,252	235,779	236,259	245,034	254,198	235,470	191,365	167,705	170,369

Notes: All amounts excluded BRP unless noted
[1] CEHE's share of total CNP pension expense per actuarial report
[2] CEHE's share of total CNP contribution per actuarial report.
[3] The difference between the fair value of plan assets and projected benefit obligation at end of year
This is CEHE's portion of CNP's net pension asset(liability) since the adoption of FAS 158 in 2006
[4] This amount has been treated as a regulatory asset since the adoption of FAS 158 in 2006. Prior to that date, this was accounted for off balance sheet
[5] The difference between the cumulative pension cost recognized and actual pension amount funded

GCCC's Recommended, Select Findings of Fact

II.(C) Prepaid Pension Assets

CenterPoint requested a prepaid pension asset of $176.27 million as part of its proposed rate base. CenterPoint's calculation of this asset is inconsistent with its treatment of its pension expense, did not remove the capitalized portion of the asset, and unreasonably includes an adjustment for unrealized losses.

CenterPoint's proposed prepaid pension regulatory asset is unreasonable and should be denied.

II.(G)(3) Medicare Part D

CenterPoint requested a regulatory asset related to lost income tax savings related to the taxability of the Medicare Part D subsidy. On January 1, 2013, the subsidy was no longer effective.

The Commission addressed this issue in CenterPoint's last rate case, Docket No. 38339, and directed how CenterPoint was to address this issue going forward.

CenterPoint's inclusion of the years 2004 through 2012 in its calculation is inconsistent with the Commission's guidance in Docket No. 38339.

In contravention of the Commission's direction in Docket No. 38339, CenterPoint did not offset the income tax expense allowed in rates in that Docket by the changes in the temporary difference for each year of 2013 through 2018.

The Company failed to update the Medicare Part D subsidy based on actual reports for each of these years, in violation of the Commission's guidance in Docket No. 38339.

CenterPoint did not reflect the offset for the actual cash subsidies received from the federal government for 2013-2018 as it did for 2004-2012.

CenterPoint failed to adjust for the amount that was capitalized to Construction Work in Progress.

CenterPoint's requested amount for Medicare Part D is not calculated in accordance with the guidance provided by the Commission in Docket No. 38339, is not reasonable and necessary, and should be denied.

II.(G)(4) Texas Margin Tax

CenterPoint proposes a change to its Texas Margin Tax expenses. The Company proposes to include the Texas Margin Tax regulatory asset in its rate base not offset by the Texas Margin Tax Payable liability, recover Texas Margin Tax expense in the year that the liability is accrued, and recover the regulatory asset over a three year amortization period.

The Company incurs no financing cost on Texas Margin Tax regulatory asset, and CenterPoint's request would allow it to recover and additional year of Texas Margin Tax expense over a three-year period that is unnecessary and unreasonable.

The Company's current Texas Margin Tax practice fully compensates it for this expense.

The Company's proposed Texas Margin Tax asset would be offset by the equal Texas Margin Tax liability.

CenterPoint's proposed change to its Texas Margin Tax expense is without a basis, is not necessary, and is not reasonable.

II.(G) (7) BRP Pension and Postretirement

Because the Company is permitted to include a prepaid pension asset, it is reasonable to deduct the related post-retirement benefit regulatory liability that is present on the Company's trial balance. This regulatory liability totals $6.910 million. [Note to ALJs – this Finding is only recommended if the Company is permitted to recover a prepaid pension asset.]

IV.D(1) Vectren Issues

CenterPoint identified $1.573 million in test-year avoided charges from Service Company as a result of the Vectren Merger.

The $1.573 million savings identified above are recurring and considered by CenterPoint to be a steady-state synergy savings. It is reasonable to remove this $1.573 from CenterPoint's requested revenue requirement.

CenterPoint expects that its recent merger with Vectren will result in significant ongoing cost savings; those savings expectations are detailed in a confidential response to discovery in this case.

It is reasonable for those savings, net of the associated ongoing expenses of the merger, to be passed to ratepayers through a Merger Savings Rider.

It is reasonable for the Merger Savings Rider to pass 75% of CenterPoint's annual gross merger expense savings targets, less the estimated expenses incurred to achieve those savings targets, to customers. CenterPoint should be allocated the remaining 25% until base rates are reset in a subsequent rate case.

IV.(D)(4) Affiliate Carrying Charges

CenterPoint has proposed to recover a 11.37% grossed-up weighted cost of capital for a return on its Service Company assets, equating to $7.786 million per year.

CenterPoint Service Company's cost of capital is actually only $1.073 million during the test year.

It is reasonable for CenterPoint to recover only Service Company's test-year cost of capital of $1.073 million.

IX.(A) Rider UEDIT

It is reasonable for Rider UEDIT to simply reflect the annual revenue requirement over each of the proposed three-year period, subject to true-up.

Excess Deferred Federal Income Taxes (EDIT) are amounts that CenterPoint has collected from ratepayers for a future tax obligation that will not become due, in this instance, due to the federal income tax cut established by the Tax Cuts and Job Act of 2017.

In late 2017, CenterPoint took $158.275 million in EDIT to income; this EDIT relates to CenterPoint's stranded costs securitization and storm restoration securitization.

This EDIT only came into being in 2017 once the Tax Cut and Jobs Act was signed into law. Thus, it was not addressed by any prior Commission order or settlement.

Accounting entries for the various "Bondcos" that have issued the securitization bond flow to CenterPoint and appear on CenterPoint's own books.

All of the Bondcos' debt, assets, revenues, expenses, ADFIT, and EDIT are consolidated with CenterPoint's for accounting purposes.

As this $158.275 million in EDIT was collected from ratepayers, it should be returned to ratepayers through Rider UEDIT.

CenterPoint failed to demonstrate that the $158.275 million in EDIT was not ratepayer-supplied funds.

It is reasonable for the $158.275 million in EDIT to be grossed-up for income taxes and returned to ratepayers through the Company's proposed Rider UEDIT.