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

TEXAS COAST UTILITIES COALITION'S

REPLY POST-HEARING BRIEF

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

As the Texas Coast Utilities Coalition[1] ("TCUC") of cities did in its Initial Post-Hearing Brief ("Initial Brief"), TCUC limits its Reply Post-Hearing Brief ("Reply Brief") to the issues of cost of capital and the appropriate capital structure for CenterPoint Energy Houston Electric, LLC ("CEHE"), and the proper depreciation rates and depreciation expense for CEHE. TCUC again joins in and supports the positions presented by the Gulf Coast Coalition of Cities ("GCCC"), and the City of Houston and the Houston Coalition of Cities (collectively, the "Houston Coalition") on issues addressed in their evidence and reply post-hearing briefs.

A. Cost of Capital and Capital Structure

1. Cost of Capital

TCUC's Initial Brief provides a response to many of the issues CEHE raises in its initial brief and TCUC will not here repeat those arguments. TCUC respectfully refers the Administrative Law Judges ("ALJs") to TCUC's Initial Brief regarding issues of cost of capital, including CEHE's capital structure.

[1] The Texas Coast Utilities Coalition of cities is comprised of the Cities of Baytown, Clute, Freeport, League City, Pasadena, Pearland, Shoreacres, West Columbia, and Wharton.

TCUC again urges the ALJs to adopt a revenue requirement that employs an overall rate of return of 6.23% as recommended by Dr. Woolridge in his primary recommendation.[2] Dr. Woolridge's proposed cost of equity, cost of debt, and capital structure are shown in Table 1 below:

Table 1
TCUC's Primary Rate of Return Recommendation[3]

Capital Source	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Short-Term Debt	**0.00%**	**0.00%**	**0.00%**
Long-Term Debt	**60.00%**	**4.38%**	**2.63%**
Common Equity	**40.00%**	**9.00%**	**3.60%**
Total	**100.00%**		**6.23%**

TCUC estimates that adopting Dr. Woolridge's proposed return on equity ("ROE") of 9.00% with a capital structure of 60% long-term debt and 40% common equity reduces CEHE's proposed total increase in revenue of approximately $161.1 million, by approximately $96.1 million.[4] The effect of TCUC's proposed cost of capital and capital structure on CEHE's wholesale and retail revenues is shown in the table below:

Rate of Return Adjustments[5]	Wholesale Transmission	Retail Dist/Met/CS	TOTAL
Reflect Capital Structure of 40% Equity and 60% Debt	(20.242)	(32.894)	(53.136)
Reflect Return on Equity of 9.0%	(16.371)	(26.604)	(42.976)
TOTAL	**(36.613)**	**(59.498)**	**(96.112)**

Alternatively, TCUC urges the ALJs to adopt Dr. Woolridge's alternative recommended overall rate of return of 6.20%.

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2 TCUC Exh. 1 – J. Randall Woolridge, Ph.D., Direct Testimony at 4 (hereinafter, "TCUC Exh. 1 – Woolridge Dir. at _").

3 TCUC Exh. 1 – Woolridge Dir. at 4.

4 *See* GCCC Exh. 1 – Lane Kollen Direct Testimony at 14 at Table 1 ("GCCC Exh. 1 - Kollen Dir. at __").

5 *Id.*

Table 2
TCUC's Alternative Rate of Return Recommendation[6]

Capital Source	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Short-Term Debt	0.90%	2.27%	0.02%
Long-Term Debt	55.48%	4.38%	2.43%
Common Equity	43.62%	8.65%	3.77%
Total	100.00%		6.22%

Dr. Woolridge's alternative recommended rate of return is premised on the inclusion of short-term debt in CEHE's capital structure and a ROE, of 8.65%.

2. Capital Structure

TCUC repeats its request that the ALJs adopt the capital structure Dr. J. Randall Woolridge, TCUC's cost-of-capital expert witness, recommends in his pre-filed direct testimony.[7] As the ALJs are aware, Dr. Woolridge proposed a primary recommendation and an alternative recommendation with regard to CEHE's proper cost of capital and capital structure. Those recommendations are illustrated in Table 1 and Table 2 above.

For ease of comparison, TCUC below sets forth CEHE's proposed cost of capital and capital structure:

CEHE's Rate of Return Recommendation[8]

Capital Source	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Short-Term Debt	0.00%	0.00	0.00%
Long-Term Debt	50.00%	4.38%	2.19%
Common Equity	50.00%	10.40%	5.20%
Total	100.00%		7.39%

6 TCUC Exh. 1 – Woolridge Dir. at 5.

7 *See generally* TCUC Exh. 1 – Woolridge Dir.

8 CEHE Exh. 26 - Robert Hevert Direct Testimony at 54-55.

B. Depreciation Rates and Depreciation Expense

TCUC further urges the ALJs to adopt the depreciation rates and expenses Mr. David Garrett, TCUC's depreciation expert witness, recommends in his pre-filed direct testimony.[9] Compared to CEHE's depreciation expense, Mr. Garrett's testimony establishes that CEHE's depreciation expense should be reduced by a total of approximately $36.52 million. The effect of TCUC's proposed cost of capital and capital structure is shown in the table below:

DEPRECIATION EXPENSE ADJUSTMENTS[10]		**Wholesale Transmission**		**Retail/Dist/Met/CS**		**TOTAL**
Reduce Depreciation Expense Related to Depreciation Rate Adjustments		**(5.491)**		**(31.025)**		**(36.516)**

Adoption of Dr. Woolridge's and Mr. D. Garrett's recommendations, in conjunction with adoption of GCCC's and the Houston Coalition's recommended changes to CEHE's cost of service, produces overall revenues at a level that will permit CEHE a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of the utility's reasonable and necessary operating expenses.[11]

III. Rate of Return [PO Issues 4, 5, 7, 8, 9]

[4] What revenue requirement will give CEHE a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.

The core of CEHE's argument regarding it cost of capital is that passage of the Tax Cut and Jobs Act ("TCJA") has resulted in a reduction in CEHE's cash flow and that absent relief

[9] *See* TCUC Exh. 2 – David Garrett Direct Testimony ("TCUC Exh. 2 - Garrett Dir.").

[10] *See* GCCC Exh. 1 – Kollen Dir. at 14 at Table 1.

[11] *See* Public Utility Regulatory Act ("PURA") §§ 36.051 (Establishing Overall Revenues) and 36.057 (Depreciation, Amortization, and Depletion).

from the Commission it will not meet Moody's credit metrics and that Moody's would view the Commission's approval of a return on equity of less than 10.0% and an equity ratio of less than 50% as "credit negative." But CEHE ignores critical factors that undermine its assertions: The effects of the TCJA are temporary, they affect all utilities in the same manner, and not meeting Moody's credit metrics does not equate to a downgrade or mean that CEHE's financial integrity is at risk. In fact, CEHE is a less risky investment than the average of Mr. Hevert's Proxy Group of companies or Dr. Woolridge's Electric Proxy Group.

Interest rates have declined and are on the decline, which at bottom leads to a lower return on equity. And the only analysis that remotely can be said to support Mr. Hevert's proposed ROE of 10.4% is his CAPM approach. But his CAPM approach is flawed because, among other factors, Mr. Hevert bases his CAPM results on his repeated prediction of rising interest rates and unrealistic market-risk premiums ("MRP") of 10.72% and 14.10%.[12] Further, Mr. Hevert provided no empirical studies published in refereed professional or academic journals in the past ten years that report a U.S. market-risk premium as high as 10.72% or 14.10%.[13]

Crucially, even Mr. Hevert's own DCF analysis supports a ROE materially lower than 10.4%, and by his own admission, his updated DCF analysis presented in his rebuttal testimony produces even lower ROEs than he showed in his direct testimony. Simply put, there is no credible evidence in the record to support CEHE's requested ROE of 10.4%.

CEHE, in its initial brief claims that if the Commission approves an equity ratio below 40% or an ROE materially below 10%, the credit agencies would consider such action credit-

[12] TCUC Exh. 1 – Woolridge Dir. at 59-60; *see also* TCUC Exh. 1 – Woolridge Dir. at 60-73 for a detailed analysis of Mr. Hevert's flaws in his CAPM approach to estimating CEHE's cost of equity.

[13] TCUC Exhs. 81 and 82.

negative.[14] However, the only credit agency to which CEHE points in support of its allegation, is Moody's. More importantly, the results of the TCJA are temporary whose effects will dissipate in the near term.[15] By contrast, assuming CEHE does not file another general rate case for another ten years,[16] a return on equity and capital structure as proposed by CEHE would saddle ratepayers with a rate of return higher, not only than what the evidence establishes CEHE warrants today, but well into the foreseeable future.

Second, "credit negative," even assuming CEHE is correct, does not equate to a credit downgrade.[17] There is zero evidence that CEHE's financial integrity is affected or in danger.

Instead, the evidence shows that CEHE's actual capital structure comprised of 2.2% short-term debt, 54.8% long-term debt, and 42.9% equity, has enabled CEHE to access capital markets on favorable terms.[18] More critically, CEHE presented no evidence to show that ratepayers are better off in subsidizing shareholders in their efforts to maintain the metrics Moody's suggests. As TIEC witness Mr. Gorman noted there is nothing in the record or presented by CEHE that supports the notion that a higher bond rating necessarily equates to a benefit to ratepayers.[19]

[5] What is CEHE's reasonable and necessary cost of providing service calculated in accordance with PURA and Commission rules.

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[14] CEHE Initial Brief at 52.

[15] Transcript-Hearing on Merits at 593 ("HOM Tr. at __"); *see also* HOM Tr. at 617.

[16] CEHE last rate case was in Docket No. 38339, in which the Commission entered its final order on June 23, 2011.

[17] HOM Tr. at 554.

[18] TCUC Exh. 1 – Woolridge Dir. at Exhibit JRW-3 at p. 2; TCUC Exh. 10.

[19] HOM Tr. at 624.

A. Return on Equity [PO Issue 8]

1. The evidence establishes that recent ROEs regulatory agencies have authorized are well below 10.4%

CEHE asserts that Staff and Intervenors' ROE recommendations are far removed from recently authorized returns and fail to reflect evolving capital market conditions.[20] But the evidence is to the contrary. The evidence in this proceeding shows that recent ROEs that regulatory agencies have authorized are well below 10.4%. The uncontroverted evidence established that from 2000 to 2018, authorized ROEs for electric utilities have declined from an average of 10.01% in 2012, 9.8% in 2013, 9.76% in 2014, 9.58% in 2015, 9.60%, and 9.68% in 2017, 9.56% in 2018, and 9.57% in the first quarter of 2019.[21] Moreover, authorized ROEs for companies like CEHE, a "wires-only" company, have consistently been 30 to 50 basis points below those of vertically integrated utilities because of the lesser risk "wires-only" companies face.[22] In 2018, the average authorized ROE for electric delivery companies was 9.38%.[23]

For example, in a recent South Dakota case in which Mr. Hevert testified and recommended a ROE of 10.3% with a capital structure of 46.90% long-term debt and 53.10% equity, the South Dakota commission set the ROE at 8.75%, rejecting Mr. Hevert's recommendations.[24]

Also, Mr. Hevert agreed that interest rates are lower today than just a short two years ago when he presented testimony proposing ROEs in excess of 10; that he in part based his high ROEs on expectations of increasing bond yields (because of increases in the Fed Rate); and that

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[20] CEHE Initial Brief at 52.

[21] *Id.* at 13.

[22] TCUC Exh. 1 – Woolridge Dir. at 13-14.

[23] *Id.* at 14.

[24] *In the Matter of the Application of Otter Tail Power Co. for Authority to Increase Its Electric Rates,* EL-18-021 (Public Utilities Commission of South Dakota), Final Order at 4 (Finding of Fact 9) and 8 (Finding of Fact 38).

today bond yields are declining with the chances of an increase in the Fed Rate is zero through 2024.[25] Each of these factors point to a ROE more aligned with Dr. Woolridge's recommendation, than with Mr. Hevert's.

CEHE notes that Mr. Hevert assessed CEHE's required ROE based on his DCF analysis, his CAPM review, and his BYPR approach. What CEHE ignores is that Mr. Hevert ignored all but his CAPM analysis. Mr. Hevert's own DCF analysis showed that CEHE's ROE should be in the low-to-mid 9%.[26] Equally telling that Mr. Hevert's CAPM analysis is at best an outlier, is that his updated DCF analysis, which he presented in his rebuttal testimony, showed even lower ROEs based on his DCF analysis.[27]

Further, the evidence established that CEHE is a less risky investment than the average risk posed by investing in his Proxy Group of companies or in Dr. Woolridge's Electric Proxy Group of companies.[28] Moreover, in taking into account "in the aggregate" the financial risk factors an investor in CEHE stock may face, Mr. Hevert presented no details or rationale for why he abandoned his DCF analysis, or how much weight he gave to his DCF, CAPM, or BYRP analyses in arriving at his overall recommendation.[29] If an expert witness is going to present various methodologies to ascertain a particular data point, she/he should at a minimum explain why he chose one over the other.

CEHE also claims that Mr. Hevert's testimony shows that interest rates have been rising since 2016 and are expected to rise during the period in which the rates to be set in this case will

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25 HOM Tr. at 719-21.

26 CEHE Exh. 26 – Hevert Dir. at 7 (Mr. Hevert's testified that his DCF Analysis produced a 30-Day ROE Mean of 9.22%, a 90-Day ROE Mean of 9.24%, and a 180-Day ROE Mean of 9.32%).

27 CEHE Exh. 42 – Hevert Rebuttal at 177 (Hevert reporting an updated DCF Analysis of a 30-Day ROE Mean of 8.71%, a 90-Day ROE Mean of 8.79%, and a 180-Day ROE Mean of 8.90%).

28 TCUC Exh. 1 – Woolridge Dir. at 16.

29 *See* TCUC Exh. 80.

be in effect.[30] CEHE's allegations are simply that – statements wholly unsupported by the evidence. Instead, the evidence establishes that since just 2017, interest rates have declined materially.[31] Further, Mr. Hevert agreed that interest rates have continued to decline since he submitted testimony before the Commission and the Railroad Commission of Texas in recent proceedings in 2017. At bottom, Mr. Hevert's projections of higher interest rates have been wrong every time.

Much less than endorsing, as CEHE claims, that more recent data confirm Mr. Hevert's earlier conclusion that 10.4% is a reasonable cost of equity for CEHE, the evidence establish the opposite: Even Mr. Hevert's updated DCF analysis show that his recommendation should be lower.[32]

2. Staff and Intervenors' ROE recommendations support ROEs materially lower than 10.4%

CEHE states that none of the Intervenor or Staff witnesses explained why CEHE is less risky than other utilities for which regulatory agencies across the Nation may have recently authorized returns on average of about 9.68% in 2014.[33] CEHE lodges a similar criticism of Dr. Woolridge's proposed ROE asserting that Dr. Woolridge has provided no evidence to support his conclusion that CEHE is so much less risky that investors would require a return below those authorized for other electric utilities in Texas.[34]

Data from 2014 is stale. More relevant is that as recent as the beginning of this year – 2019 – bond yields continue to drop, and as Mr. Hevert conceded, there is a direct correlation

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[30] CEHE Initial Brief at 53.

[31] TCUC Exh. 96 (Treasury.gov – US Dept. of the Treasury – Daily Treasury Yield Curve Rates – Jan. 1, 2019 – June 24, 2019); and TCUC Exh. 97 (CMEGroup.com – Fed Rate & Probability of Change in Fed Rate).

[32] CEHE Exh. 42 – Hevert Rebuttal at 177 (Hevert reporting an updated DCF Analysis of a 30-Day ROE Mean of 8.71%, a 90-Day ROE Mean of 8.79%, and a 180-Day ROE Mean of 8.90%).

[33] CEHE Initial Brief at 54.

[34] *Id.* at 58.

between changes in interest rates and ROEs: the lower the interest rates the lower the ROEs. Mr. Hevert's repeated projections of higher interest rates, largely premised on increases in the Fed Funds rate have failed to materialize.[35]

As TCUC noted in its Initial Brief, in a recent rate case before the Railroad Commission of Texas ("Railroad Commission"), Mr. Hevert projected interest rates of 3.05% to 4.30%, to support his recommended ROE of 10.50%.[36] In PUCT Docket No. 47527, a rate case filed by Southwestern Public Service Company ("SPS"), Mr. Hevert projected interest rates of 2.83% to 3.38%, to support a ROE of 10.25%.[37] And in PUCT Docket No. 46957, Oncor Energy's 2017 rate case, in support of his recommended ROE of 10.25%,[38] Mr. Hevert relied on projected bond yields of 3.05% to 3.42%. Mr. Hevert again projected interests rates would rise.[39]

In each case, Mr. Hevert ignored then-current market indicators and relied on his projections of higher interest rates to support his proposed ROE. And in each case Mr. Hevert was wrong. Moreover, as Mr. Hevert agreed, in the DCF, CAPM, and BYRP analyses, and even in his "Expected Earnings" analysis, higher interest rates translate into higher ROEs.[40]

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35 The evidence established that interest rates have declined since Mr. Hevert's testimony in recent rate cases in 2017 in Texas and that there is a zero percent chance that the Federal Reserve will increase the Fed Funds rate. TCUC Exh. 97 at 2.

36 TCUC Exh. 92 (Hevert Direct Testimony in Gas Utility Docket No. 10779 – Atmos Energy, Inc.'s 2018 rate case). Though the issue of a proper ROE was arrived at by settlement, the ROE the Railroad Commission approved was 9.80%.

37 TCUC Exh. 93 (Hevert Direct Testimony in PUCT Docket No. 47527 – SPS 2017 Rate Case). *See* Preliminary Order in Docket No. 47527 at 1 (Sep. 29, 2017). The Commission approved a ROE of 9.50%. TCUC Exh. 93 (Hevert Direct Testimony in PUCT Docket No. 47527 – SPS 2017 Rate Case). The Commission approved a settlement in Docket 47527 that included a ROE of 9.50%. *See* Final Order in Docket No. 47527 at Finding of Fact No. 58 (Dec. 10, 2018).

38 *See* PUCT Docket No. 46957, *Application of Oncor Electric Delivery Company, LLC for Authority to Change Rates*, Preliminary Order at 1 (Apr. 13, 2017). Ultimately, the Commission approved a settlement that included a ROE of 9.80%. *See* Final Order at Finding of Fact 32 (Oct. 13, 2017).

39 TCUC Exh. 94 (Hevert Direct Testimony in PUCT Docket No. 46957 – Oncor 2017 Rate Case).

40 HOM Tr. at 751.

The undeniable fact is that bond yields, and correspondingly interest rates, have declined.[41] And even in light of the several past increases in the Fed Funds rate, long-term interest rates have remained low.[42]

Further, CEHE's risk is not measured against the universe of utilities in the Nation. Instead, its "riskiness" is measured as compared to utilities similar to CEHE. Those utilities that are comparable to CEHE are the ones in Dr. Woolridge's and Mr. Hevert's respective Proxy Groups of companies. Compared to Mr. Hevert's and Dr. Woolridge's Proxy Group of companies, CEHE is less risk than the average riskiness of those companies.[43]

At bottom, CEHE failed in its burden of proof to establish it warrants a ROE of 10.4%.

TCUC respectfully urges the ALJs to reject Mr. Hevert's recommendations regarding ROE and capital structure and to adopt Dr. Woolridge's primary recommendation of a 9.00% ROE with a capital structure of 60% long-term debt and 40% equity.

B. Cost of Debt [PO Issue 8]

Not addressed in TCUC's Reply Brief.

C. Capital Structure [PO Issue 7]

3. *[7] what is the appropriate debt-to-equity capital structure for CEHE?*

TCUC urges the ALJs to adopt a hypothetical capital structure of 60% long-term debt and 40% equity with a corresponding cost of equity of 9.00%, and alternatively to adopt a capital structure that includes short-term debt, resulting in a capital structure of 0.90% short-term debt, 55.48% long-term debt, and 43.62% equity, with a corresponding cost of equity of 8.65%.[44]

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41 TCUC Exh. 96 at 1-3.

42 TCUC Exh. 1 – Woolridge Dir. at 5.

43 HOM Tr. at 677-679.

44 *Id.* at 4-5.

CEHE's claims that a hypothetical capital structure consisting of 50% long-term debt and 50% common equity better reflects the business and regulatory risks that CEHE faces,[45] and that absent a 50/50 debt-to-equity capitalization ratio, CEHE would be subject to a credit downgrade.[46] But CEHE wants the ALJs to ignore the reality that based on CEHE's actual capital structure of 2.2% short-term debt, 54.8% long-term debt, and 42.9% equity, CEHE has maintained its credit rating.[47]

More importantly, even if CEHE's predictions were correct, CEHE provided no evidence to show that ratepayers are worse off with a lower credit rating.[48]

CEHE also alleges that including short-term debt in its capital structure is inconsistent with the Commission's ruling in prior cases.[49] Yet, the only case CEHE can point to is Southwestern Public Service Company's rate case in Docket No. 43695.[50] But one case is not dispositive of the issue. First, determining a proper capital structure is a fact dependent exercise of facts unique to a particular utility. Second, SPS is a fully-integrated utility. If anything, the ROE the Commission authorized for SPS of 9.70%[51] should be reduced by 30 to 50 basis points

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45 CEHE Initial Brief at 60.

46 *Id.*

47 TCUC Exh. 1 – Woolridge Dir. at Exhibit JRW-3 at p. 2; *see also* TCUC Exhs. 10 and 89. CEHE also claims that the intervenors and Staff "tout" CEHE's ability to have maintained its credit metrics under its existing capital structure of 55% debt and 45% equity, but the 55% / 45% capital structure to which CEHE refers is not its actual capital structure, but is instead the capital structure the Commission approved in Docket No. 38339, CEHE's last general rate case. In truth, CEHE has maintained its credit metrics employing a capital structure with much less equity and one that includes short-term debt and long-term debt in its capital structure.

48 See HOM Tr. at 586-589; 590-591; 605; 607; and 622-625. See also TCUC Exhs. 9 and 85 (showing CEHE has conducted no analysis to show impact on revenue requirements at lower credit rating).

49 CEHE Initial Brief at 63.

50 CEHE Exh. 69 at 58-59.

51 Docket No. 43695, *Application of Southwestern Public Service Company for Authority to Change Rates*, Final Order at 26 at Finding of Fact 76A. (The Commission authorized a cost of equity of 9.70% for SPS.).

given that the uncontroverted evidence establishes that "wires-only" companies like CEHE are less risky than a fully-integrated utility.[52]

Additionally, credit agencies assigning credit ratings to CEHE's debt look to the entirety of CEHE's debt and not only its long-term debt.[53]

CEHE also cites to action taken by Alabama Public Service Commission, Georgia Public Service Commission, and Florida Public Service Commission each of which CEHE claims has approved requests by utilities to increase their equity ratios to mitigate the effects of the TCJA. Other state commission's decisions are not relevant here and even if relevant, not dispositive because each state has different statutes and rules that dictate outcomes in those states.

CEHE also implies that it does not use short-term debt to finance its capital projects.[54] But its own statements to the investment community under oath by way of its 10K and 10Q forms filed with the Securities Exchange Commission ("SEC") belie CEHE's implications. As the evidence established, CEHE uses its capital from whatever source to finance the entirety of its operations, including using short-term debt to fund its capital investments.[55]

Crucially, Mr. Hevert agreed that CEHE's – or any utility's – capital is fungible and that CEHE cannot trace short-term debt, long-term debt, or equity cash to a particular project.[56] This is precisely what CEHE's 10Ks and 10Qs show: CEHE uses cash funds from short-term debt, long-term debt, or equity to finance capital projects.[57]

[52] *See* TCUC Exh. 1 – Woolridge Dir. at 13-14.

[53] TCUC Exh. 90; *see also* TCUC Exhs. 74 and 75 (showing that Mr. Hevert's stated ratios of debt exclude short-term debt, which artificially skews downward the debt ratio).

[54] CEHE Initial Brief at 62-63.

[55] *See, e.g.,* TCUC Exh. 27; *see also generally* TCUC Exhs. 28-62.

[56] TCUC Exhs. 17, 77, 84, and 86.

[57] *See, e.g.,* TCUC Exh. 27.

Finally, Mr. McRae, CEHE's chief witness on capital structure, recommended in a rate case in Minnesota that the appropriate capital structure for CEHE's affiliate in that state included short-term debt. Responding to the questions of his responsibilities for CenterPoint, and that he summarizes in his testimony filed in the Minnesota proceeding, Mr. McRae testified:

> I am responsible for the short-term and long-term financing activities of CNP and its subsidiaries, including CERC. I am also responsible for banking relationships, treasury operations, and benefit plan investment administration, among other functions. I have been responsible for arranging the corporate financings and bank credit facilities for CNP and its utility subsidiaries.[58] ...
>
> The Company asks the Commission to approve a capital structure composed of 52.18% common equity, 43.67% long-term debt, and 4.15% short-term debt. The Company proposes to use its forecasted 1 cost of long-term debt of 5.13% (including issuance costs) and its forecasted cost of short-term debt of 2.48%.[59] ...
>
> In this part of my testimony I explain the importance of establishing a capital structure that will help preserve the financial integrity of the Company, thereby allowing it to maintain access to capital on reasonable terms in all market conditions ... The primary sources of capital are short-term debt, long-term debt, and common equity. Capital structure is typically expressed in terms of the ratio of a particular type of capital to total capital. ...[60]
>
> [I]n the Company's last rate case, the Commission established an equity ratio consisting of 50% equity, 42.3% long-term debt, and 7.7% short-term debt.[61] ...
>
> Table RBM-2 contains the projected debt and equity balances during the test year:

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58 CEHE Exh. 83 – Opt. Completeness to TCUC Exh. 21 – McRae Minnesota Testimony at Bates P. 3/Native P. 1; Bates p. 11/Native P. 9.

59 *Id.* at Bates Pp. 4-5/Native Pp. 2-3.

60 *Id.* at Bates P. 5/Native P. 3.

61 *Id.* at Bates P. 10/Native P. 8.

Table RBM-2

Capital Component	Thirteen- Month Average Balance	Percentage
Equity	553,199,000	52.18%
Long-Term Debt	463,004,000	43.67%
Short-Term Debt	43,950,000	4.15%
Total	1,060,153,000	100%

As this table shows, the equity ratio requested by the Company in this case reflects the actual amount of equity that will be devoted to serving customers during the test year. [62]

The capital structure Mr. McRae advocated in Minnesota on behalf of CenterPoint, are remarkably similar to Dr. Woolridge's alternative recommendation to use CEHE's actual capital structure, including short-term debt, and fully support his primary recommendation of a 60% debt / 40% equity capital structure.

As the ALJs are aware a higher equity ratio produces a higher revenue requirement compared to a capital structure with a lower equity ratio. Here, Mr. McRae's proposed capital structure has a higher common equity ratio than CEHE's actual capitalization, as well as the average of the Dr. Woolridge's Electric Proxy Group and Mr. Hevert's Proxy Group.[63] Critically, Mr. McRae's proposed capital structure saddles Texas ratepayers with a higher revenue requirement than he requests of ratepayers in Minnesota.

There is no credible evidence to show ratepayers in Texas impose a greater risk on CenterPoint Energy than ratepayers, for example, in Minnesota. And there is no credible basis for ratepayers in Texas to pay rates based on a higher equity ratio, or capital structure that excludes short-term debt in calculating CEHE's revenue requirement and rates, than ratepayers

[62] *Id.* at Bates P. 105/Native P. 13.

[63] TCUC Exh. 1 – Woolridge Dir. at 5.

pay in other states in which CEHE's affiliates provide service. Each are wholly-owned subsidiaries of CenterPoint Energy.

Thus, should the ALJs not accept Dr. Woolridge's primary recommendation of a capital structure of 60% long-term debt and an equity ratio of 40%, Dr. Woolridge's testimony establishes that using a capital structure that includes short-term allows CEHE to access the capital markets without jeopardizing its credit ratings.

E. Financial Integrity [PO Issue 9]

> *5. [9] Are any protections, such as financial protections, appropriate to protect CenterPoint's financial integrity and ability to provide reliable service at just and reasonable rates?*

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

C. Depreciation and Amortization Expense [PO Issue 25]

CEHE seeks Commission approval of its depreciation rates based on a study performed by Mr. Dane Watson. TCUC opposes CEHE's proposed depreciation rates for nine accounts. CEHE in turn alleges that TCUC witness David Garrett's proposed adjustments to CEHE's depreciation rates for its transmission and distribution accounts are derived from an arbitrary and unsound methodology that disregards CEHE witness Dane Watson's SPR analysis and ignores company specific data.[64] The record evidence establishes otherwise.

Mr. Garrett's testimony established that Mr. Watson's analysis lacks actuarial data for eight of the nine accounts with which TCUC takes issue. Further, Mr. Watson presented no evidence to support or explain the significant difference between CEHE's proposed depreciation rates and the depreciation rates the Commission and other regulatory agencies approved for other

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64 CEHE Initial Brief at 100.

utilities for those accounts. TCUC urges the ALJs to reject CEHE's proposed depreciation rates for the transmission and distribution accounts in question and instead approve TCUC's recommended depreciation rates. TCUC further urges the ALJs to approve the use of the R2-58 curve for Account 390 because it provides a better visual and mathematical fit in comparison to CEHE's R4-50 curve.

1. TCUC Witness Garrett's Consideration of the Approved Service Lives of Other Utilities is Reasonable

Actuarial data is more reliable than non-actuarial data because it shows the age of an asset when it is retired from service.[65] When actuarial data are not available, the depreciation analyst must simulate an actuarial analysis by estimating the proportion that each vintage group contributed to year-end balances of retirements and additions.[66] In this case, CEHE did not maintain actuarial data for any of its transmission and distribution accounts.[67]

Because depreciation analysis is fundamentally an exercise in estimating the expected service life of an asset based on historical known events, the lack of data concerning the actual age of an asset at retirement when performing a SPR depreciation analysis creates significant doubt as to the reliability of that data in estimating expected service lives.

Given the sizable difference between the service lives the Commission approved for other utilities, and the lack of evidence to support CEHE's proposed service lives, Mr. Garrett's decision to review the results of depreciation rates approved for other utilities that did keep track of actuarial data for transmission and distribution accounts provides a more reliable basis for estimating the service lives of the accounts at issue. Figure 3 below, depicts the significant differences between depreciation rates the Commission approved for these same accounts:

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65 TCUC Exh. 2 –Garrett Dir. at 16-17 and Appendix D, pp. 81-83. *See also* TCUC Initial Brief at 42.

66 *Id.*

67 *Id.* at 8.

Figure 3: Peer Group Comparison[68]

Acct	Description	CEHE	Peer Group SWEPCO	OG&E	PSO	Peer Avg	Peer Avg - less CEHE	TCUC
	TRANSMISSION PLANT							
353	STATION EQUIPMENT	53	60	63	60	61	8	56
354	TOWERS & FIXTURES	59	60	75	75	70	11	66
	DISTRIBUTION PLANT							
362	STATION EQUIPMENT	48	55	68	75	66	18	55
364	POLES,TOWERS,FIXTURE	35	55	55	53	54	19	45
365	O/H CONDUCT DEVICES	38	44	54	46	48	10	40
366	UNDERGROUND CONDUIT	62	70	65	78	71	9	65
367	U/G CONDUCT/DEVICES	38	45	64	65	58	20	42
368	LINE TRANSFORMERS	28	50	44	36	43	15	32
	Average	**45**	**55**	**61**	**61**	**59**	**14**	**50**

Figure 3 shows that the average of the approved service lives for the peer utilities compared to CEHE proposals is 14 years, or approximately 24% longer. TCUC's proposed service lives are on average only five years, or approximately 8% longer, than the average of CEHE's proposed service lives. Thus, TCUC's recommended service lives are closer to CEHE's proposed service lives than they are to the average service lives of the peer group.

CEHE criticizes Mr. Garret's use of the approved service lives of the other utilities in his peer group to estimate service lives for CEHE's similar assets.[69] To be clear, Mr. Garrett considered the approved service lives of the same assets of the other utilities in his study in conjunction with his analysis of the CEHE's SPR data.[70] Therefore, CEHE's assertion that Mr. Garrett's analysis is not consistent with Commission precedent because his proposed

[68] *Id.* at 20.

[69] CEHE Initial Brief at 100.

[70] TCUC Exh. 2 – Garrett Dir. at 18.

depreciation rates are not "company and account specific" is unfounded.[71] The evidence established that Mr. Garrett's recommendations are based on CEHE's own data.

CEHE alleges that because Mr. Garrett did not provide the specific underlying data upon which the approved service lives of the other utilities in his study are based somehow diminishes the value of Mr. Garrett's testimony. However, the evidence further established that Mr. Garrett submitted testimony in each of the proceedings in which the other utilities' approved service lives he lists in his peer group of utilities were determined. Thus he has first-hand knowledge of the data underlying those utilities' depreciation rates.[72] Therefore, CEHE's criticism that Mr. Garrett did not provide the specific underlying data upon which the approved service lives of the other utilities in his study were based misses the mark.

Further, Mr. Garrett's reviewed the other utilities' approved service lives simply as a check on the Company's proposed service lives. The degree of detail that CEHE would seem to require, e.g., evidence of the other companies' capitalization policies and accounting practices, demands a level of specificity that goes beyond the purpose of the peer group comparison. Again, the purpose is to serve as a gauge of the reasonableness of CEHE's proposed service lives, which can be ascertained based on a comparison of the approved service lives alone.

CEHE also contends that Mr. Garrett's comparative analysis is contrary to Commission precedent. However, the precedent CEHE's cites actually stands for the opposite proposition; instead, the Commission's decision in Docket No. 28840 stands for the principle that comparing different utilities' service lives is an acceptable practice where the utility's proposed service lives

[71] CEHE Initial Brief at 101.

[72] TCUC Exh. 2 – Garrett Dir. at 19.

are not consistent with industry norms.[73] In Docket No. 28840, the ALJs approved the cities' witness' recommendations to lengthen the service lives of some accounts because the utility's proposed service lives were inconsistent with the results of a survey of similar assets held by other utilities.[74] In fact, in Docket No. 28840, the proposal for decision in that case indicates that AEP Texas Central relied on the survey results of other utilities' depreciation rates to support its proposed depreciation rates.[75]

While it is true that the Commission has exhibited a preference for a utility's own historical data in Docket No. 28840, that preference is not set in stone and should be reconsidered when the utility's own historical data does not conform to industry norms. Thus, CEHE's criticism of Mr. Garrett's review of depreciation rates commissions have approved for similar assets held by other utilities, is unavailing.

CEHE contends that the other utilities in Mr. Garrett's peer group comparison are not sufficiently similar to CEHE thus rendering the comparison invalid.[76] To the contrary, the companies in the study, Southwestern Electric Power Company ("SWEPCO"), Oklahoma Gas & Electric Company ("OG&E"), and the Public Service Company of Oklahoma ("PSO"), are demonstrably similar to CEHE.

First, they are all electric utilities, which means they all utilize similar types of assets.[77] Moreover, the service lives of the assets at issue in this proceeding of the utilities in the peer

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[73] See CEHE Initial Brief at 101, FN 703 (citing to *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 28840, Proposal for Decision ("PFD") on Remand at 58 (Nov. 16, 2004). CEHE's citation to page 58 seems to have been in error as the relevant portion of the Remand PFD is at pp. 63-66).

[74] *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 28840, PFD on Remand at 65-66 (Nov. 16, 2004).

[75] *Id.* at 64.

[76] CEHE Initial Brief at 101.

[77] HOM Tr. at 851.

group of utilities, were approved within the past two years, demonstrating that any recent trends in the service lives of the assets for the accounts at issue are taken into account.[78]

Further, one of the utilities, SWEPCO, is an electric utility located in Texas, and its service area is adjacent to CEHE's service area.[79] The other utilities in the study, OG&E and PSO, are located in the neighboring state of Oklahoma, relatively close to CEHE's service area. While there may be differences in the respective companies' operations and service areas, those differences are outweighed by their commonalities, especially when considering the limited purpose for which Mr. Garrett made use of the study's results.

2. CEHE's Criticisms Regarding Mr. Garrett's Evaluation of CI Scores is Unpersuasive

CEHE criticizes the manner by which Mr. Garrett analyzed the low conformance index ("CI") scores of many of Mr. Watson's proposed survivor curves.[80] A CI score is a mathematical calculation that provides an objective method for determining how well a given survivor curve conforms to the data in conducting an SPR analysis.[81] The higher the CI score, the better the selected curve "fits" the data.[82] The CIs for many of CEHE's proposed survivor curves, e.g., Account 353, ranked as a "poor" fit and Mr. Garrett correctly rejected the proposed curves in part for that reason.

CEHE argues that Mr. Garrett should not have disregarded a curve with a poor CI curve outright because what may appear to be a poor CI score may be instead a sign that the assets in

78 See TCUC Exh. 2 – Garrett Dir. at FN 28 (citing to Final Order No. 662059, *Application of Oklahoma Gas and Electric Company*, Docket No. PUD 201500273 (Mar. 20, 2017)), FN 32 (citing to Final Order No. 672864, *Application of Public Service Company of Oklahoma*, Docket No. PUD 201700151 (Jan. 31, 2018)); and FN 34 (citing to Order on Rehearing, *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449 (Mar. 19, 2018)).

79 HOM Tr. at 852.

80 CEHE Initial Brief at 100-101.

81 TCUC Exh. 2 - Garrett Dir. at 16-17.

82 *Id.* at 84-85.

the account have undergone changes in life characteristics.[83] For example, Mr. Watson argues in rebuttal testimony that the 30-year band for Account 353 exhibits an excellent CI even though the overall 93-year band that Mr. Garrett reviewed shows that CEHE's proposed curve has a poor CI score.[84] However, as Mr. Garrett testified, focusing on only a single band ignores the remainder of the data in the overall band.[85] To accept Mr. Watson's argument would ignore a substantial amount of data – 60 out of the total 93 years of data for Account 353 – encompassed in the overall band; that is a substantial amount of data that would be excluded from the analysis of a particular survivor curve. Doing so would not provide the Commission an adequate basis to judge the reasonableness of a particular survivor curve.

Additionally, focusing on a single band as Mr. Watson does, allows for cherry-picking the CI of a band that best supports the analyst's position. Mr. Watson's reliance on the 30-year band which has the highest CI of any of the bands to support his choice of the R0.5-53 curve, is an example of that problem. Use of the overall band to calculate a curve's CI score as Mr. D. Garrett does, avoids this type of cherry-picking problem and is therefore more methodologically sound.

3. Information Obtained from Interviews with Company Personnel Is Not Reliable

According to CEHE, the solution to low CI scores is not the obvious one of selecting another curve with a better CI score, but is instead to rely more on subjective information obtained from Company personnel about assets in the account.[86] However, there are numerous shortcomings with relying on that type of information, which consists entirely of Mr. Watson's

83 CEHE Initial Brief at 101.

84 CEHE Exh. 41 – Dane A. Watson Rebuttal Testimony at 26 ("Watson Rebuttal at __").

85 TCUC Exh. 2 – Garrett Dir. at 21; 67-68.

86 CEHE Initial Brief at 101.

field interviews with CEHE employees.[87] First, the Company's employees are by definition not capable of rendering an independent, objective opinion regarding the expected service lives of the Company's assets based on personal experience. None of the employees that Mr. Watson interviewed are witnesses in this case, and therefore none of their opinions can be challenged by means of cross-examination.[88]

In addition, all of the interviews were summarized by Mr. Watson in Mr. Watson's field notes, Mr. Watson obtained no signed statements or transcripts of the interviews and neither CEHE nor Mr. Watson produced any such statements or transcripts. So, the record is devoid of precisely what these individuals communicated to Mr. Watson.[89] Nor does the record reveal how much experience the interviewees had on the job or the details of their job duties.[90]

Further, many of the interviews, if not all, were conducted in group sessions where Mr. Watson divulged his own preliminary findings to the group.[91] This raises genuine questions about the degree to which the interviewees provided their independent opinions regarding the life characteristics of the assets in question.

Finally, Mr. Watson admitted that some of the information may be tainted by "unintended bias" where for example an employee may have inordinate experience with faltering equipment and may have a skewed notion of how a particular piece of equipment lasts.[92]

[87] CEHE Ex. 25 –Watson Dir. at 16-17.

[88] *See* TCUC Exh. 63 (CenterPoint Energy, Inc. Form 10-Q (Sep. 30, 2013)).

[89] HOM Tr. at 346-347.

[90] HOM Tr. at 338.

[91] HOM Tr. at 332.

[92] HOM Tr. at 351.

Combined, these facts show that there are substantial questions regarding the reliability of the information Mr. Watson obtained from company personnel, and therefore the ALJs should give very little weight, if any, to that information.

4. Mr. Garrett's Testimony in Docket No. 48401 Is Consistent with Mr. His Testimony in this Case

CEHE contends that Mr. Garrett's testimony in this proceeding is contradicted by his testimony in Docket No. 48401,[93] Texas New Mexico Power Company's ("TNMP") general rate case, where he recommended shorter service lives for some of the same accounts at issue in this case.[94]

Mr. Garrett's recommended service lives in Docket No. 48401 need to be considered in the context of TNMP's proposed service lives in Docket No. 48401. Mr. Garrett's recommended service lives for the four accounts at issue in Docket No. 48401 that are also at issue in this case, were indeed lower than his recommendations in this case, but that is only because TNMP's proposed service lives were considerably shorter than the service lives CEHE proposes in this case.[95] For instance, TNMP proposed a 42-year service life for Account 362, and Mr. Garrett proposed a 49-year service life. In contrast, CEHE proposed a 48-year service life for this account, and Mr. Garrett proposed a 55-year life. As Mr. Watson acknowledges, Mr. Garrett's recommendations reflect service lives that are within a "zone of reasonableness."[96]

Both of Mr. Garrett's recommendations regarding Account 362 are well short of the average of 66 years for Account 362 for the peer companies in his comparative analysis.[97] A 49-

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93 Docket No. 48401, *Application of Texas-New Mexico Power Company for Authority to Change Rates* ("Docket No. 48401").

94 CEHE Initial Brief at 102.

95 TCUC Exh. 104 (PUC Docket No. 48401 – Direct Testimony of David J. Garrett, Exhibit DJG-5).

96 CEHE Exh. 41 – Watson Rebuttal at 21.

97 *See*, supra note 64. (Peer Group Comparison Table).

year life for Account 362 (as Mr. Garrett proposed in Docket No. 48401) is within the zone of reasonableness for this account and is consistent with Mr. Garrett's recommendation of 55-year life in this case for Account 362 given that TNMP proposed a much shorter, 42-year service life for this account. TNMP's lower proposed service lives in comparison to CEHE's proposed service lives justify Mr. Garrett's correspondingly lower recommended service lives given that Mr. Garrett's recommendations are based on a "zone of reasonableness."

5. Mr. Garrett's Proposed R2-58 Survivor Curve for Account 390 is Finds Greater Support in the Record than Mr. Watson's R4-50 Curve.

CEHE contends that Mr. Garrett's recommendation of the R2-58 survivor curve for Account 390 is methodologically unsound because Mr. Garrett ignored the tail end of the R2-58 curve.[98] But ignoring the tail end of a curve such as the R2-58 curve in this case is entirely appropriate because there are fewer dollars exposed to retirement in comparison to other parts of the curve.[99]

CEHE witness Mr. Watson takes exception to Mr. Garrett's focus on the initial and middle parts of the curve and instead contends that the middle part of the curve – from 20% to 80% surviving – is a better gauge of the fitness of a curve.[100] However, Mr. Watson's testimony shows that Mr. Garrett's R2-58 curve is actually a better visual fit than is Mr. Watsons' R4-50 curve. As shown in the diagram in Mr. Watson's rebuttal testimony,[101] the blue triangles

98 CEHE Initial Brief at 102 (referring to Mr. Watson's rebuttal testimony responding to Mr. Garrett's recommendations).

99 TCUC's Initial Post-Hearing Brief at 42.

100 CEHE Exh. 41 – Watson Rebuttal at 53.

101 *Id.* at 52.

depicting Mr. Garrett's R2-58 curve track the actual data more closely from age 20 to around age 50 than do the blue squares depicting Mr. Watson's R4-50 curve.[102]

So based on Mr. Watson's own standards, Mr. Garrett's R2-58 is a better visual fit. It is also a better mathematical fit based on its sum-of-squared-differences score of 58 versus 0.1442 in Mr. Watson's curve.[103]

Finally, the ALJs should give little weight to Mr. Watson's reliance on field interviews[104] due to concerns addressed above regarding the reliability and verifiability of that type of information.[105] The ALJs should thus approve the use of the R2-58 curve for this account.

6. Staff's Rubber-Stamping of CEHE's Depreciation Rates Should Be Given Little Weight

Lastly, the ALJs should give little to no weight to the Staff's depreciation recommendation given that the Staff supports the entirety of CEHE's proposed depreciation rates without adjustment and seemingly conducted no in depth analysis of TCUC's position.

Staff witness Reginald Tuvilla has provided depreciation testimony in several previous rate cases, and in all of those cases he has recommended only a single adjustment to just one account to the applicant utility's proposed service lives.[106] That perhaps could be excusable given that Mr. Tuvilla typically has only a couple of days to consider the arguments made by intervenors such as Mr. Garrett made in this case.[107] However, Mr. Tuvilla stated under cross-examination that that a mere two days was sufficient because all he had to do was to "plug in"

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[102] *Id.* at 52.

[103] *See* TCUC's Initial Brief at 42-43; TCUC Exh. 2 – Garrett Dir. at 16.

[104] *See* CEHE Exh. 41 – Watson Rebuttal at 50.

[105] *See supra,* TCUC Reply Brief above at 24-25.

[106] HOM Tr. at 827 and 830.

[107] HOM Tr. at 836.

Mr. Garrett's proposed survivor curves and check the CIs for each curve without any performing any additional analysis.[108]

Mr. Tuvilla further admitted that he had no idea that the basis for Mr. Garrett's comparative service life analysis was due to the fact the CEHE did not keep actuarial data for some of its accounts.[109]

Moreover, Mr. Tuvilla conceded that he gave weight to Mr. Watson's field interviews, the unreliability of which is compounded by the fact that Mr. Tuvilla, unlike Mr. Watson, did not conduct the interviews.[110]

The evidence shows that Mr. Tuvilla gave scant attention to Mr. Garrett's testimony and recommendations. The Staff's role is to advocate on behalf of the public interest and part of that task entails an assessment of the positions of all parties in a contested case proceeding.[111] Here, Mr. Tuvilla should have given Mr. Garrett's testimony, underlying calculations, and ultimate recommendations more serious consideration. Therefore, TCUC urges that the ALJs not give Mr. Tuvilla's testimony serious consideration in assessing the reasonableness of CEHE's proposed depreciation rates.

In light of the lack of reliable actuarial data and the gross disparities between CEHE's proposed service lives and those of other utilities, TCUC urges the ALJs to approve TCUC's proposed depreciation adjustments and find CEHE's proposed depreciation rates to be unreasonable. TCUC further urges the ALJs to approve TCUC's proposed R2-58 curve for Account 390.

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[108] HOM Tr. at 836 and 848.

[109] HOM Tr. at 837.

[110] TCUC Exh. 70 (Commission Staff's Response to TCUC RFI No. 1-07).

[111] *See* 16 Tex. Admin. Code § 22.102(a)(4).

XII. Conclusion

For the reasons noted above and in TCUC's Initial brief, TCUC respectfully urges the Administrative Law Judges to adopt a revenue requirement that employs an overall rate of return of 6.23% as recommended by Dr. Woolridge in his primary recommendation,[112] which reduces CEHE's proposed total increase in revenue of approximately $161.1 million, by approximately $96.1 million.[113] Dr. Woolridge's proposed cost of equity, cost of debt, and capital structure are shown in Table 1, below:

Table 1
TCUC's Primary Rate of Return Recommendation[114]

Capital Source	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Short-Term Debt	0.00%	0.00%	0.00%
Long-Term Debt	60.00%	4.38%	2.63%
Common Equity	40.00%	9.00%	3.60%
Total	100.00%		6.23%

Alternatively, TCUC urges the ALJs to adopt Dr. Woolridge's alternative recommended overall rate of return of 6.20%.

Table 2
TCUC's Alternative Rate of Return Recommendation[115]

Capital Source	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Short-Term Debt	0.90%	2.27%	0.02%
Long-Term Debt	55.48%	4.38%	2.43%
Common Equity	43.62%	8.65%	3.77%
Total	100.00%		6.22%

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112 TCUC Exh. 1 – Woolridge Dir. at 4.

113 *See* GCCC Exh. 1 – Kollen Dir. at 14 at Table 1.

114 *Id.*

115 TCUC Exh. 1 – Woolridge Dir. at 5.

Dr. Woolridge's alternative recommended rate of return is premised on the inclusion of short-term debt in CEHE's capital structure and a ROE, of 8.65%.

Further, TCUC urges the Administrative Law Judges to adopt the depreciation rates and expenses Mr. David Garrett, TCUC's depreciation expert witness, recommends in his pre-filed direct testimony.[116] Compared to CEHE's depreciation expense, Mr. Garrett's testimony establishes that CEHE's depreciation expense should be reduced by a total of approximately \$36.52 million. The effect of TCUC's proposed cost of capital and capital structure is shown in the table below:

DEPRECIATION EXPENSE ADJUSTMENTS[117]		**Wholesale Transmission**		**Retail/Dist/Met/CS**		**TOTAL**
Reduce Depreciation Expense Related to Depreciation Rate Adjustments		(5.491)		(31.025)		(36.516)

Adoption of Dr. Woolridge's and Mr. D. Garrett's recommendations, in conjunction with adoption of GCCC's and the Houston Coalition's recommended changes to CEHE's cost of service, produces overall revenues at a level that will permit CEHE a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of the utility's reasonable and necessary operating expenses.

116 *See generally* TCUC Exh. 2 – Garrett Dir.

117 *See* GCCC Exh. 1 – Kollen Dir. at 14 at Table 1.

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ATTORNEYS FOR TEXAS COAST UTILITIES COALITION

CERTIFICATE OF SERVICE

I hereby certify that on this the 16th day of July 2019, a true and correct copy of the ***Texas Coast Utilities Coalition's Reply Post-Hearing Brief*** was served upon all parties via electronic mail in compliance with SOAH Order No. 2.

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By: Mariann Wood

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