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**

TEXAS COAST UTILITIES COALITION'S

PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

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TCUC's PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Texas Coast Utilities Coalition[1] ("TCUC") of cities hereby submits its Proposed Findings of Fact ("FOF") and Conclusions of Law ("COL") and urges the Administrative Law Judges ("ALJs") and the Public Utility Commission of Texas ("Commission") to adopt TCUC's Proposed FOFs and COLs.

TCUC's Proposed FOFs and COLs are limited to the issues directly related to cost of capital, including cost of equity, cost of debt, capital structure, and overall rate of return; and to issues related to depreciation rates and expense. TCUC joins in and supports the findings of fact and conclusions of law proposed by the Gulf Coast Coalition of Cities ("GCCC") and the City of Houston and the Houston Coalition of Cities (collectively, the "Houston Coalition"). Further, TCUC expressly reserves the right to findings of fact and conclusions of law that may be proposed by other parties in this proceeding.

I. TCUC's Proposed Findings of Fact

A. Cost of Capital, Capital Structure, and Rate of Return (PO Issues 4, 5, 7, 8, 9]

1. TCUC's Primary Recommendation

TCUC's primary recommendation regarding the cost of CEHE's capital is set forth in TCUC's Proposed FOFs immediately below:

[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.

XX. The preponderance of the evidence establishes that a capital structure composed of 60.0% long-term debt and 40.0% equity is reasonable in light of CEHE's business and regulatory risks. (*TCUC Exhibit 1 – Woolridge Dir. at 4; TIEC Exhibit 5 - M. Gorman Dir. at 7; PUC Staff Exh. 3A - Ordonez Dir. at 8*).

XX. The preponderance of the evidence establishes that CEHE has maintained its credit ratings and accessed the capital markets on reasonable terms with an equity ratio less than 50%. (*TCUC Exhibit 1 – Woolridge Dir. at Exhibit JRW-3 at 2; TCUC Exhs. 10 and 89*).

XX. The results of the Discounted-Cash-Flow ("DCF") Model and the Capital-Asset-Pricing Model ("CAPM") support a ROE in the range of 7.3% to 8.65%. (*TCUC Exhibit 1 – Woolridge Dir. at 4; 38; 48-49*).

XX. A ROE in the range of 7.3% to 8.65% is below the authorized ROEs for electric delivery companies nationally. Therefore, a more appropriate ROE is 9.0%. A 9.0% ROE (1) gives weight to the higher authorized ROEs for electric delivery companies; and (2) recognizes the concept of 'gradualism' in which authorized ROEs are adjusted on a gradual basis to reflect capital market data. (*TCUC Exhibit 1 – Woolridge Dir. at 4; 49*).

XX. A return on equity ("ROE") of 9.00% will allow CEHE a reasonable opportunity to earn a reasonable return on its invested capital. (*TCUC Exhibit 1 – Woolridge Dir. at 4; 38; 49-50*).

XX. A 9.0% ROE is consistent with CEHE's business and regulatory risk. (*TCUC Exhibit 1 – Woolridge Dir. at 4; 38; 49-50*).

XX. A 9.0% ROE is in accord with *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*") and *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*"), the two primary cases in which the United States Supreme Court established the guiding principles for determining an appropriate level of profitability for regulated public utilities. (*TCUC Exhibit 1 – Woolridge Dir. at 2; 51*).

XX. CEHE's proposed cost of long-term debt of 4.38% is reasonable.

XX. CEHE's overall rate of return is as follows:

COMPONENT	CAPITAL STRUCTURE	COST OF CAPITAL	WEIGHTED AVG COST OF CAPITAL
LONG-TERM DEBT	60.00%	4.38%	2.63%
COMMON EQUITY	40.00%	9.00%	3.60%
TOTAL	100.00%		6.23%

2. TCUC's Alternative Cost-of-Capital Recommendation

TCUC's *alternative* recommendation regarding the cost of CEHE's capital is set forth in TCUC's Proposed FOFs Nos. 1A – 12A.

1A. The uncontroverted evidence establishes that CEHE's average quarterly capital amounts are as shown in the table below:

	Average Amount	**Percent**	**Cost Rate**
Short-Term Debt*	**52.10**	**0.90%**	**2.27%**
Long-Term Debt**	**3208.76**	**55.48%**	**4.38%**
Member's Equity**	**2522.49**	**43.62%**	
Total Capital***	**5783.36**	**100.00%**	

*** 2018 Daily Average**
**** 2018 Quarterly Average**
***** All Amounts in Millions**

(*TCUC Exhibit 1 – Woolridge Dir. at 4-5; 20; 49-51; Exhibit JRW-3*).

2A. Based on CEHE's average quarterly capital amounts, the preponderance of the evidence establishes that a capital structure composed of 0.90% short-term debt, 55.48% long-term debt, and 43.62% equity is reasonable in light of CEHE's business and regulatory risks. (*TCUC Exhibit 1 – Woolridge Dir. at 4-5; 20; 49-51; Exhibit JRW-3*).

3A. The uncontroverted evidence establishes that CEHE uses short-term financing to fund its operations, including its capital investments. (*TCUC Exhibit 1 – Woolridge Dir. at 20; Exhibit JRW-3; TCUC Exh. 27*).

4A. The uncontroverted evidence establishes that CEHE's sources of capital are fungible and that CEHE cannot trace financing from short-term debt, long-term debt, equity, or its cash flows to any specific use. (*TCUC Exhs. 17, 77, 84, and 86*).

4A. It is reasonable to include short-term debt in CEHE's capital structure to determine its overall rate of return. (*TCUC Exhibit 1 – Woolridge Dir. at 20; Exhibit JRW-3; TCUC Exh. 27; TCUC Exhs. 17, 77, 84, and 86*).

5A. The preponderance of the evidence establishes that CEHE has maintained its credit ratings and accessed the capital markets on reasonable terms based on CEHE's actual capital structure of 2.2% short-term debt, 54.8% long-term debt, and 42.9% equity. (*TCUC Exhibit 1 – Woolridge Dir. at Exhibit JRW-3 at 2; TCUC Exhs. Nos. 10 and 89*).

6A. The results of the Discounted-Cash-Flow ("DCF") Model and the Capital-Asset-Pricing Model ("CAPM") support a ROE in the range of 7.3% to 8.65%. (*TCUC Exhibit 1 – Woolridge Dir. at 4; 38; 48-49*).

7A. A return on equity ("ROE") of 8.65% in conjunction with a capital structure of comprised of 0.90% short-term debt, 55.48% long-term debt, and 43.62% equity will allow CEHE a reasonable opportunity to earn a reasonable return on its invested capital. (*TCUC Exhibit 1 – Woolridge Dir. at 4; 38; 49-50*).

8A. An 8.65% ROE is consistent with CEHE's business and regulatory risk. (*TCUC Exhibit 1 – Woolridge Dir. at 4; 38; 49-50*).

9A. An 8.65% ROE is in accord with *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*") and *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*"), the two primary cases in which the United States Supreme Court established the guiding principles for determining an appropriate level of profitability for regulated public utilities. (*TCUC Exhibit 1 – Woolridge Dir. at 2; 51*).

10A. The reasonable cost of CEHE's of short-term debt is 2.27%. (*TCUC Exhibit 1 – Woolridge Dir. at 5; 20; Exhibit JRW-1; Exhibit JRW-3 at 3*).

11A. CEHE's proposed cost of long-term debt of 4.38% is reasonable. (*TCUC Exhibit 1 – Woolridge Dir. at 20*).

12A. Including short-term debt, CEHE's overall rate of return is as follows:

COMPONENT	CAPITALIZATION RATIO	COST RATE OF CAPITAL	WEIGHTED AVG COST OF CAPITAL
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%

(*TCUC Exhibit 1 – Woolridge Dir. at 4; 20; 49-51*).

B. Depreciation and Amortization Expense [PO Issue 25].

TCUC's recommendation regarding the CEHE's depreciation rates and expense is set forth immediately below:

YY. Actuarial analysis requires "aged" data. Aged data refers to a collection of property data for which the dates of placements, retirements, transfers and other actions are known. (*TCUC Exh. 2 – Garrett Dir. at 8*).

YY. In order to analyze accounts that do not contain aged data, analysts use the "simulated plant record ("SPR")" method. The SPR method requires the "simulating" an actuarial analysis by estimating the proportion that each vintage group contributed to year-end values. For this reason, simulated data is not as reliable as aged data. (*TCUC Exh. 2 – Garrett Dir. at 8*).

YY. CEHE did not maintain aged data for any of its transmission and distribution accounts. (*TCUC Exh. 2 – Garrett Dir. at 10*).

YY. In this proceeding the evidence supports giving weight and consideration to the service life estimates for other utilities that are based on actuarial analysis of aged data when determining the most reasonable service life estimates for CEHE's accounts. (*TCUC Exh. 2 – Garrett Dir. at 10*).

YY. The Iowa R2-58 curve is more reasonable for Account 390 than CEHE's proposed R4-50 curve. (*TCUC Exh. 2 – Garrett Dir. at 11-12*).

YY. The Iowa R0.5-56 curve is more reasonable for Account 353 than CEHE's proposed R0.5-53 curve. (*TCUC Exh. 2 – Garrett Dir. at 21-23*).

YY. The Iowa R2-66 curve is more reasonable for Account 354 than CEHE's proposed R2.5-59 curve. (*TCUC Exh. 2 – Garrett Dir. at 23-24*).

YY. The Iowa R0.5-55 curve is more reasonable for Account 362 than CEHE's proposed R1-48 curve. (*TCUC Exh. 2 – Garrett Dir. at 24-25*).

YY. The Iowa R0.5-45 curve is more reasonable for Account 364 than CEHE's proposed R0.5-35 curve. (*TCUC Exh. 2 – Garrett Dir. at 26-28*).

YY. The Iowa R0.5-40 curve is more reasonable for Account 365 than CEHE's proposed R0.5-38 curve. (*TCUC Exh. 2 – Garrett Dir. at 28-29*).

YY. The Iowa S1-65 curve is more reasonable for Account 366 than CEHE's proposed R2.5-62 curve. (*TCUC Exh. 2 – Garrett Dir. at 29-32*).

YY. The Iowa L0-42 curve is more reasonable for Account 367 than CEHE's proposed R0.5-38 curve. (*TCUC Exh. 2 – Garrett Dir. at 32-33*).

YY. The Iowa L0-32 curve is more reasonable for Account 368 than CEHE's proposed R1-28 curve. (*TCUC Exh. 2 – Garrett Dir. at 33-34*).

YY. CEHE's proposed depreciation accrual should be reduced by approximately $34.6 million resulting in a decrease to its proposed revenue requirement of approximately $36.5 million. (*TCUC Exh. 2 – Garrett Dir. at 10 and GCCC Exhibit 1 – Kollen, Direct at 50*).

II. TCUC's Proposed Conclusions of Law

1. CEHE has the burden of proving that the rate change it is requesting is just and reasonable under PURA § 36.006.

2. In compliance with PURA § 36.051, CEHE's overall revenues approved in this proceeding 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 its reasonable and necessary operating expenses.

3. Consistent with PURA § 36.053, the rates approved in this proceeding are based on original cost, less depreciation, of property used and useful to CEHE in providing service.

4. The rates approved in this proceeding are consistent with 16 TAC § 25.231(b)(1)(B), which states that depreciation expense based on original cost and computed on a straight-line basis as approved by the Commission shall be used; it also provides that other methods may be used when the Commission determines such depreciation methodology is a more equitable means of recovering the costs of plant.

5. The rates approved in this proceeding are consistent with 16 TAC § 25.231(c)(2)(A)(ii), which states that the reserve for depreciation is the accumulation of recognized allocations of original cost, representing the recovery of initial investment over the estimated useful life of the asset.

6. The return on equity (ROE) and overall rate of return authorized in this proceeding are consistent with the requirements of PURA §§ 36.051 and 36.052.

7. The ROE and overall rate of return authorized in this proceeding are consistent with the requirements of PURA §§ 36.051 and 36.052.

III. Conclusion and Prayer

TCUC respectfully urges the Administrative Law Judges to adopt TCUC's Proposed Findings of Fact and Conclusions of Law.

Respectfully submitted,

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By: ______________________

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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 Proposed Findings of Fact and Conclusions of Law*** was served upon all parties via electronic mail in compliance with SOAH Order No. 2.

By: ______________________

Mariann Wood