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PUBLIC UTILITY COMMISSION
FILING CLERK

October 10, 2019

Ms. Ana Trevino
Filing Clerk
Public Utility Commission of Texas
1701 N. Congress Ave.
Austin, Texas 78701

Re: SOAH Docket No. 473-19-3864; PUC Docket No. 49421; *Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates*

Dear Ms. Trevino:

It has come to CenterPoint Energy Houston Electric, LLC's ("CenterPoint Houston" or the "Company") attention that pages 7, 9, 103, 104, and Attachment A, page 6 of the Company's Exceptions contain inadvertent typographical errors. Attached to this correspondence are replacement pages correcting these errors. Also included with this correspondence are replacement electronic files: (1) D49421 CEHE Exceptions to PFD Attachment A ERRATA; (2) NR 2a Schedule H-I-J and CA.xlsx ERRATA and (3) WP - TCRF Rate Design Calculation.xlsx ERRATA. CenterPoint Houston apologizes for any inconvenience.

Best regards,

Ann Coffin

cc: All Parties of Record

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this program was not implemented until 2013 and thus, these costs were *not* previously included as expenses in the rates established by the Commission in Docket No. 38339 (*See* Sections I.B.2 and II.A.3.a);

- Recommends ring-fencing measures that go beyond those appropriate for CenterPoint Houston (*See* Sections I.B.1 and III.E); and
- Reflects number running errors that, when corrected, result in an increase of $31.497~~5~~ million, not the $2.64 million increase stated in the PFD (*See* Sections I.B. and XI).

Likewise, the PFD offers recommendations that do not result in sound public policy or that contradict established law and policy. In this regard, the PFD:

- Concludes that the Commission lacks authority to approve recovery of $8.7 million in Hurricane Harvey carrying costs despite the language in the Public Utility Regulatory Act,[3] prior Commission decisions, Commission Staff's testimony recommending recovery of these carrying costs, and the Company's past practice (*See* Sections I.B.3 and II.E.4);[4]
- Concludes that ratemaking treatment does not need to be consistent with Commission-required accounting practices; and
- Disallows compensation costs that the Commission found to be reasonable in Docket No. 38339 and gives no consideration to the Texas Legislature's recent passage of House Bill ("HB") 1767 or the customer benefits realized by attracting and retaining skilled employees in an increasingly competitive job market (*See* Sections I.B.3 and IV.C.1.).[5]

Correction of the PFD on these and other issues raised in CenterPoint Houston's Exceptions is critical to preserving the Company's financial integrity and providing a regulatory environment in Texas that is predictable, consistent, reasonable, and fair. Without these corrections, the results will lead to substantial decreases in operating income, cash flows, and key financial metrics resulting in significant harm to the financial well-being of CenterPoint Houston.

A. The Commission's decision in this case is vitally important to CenterPoint Houston's financial integrity and the utility industry as a whole

CenterPoint Houston has provided electric service in the greater Houston area for nearly 140 years. During that time, the Company has powered a region that grew from a small, coastal village into one of the largest and most important economic centers in the country. The Company's service territory covers 5,000 square miles and includes Downtown Houston, the Texas Medical Center, major industrial areas such as the Ship Channel and Freeport, along with suburban communities like Pearland and Sugar Land. Since CenterPoint Houston's last rate case in 2010,

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[3] Tex. Util. Code Ann. §§ 11.001-66.016 ("PURA").

[4] PFD at 76-77.

[5] *Id.* at 230-231, 238, 243-245, 248-249, 250-251.

the rate review schedule. But those arguments ignore the significant growth and capital investment since the Company's last rate case and that if this rate case had not been filed, the Company would have filed a DCRF and up to two TCOS applications to recover that capital. The $1 billion of incremental, unrecovered capital investment alone points to the need for a revenue increase of at least $100 million or more, even without considering increased expenses over the past decade or recovery of regulatory assets such as Hurricane Harvey.

As a threshold matter, the PFD's recommended increase of $2.64 million in the Company's overall revenue requirement is incorrect. In Section XI of these Exceptions, CenterPoint Houston identifies several errors with the number running calculations performed by Commission Staff. Correction of these errors results in a revenue increase of $31.497~~5~~ million, not $2.64 million. Yet, even with the Company's corrected revenue requirement increase amount, the PFD would actually *decrease* the Company's operating income by nearly $30 million and require write-offs for certain disallowed rate base items.[8]

In addition, the PFD would negatively impact the Company's credit metrics and risk a downgrade by credit rating agencies. CenterPoint Houston estimates that Funds for Operations ("FFO") in 2020 resulting from the PFD would be nearly $120 million lower than that resulting from the rate case as filed by the Company.[9] As a result of this lower FFO, CenterPoint Houston estimates the 2020 credit metric ratio of FFO/Debt (S&P)[10] that results from the PFD would be 14~~3.4~~% with the accelerated excess deferred income tax ("EDIT") refund and would be 154% after the conclusion of the accelerated EDIT refund.[11] These metrics are well below both CenterPoint Houston's estimate of the 2020 FFO/Debt (S&P) metric resulting from the rate case as filed by the Company of 17.3% and the Moody's Investors Service ("Moody's") downgrade threshold of

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[8] The PFD's recommendations on specific issues in the case include the following impacts: (1) disallowed rate base (capital and other costs) ($19 million revenue reduction and negative operating income impact); (2) incentive compensation ($23 million revenue reduction and negative operating income impact); (3) capital structure and return on equity ($48 million revenue reduction and negative operating income impact); (4) other expense disallowances ($17 million revenue reduction and negative operating income impact); (5) 10-year weather ($12 million revenue reduction and negative operating income impact); and (6) the related income tax impacts on revenue requirement.

[9] The PFD's recommendations on specific issues referenced in n.8 as well as the PFD's recommendation for an accelerated return of unprotected EDIT result in the decline in FFO.

[10] S&P stands for Standard & Poor's.

[11] While these percentages are slightly higher than TIEC witness Mr. Gorman's corrected percentage, the FFO/Debt resulting from the PFD is not expected to be sufficient to maintain CenterPoint Houston's current credit rating. *See* CEHE Ex. 27 at 2843:1-4 & 2844:13-2845:8, Table 6 (McRae Direct). The PFD's recommendations on specific issues referenced in footnote 8 as well as the PFD's recommendation for an accelerated return of unprotected EDIT result in the FFO/Debt metric decline.

XI. PFD NUMBER RUN MODEL ERRORS

On September 17, 2019, the Commission's Rate Regulation Division submitted its number running communications and workpapers regarding the PFD. This filing included two Excel files.[528] CenterPoint Houston has reviewed these files and identified several issues and/or errors with the models presented. These errors result in an incorrect calculation of the cost of service. The correction of these errors results in a total base revenue increase of $31.497~~5~~ million as compared to the PFD's stated $2.644 million increase. This corrected cost of service calculation is based on the adoption of the PFD in its entirety.

The errors in the PFD's number run model are numerous. In addition to the presence of hard coded references in the models, which make it difficult to trace adjustments and associated results, the retail base revenue requirement contained in the two Excel files do not match—the "49421 – Rev Req Model – ALJ Number Run – 9-9-2019.xlsx" shows a revenue requirement of $2,120,280,000 while the "49421 – Model of CEHE's CCOSS – PFD.xlsm" shows a revenue requirement of $2,160,658,921. Thus, there is almost a $40 million disparity between the two models. CenterPoint Houston has also identified the following necessary corrections that must be made to the PFD's number run model in order to accurately reflect the PFD's recommendations:

1. The amounts requested by CenterPoint Houston should be derived from its errata filing.[529] Certain items in the PFD number run models do not tie to amounts contained in the Company's errata filing and require correction.
2. Certain proposed capital disallowances were not applied to the correct FERC accounts resulting in inaccurate adjustments to depreciation expense.
3. Certain capital disallowances are duplicative.
4. There are calculation errors due to the use of wrong inputs for the STI disallowance. First, the adjustment started with the book numbers rather than the test year requested numbers. Second, the calculation neglected to remove capitalized STI in order to calculate the O&M adjustment.
5. Bad debt amortization is missing from the PFD number run model.
6. Incorrect functionalization factors were used.
7. Flow through impacts are not complete even though the Number Running Communications memo specifically indicated these should be made as outlined in the "Global instructions" on bates page 4. For example, Accumulated Depreciation and ADFIT related to disallowed plant in service was not adjusted in the models. Attachment C provides a summary of the attendant impacts for the capital disallowances.

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[528] Docket No. 49421, PUCT Interchange Filing Search, Item No. 722.

[529] CEHE Ex. 2 Errata 1 Schedules and Schedule Workpapers.

8. The D2 allocator appears to use information for the ERCOT 4CP at the meter, rather than at the source.
9. The PFD number run does not appear to have used Dr. McMenamin's weather normalization adjustment as applied to a 10-year normalization period as directed by the PFD.

As shown in Attachment A to the Company's Exceptions, correction of these errors results in a total base revenue increase of $31.497~~5~~ million as compared to the PFD's proposed $2.644 million increase and assumes that the PFD recommendations are adopted in their entirety. To be clear, Attachment A makes no adjustments to the PFD's number run model based on the Company's substantive Exceptions—the Company has only corrected errors to give accurate effect to the PFD's recommendations. To extent deemed necessary, CenterPoint Houston respectfully requests and moves for the admission into the evidentiary record of Attachment A to these Exceptions.

XII. OTHER ISSUES [including but not limited to PO Issues 13, 14, 20, 30, 31, 32, 40, 41, 42, 47, 48, 57, 58, 59]

CenterPoint Houston has no Exceptions to this section of the PFD. However, CenterPoint Houston notes a couple of typos that should be corrected in the PFD. In Finding of Fact No. 395, the word "by" is misspelled as "y." In Ordering Paragraph No. 11, the referenced docket number should be 49421 (this docket) instead of 46449 (a Southwestern Electric Power Company docket).

XIII. FINDINGS OF FACT

CenterPoint Houston excepts to the proposed Findings of Fact to the extent that they are inconsistent with the Exceptions made herein. CenterPoint Houston respectfully requests that the Commission conform the Findings of Fact as may be necessary to grant CenterPoint Houston's Exceptions.

XIV. CONCLUSIONS OF LAW

CenterPoint Houston excepts to the proposed Conclusions of Law to the extent that they are inconsistent with the Exceptions made herein. CenterPoint Houston respectfully requests that the Commission conform the Conclusions of Law as may be necessary to grant CenterPoint Houston's Exceptions.

XV. PROPOSED ORDERING PARAGRAPHS

CenterPoint Houston excepts to the proposed Ordering Paragraphs to the extent that they are inconsistent with the Exceptions made herein. CenterPoint Houston respectfully requests that

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PUBLIC UTILITY COMMISSION OF TEXAS DOCKET NO 49421 (CEHE base-rate case) TEST YEAR ENDING 12/31/2018 Proposal for Decision Number Run BASE REVENUE REQUIREMENTS SUMMARY	Errata 1		CEHE Corr Number Run	PFD issued 9/16/19		
(amounts in dollars)	CEHE Requested	PFD Adjustment	Corrected Adjusted	CEHE Requested	PFD Adjustment	PFD Adjusted
Retail Delivery Present Base Revenues	2,095,241,703	1,111,067	2,096,352,770	2,095,600,469	12,175,029	2,107,775,498
Retail Delivery Proposed Base Revenues	2,284,108,581	-107,650,266	2,176,458,315	2,282,203,678	-121,544,757	2,160,658,921
Retail Delivery Increase - $s	188,866,878	na	80,105,545	186,603,209	na	52,883,423
Retail Delivery Increase - %	9.01%	na	3.82%	8.90%	na	2.51%
Wholesale Transmission Present Base Revenues	388,968,021	0	388,968,021	388,968,021	0	388,968,021
Wholesale Transmission Proposed Base Revenues	392,549,119	-52,189,529	340,359,590	395,796,573	-57,067,782	338,728,791
Wholesale Transmission Increase - $s	3,581,098	na	-48,608,431	6,828,552	na	-50,239,230
Wholesale Transmission Increase - %	0.92%	na	-12.50%	1.76%	na	-12.92%
CEHE Total Present Base Revenues	2,484,209,724	1,111,067	2,485,320,791	2,484,568,490	12,175,029	2,496,743,519
CEHE Total Proposed Base Revenues	2,676,657,700	-159,839,795	2,516,817,905	2,678,000,251	-178,612,539	2,499,387,712
CEHE Total Base Revenue Increase - $s	192,447,976	na	**31,497,114**	193,431,761	na	**2,644,193**
CEHE Total Base Revenue Increase - %	7.75%	na	1.27%	7.79%	na	0.11%

ERRATA
(Errata Changes Highlighted)
ATTACHMENT A
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