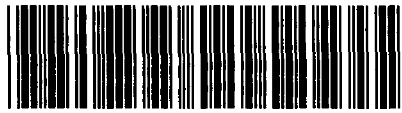

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SOAH DOCKET NO. 473-19-3864

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

ERRATA TO STAFF'S REPLIES TO EXCEPTIONS TO THE PROPOSAL FOR DECISION

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest, and files the attached Errata to Staff's Replies to Exceptions to the Proposal for Decision.

Staff files the following Errata to Staff's Replies to Exceptions to the Proposal for Decision, originally filed on October 24, 2019. The errata contains the attached redlined changes and an attached clean copy of the pages subject to the errata.

752

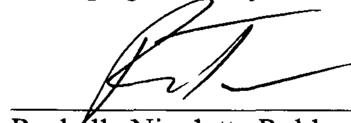
Date: October 25, 2019

Respectfully Submitted,

PUBLIC UTILITY COMMISSION OF TEXAS LEGAL DIVISION

Margaret Uhlig Pemberton
Division Director

Rachelle Robles
Managing Attorney



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I certify that a copy of this document will be served on all parties of record on October 25, 2019 in accordance with 16 TAC § 22.74.

Rustin Tawater

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

APPLICATION OF CENTERPOINT	**§**	**PUBLIC UTILITY COMMISSION**
ENERGY HOUSTON ELECTRIC, LLC	**§**	
FOR AUTHORITY TO CHANGE RATES	**§**	**OF TEXAS**
	§	

COMMISSION STAFF'S REPLIES TO EXCEPTIONS TO THE PROPOSAL FOR DECISION

I. INTRODUCTION [PO ISSUES 1, 2, 3]

Most of the conclusions reached by the Administrative Law Judges (ALJs) in the Proposal for Decision (PFD) are correct and should be maintained over CenterPoint Energy Houston's (CEHE) objections. Staff remains grateful for the reasoned consideration of the ALJs, and Staff supports their conclusions in the PFD, with the exception of the points discussed by Staff in their exceptions to the PFD.

In addition, Staff responds to Texas Competitive Power Associates (TCPA) and Texas Industrial Energy Consumers' exceptions regarding 4 Coincident Peak (4CP) method and transmission cost recovery factor (TCRF).

Staff responds to new requests made by CEHE that should not be considered or, in the alternative, should be denied, as the record-close deadline in this proceeding was July 16, 2019 and this is not an ~~in~~appropriate time to make new requests in this proceeding. CEHE attempted to introduce new evidence into the record in its exceptions.[1] Staff filed an objection and motion to strike new evidence regarding the number run in this docket.[2]

II. RATE BASE [PO ISSUES 4, 5, 10, 11, 12, 13, 15, 16, 17, 18, 19, 59]

Despite clear precedent to the contrary, CEHE requested amounts for, and objected to the PFD's recommendations regarding, the following historically disallowed items: compensation for use of capital paid to affiliates; non-qualified pension expense to highly compensated individuals; financially based long-term incentive compensation (LTI); and, financially based

[1] CenterPoint Energy Houston Electric, LLC's Exceptions to Proposal for Decision (CEHE Exceptions) at Attachments A, C, and D (Oct. 10, 2019).

threshold"[131], as CEHE asserts, that would justify disregarding long-standing and unambiguous precedent on operational payments based on financial triggers.

Lastly and importantly, CEHE has finally delivered proof that it had previously provided incorrect information in response to a crucial RFI in this docket.

In its exceptions, CEHE writes:

> The PFD finds that the total STI expense CEHE Houston requested to recover through rates in this proceeding is $16,879,888. The calculation of this total amount can be found in the record on WP R-KLC-02. This should be the starting point of any STI disallowance calculation. The PFD's [*sic*] calculation, however, relies on an incorrect starting point, using RFI PUC03-01 for Direct STI and V-K-6.1 for Affiliate STI. Importantly, RFI PUC03-01 includes both capital and O&M book amounts for the test year. This is not the amount requested in the case.[132]

RFI No. Staff 03-01 specifically requested the amount of incentive compensation included in CEHE's request for rates in this docket.[133] CEHE, in its rebuttal testimony and briefs, claimed that Staff and intervenors used the wrong amounts for STI compensation, when CEHE was responsible for providing said information.[134] Now, in its exceptions, CEHE finally explains the discrepancy without acknowledging its error.[135] The issue remains: RFI No. Staff 03-01 asked for the amount of STI CEHE included in its request for rates in this docket; CEHE now asserts that, instead of providing the amount of STI it was requesting for rates in this docket, it instead provided both capital and book amounts for the test year in its response.[136] As noted in Staff's exceptions, it is Staff's position that any benefit resulting from the discrepancy arising from CEHE's contradictory evidence in this case should accrue to the benefit of ratepayers and not ~~the~~ CEHE, and that the PFD should be modified to reflect this.

2. Executive Employee Related Expenses

Staff supports the PFD's recommended adjustment to remove these executive employee-related expenses.

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[131] *Id.*

[132] CEHE Exceptions at 84-85.

[133] Workpapers to the Direct Testimony of Mark Filarowicz (Filarowicz Direct), Staff Ex. 4A at 57-68 (Attachment MF-11).

[134] CEHE Reply Brief at 83.

[135] CEHE Exceptions at 84-85.

[136] RFI No. Staff 03-01 does not use the terms "test year" or "book amount."

VII. FUNCTIONALIZATION AND COST ALLOCATION [PO ISSUES 4, 5, 43, 44, 46]

A. Functionalization

1. Texas Margin Tax Expense and Associated Accounts

Staff agrees with CEHE that the PFD holds the functionalization percentages constant to ~~the~~ CEHE's original filing,[160] and that it would be appropriate for the functionalization percentages to be updated as a flow-through impact from other adjustments.

2. Miscellaneous General Expense (FERC Account 930.2)

Staff agrees with CEHE that the PFD holds the functionalization percentages constant to the proportions shown in Staff Ex. 2A at 34-39,[161] and that it would be more appropriate for the functionalization percentages to be updated as a flow-through impact from other adjustments.

3. Unprotected Excess Deferred Income Tax

The PFD correctly recommended the adoption of Staff witness Brian Murphy's recommendation to functionalize unprotected excess deferred income tax (UEDIT) as 24.5% to wholesale transmission customers and 75.5% to retail customers.[162] Staff based its proposed functionalization of UEDIT on excess accumulated deferred income tax information adopted by the Commission in prior dockets and provided by CEHE witness Pringle in ~~the~~ CEHE's direct case.[163]

Additionally, CEHE's request to use a net plant functionalization factor for UEDIT amounts[164] was not presented in its direct or rebuttal cases or in CEHE's briefing on this issue, and it would be inappropriate to consider this request at this point in the proceeding.

B. Class Allocation

1. Class Allocation of Transmission Costs

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[160] Number-running Communications at Bates 11 (Sept. 17, 2019): "The ALJs recommend approving CenterPoint's proposal on how to functionalize the Texas Margins Tax (TMT) expense as 14.8% to the Transmission Service Function and 85.2% to the Distribution Service Function. CenterPoint rejected its initial functionalization approach for TMT expense to adopt Staff witness Brian Murphy's recommended approach instead."
[161] Number-running Communications at Bates 11 (Sept. 17, 2019): "Accordingly, the $146.2 million Account 930.2 expenses should be functionalized based on the allocation proportions illustrated below…"
[162] PFD at 335.
[163] Direct Testimony of Charles W. Pringle (Pringle Direct), CEHE Ex. 13 at 2.
[164] CEHE Exceptions at 94-95.

The PFD correctly rejected TCPA's argument that CEHE's allocation of and rate design for transmission costs should not be based on an ERCOT Four Coincident Peak (4CP) method.[165] Despite the evidence and argument in the record to the contrary, TCPA continues to maintain that the ERCOT 4CP allocation and rate design for the retail transmission costs result in cost-shifting and are inconsistent with cost-causation, and TCPA recommends finding that the non-coincident peak (NCP) allocation of retail transmission costs is reasonable and cost-based.[166] TCPA's arguments were thoroughly evaluated by the ALJs based on the evidence in the record, and properly rejected. Staff comprehensively addressed TCPA's arguments in its reply brief,[167] and briefly addresses them here.

TCPA maintains that the PFD's conclusions that an ERCOT 4CP allocation and rate design for retail transmission costs align with cost causation are "erroneous and factually unsupported," and that the ALJs "conflate the allocation of transmission costs in ERCOT with the cause of the underlying costs themselves."[168] These claims are incorrect as reference to PURA, the Commission rules, and the record clearly shows that:

1. PURA § 35.004(d) mandates a coincident peak rate design for TSPs' wholesale transmission rates in ERCOT.
2. 16 TAC § 25.192(b)(1) more specifically requires that the coincident peak rate design for TSPs' wholesale transmission rates is one based on the ERCOT 4CP.
3. 16 TAC § 25.192(d), in combination with 16 TAC § 25.192(b)(1), requires that each DSP be charged for wholesale transmission service based on the total ERCOT 4CP demand of all the customers connected to the DSP. Therefore, it is unambiguous that it is CEHE's customers' ERCOT 4CP loads that cause CEHE to incur wholesale transmission charges as a distribution service provider (DSP).
4. CEHE's retail transmission costs are effectively a "pass-through" to retail customers of the wholesale transmission charges that CEHE incurs as a DSP.[169]

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165 PFD at 336-343.
166 TCPA Exceptions at 1.
167 Staff Reply at 61-69.
168 TCPA Exceptions at 2.
169 Staff Ex. 7B at 33.

5. 16 TAC § 25.234 requires that rates be based on cost ~~under cost causation principles~~. 16 TAC § 25.192 establishes that customer's load at the ERCOT 4CP is what causes CEHE to incur wholesale transmission charges.
6. Therefore, cost causation dictates that CEHE's retail transmission costs, which are incurred based on ERCOT 4CP load, should be allocated to classes based on ERCOT 4CP load, and that it is appropriate to charge individual customers based on their ERCOT 4CP load.

At the hearing, Staff witness William Abbott testified to the clarity of the cost-causation in this situation:

> Substantive Rule 25.192 mandates how cost causation occurs in this situation. It says wholesale transmission charges are charged to distribution service providers based upon their 4CP -- their ERCOT 4CP load. So this is the most clear-cut case of cost causation I think there is. The rules say how those costs are incurred.[170]

TCPA claims the PFD errs regarding the cause of the underlying costs, stating that "transmission costs remain fixed regardless of each Distribution Service Provider's (DSP's) rate design" immediately subsequent to claiming that "the issues with 4CP will only continue to grow as transmission costs continue to increase." The underlying costs at issue are the wholesale transmission costs charged to DSPs such as CEHE, which then allocates the costs among retail rate classes and collects them via retail rates. As an initial matter, TCPA's suggestion that wholesale transmission costs within ERCOT would remain the same if the ERCOT coincident peak load were to double or triple is entirely without support in the record.

Furthermore, TCPA's argument misses the point as to the costs at issue in this proceeding; regarding the contested retail transmission cost allocation and rate design for CEHE customers in this proceeding, these retail transmission costs are not fixed over time. As 16 TAC § 25.192(b)(1) states, a DSP such as CEHE pays to each TSP in ERCOT an amount equal to the TSP's wholesale transmission service rate multiplied by the DSP's ERCOT 4CP load:

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[170] Tr. at 924:3-9.

> The monthly transmission service charge to be paid by each DSP is the product of each TSP's monthly rate as specified in its tariff and the DSP's previous year's average of the 4CP demand that is coincident with the ERCOT 4CP.

With respect to CEHE's test year retail transmission costs at issue in this proceeding, those costs are not fixed – they would be lower if CEHE's aggregate customer ERCOT 4CP were lower, and they would be higher if such load were higher. As Staff witness William Abbott stated in cross-rebuttal testimony, "if a customer with a 4CP rate design reduces its 4CP load, the customer's load reduction directly results in CenterPoint being charged less for wholesale transmission service – costs are *avoided* for CenterPoint."[171] As indicated in Staff's reply brief, and demonstrated by TCPA's discussion of and reference to wholesale transmission planning at ERCOT, TCPA appears to take issue with the ERCOT 4CP rate design for wholesale transmission rates mandated under 16 TAC § 25.192, and misapplies opposition to that rule to the issue in this proceeding of the allocation and rate design of costs incurred by CEHE as a result of adhering to the requirements of that rule.

Staff respectfully requests that the Commission adopt the PFD's recommendation regarding the appropriateness of the ERCOT 4CP allocation and rate design for retail transmission costs.

VIII. REVENUE DISTRIBUTION AND RATE DESIGN [PO ISSUES 4, 5, 43, 49, 50]

C. Transmission Service Rate

Staff disagrees with TIEC's exceptions to the PFD's recommendation to approve CEHE's request to "zero out" its TCRF rider and move all current transmission expense into base rates.[172]

In excepting on this issue, TIEC maintains that Staff's support for CEHE's proposal is inconsistent with Staff's prior positions and is aimed at solving a different issue than the over-recovery that occurs as a result of transmission expenses being included in base rates instead of the TCRF rider.[173] The "different issue" refers to an allocation issue that arises under the TCRF rule due to the mismatch between TCRF allocation factors being fixed between base rate cases

[171] ~~Abbott~~ Cross-Rebuttal of William Abbott, Staff Ex. 7B at 33.
[172] TIEC Exceptions at 24.
[173] *Id.*

while the TCRF billing units are updated semiannually, which can result in TCRF rates that drift further away from cost as load patterns change over time, and potentially produce large changes in rates when they are reset at cost in a rate case.[174] While TIEC claims that the allocation issue is irrelevant to the issue of "zeroing out" the TCRF,[175] it is the allocation issue which is the basis of Staff's support for CEHE's proposal to "zero out" the TCRF rider in this case. As pointed out in testimony and at the hearing, while it does not conflict with the TCRF rule, moving retail transmission cost recovery entirely out of base rates and into the TCRF rider, as TIEC requests, exacerbates the mismatch that exists under the TCRF rule when the allocation factors are not updated between base rate cases.[176] "Zeroing out" the TCRF as CEHE requests reduces the amount of costs recovered in the TCRF, and therefore mitigates any allocation mismatch and therefore reduces rate volatility when rates are reset to cost in a rate case.[177] However, TIEC is correct that "zeroing out" the TCRF rider increases the likelihood that CEHE will over-recover what ideally would be a straight pass-through of transmission expenses to customers.[178]

Due to the combination of these two issues, Staff agrees that the best outcome is one in which CEHE is ordered to update the TCRF allocation factors on an annual or biennial basis, and transmission cost recovery is moved entirely out of base rates and into the TCRF rider as TIEC requests.[179] However, absent such a requirement for frequent updates to the TCRF allocation factors, Staff respectfully recommends that the Commission adopt the PFD's recommendation to approve CEHE's request to zero out the TCRF rider.

D. Street Lighting Service

The PFD correctly rejected CEHE's proposal to amend provisions in its Lighting Services Tariff to mandate installation of LED lights for the 160 municipalities it serves.

CEHE failed to explain why it is necessary to strip away the lighting customer's discretion to choose a non-LED lamp type.[180] In its exceptions, CEHE again failed to explain why it necessary to eliminate the customer's choice, instead mischaracterizing the ALJs'

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[174] Staff Ex. 7B ~~Abbott Cross-Rebuttal~~ at 24-25; Tr. at 922:6-10 (Abbott Cross).
[175] TIEC Exceptions at 28.
[176] Staff Ex. 7B ~~Abbott Cross-Rebuttal~~ at 27; Tr. at 921:9-922:20.
[177] *Id.*
[178] TIEC Exceptions at 24 – 26.
[179] Staff Ex. 7B ~~Abbott Cross-Rebuttal~~ at 25; Tr. at 929:4-12.

30485[185]	March 2005	$1,851,000,000	Stranded/True-up	August 2019
34448[186]	September 2007	$488,000,000	Stranded/True-up	February 2020
37200[187]	August 2009	$665,000,000	System Restoration	August 2022
39809[188]	October 2011	$1,695,000,000	Stranded/True-up	October 2024

As stated in the table above, the final payment dates ~~for refunds to customers~~ range from August 2019 to October 2024, with amounts ranging from $488,000,000 to $1,851,000,000. These orders were entered in March 2005, September 2007, August 2009, and October 2011.

In the intervening time period between the entry of those orders and the dates of the final payments associated with refunding the amounts associated with the securitization orders, the TCJA was passed in December 2017, changing the corporate tax rate from 35% to 21%.[189] The decrease in the corporate tax rate converted a portion of CEHE's remaining securitization-related ADFIT balances to *excess* accumulated deferred income tax, or EDIT.[190] This EDIT portion of the ADFIT balance, amounting to approximately $158 million, was previously funded at least in part by rate payers, but is now no longer due to the Internal Revenue Service.[191] As a result of the amount involved and the complexity of the issues, Staff witness Darryl Tietjen recommended that, subject to the Commission's consideration of the potential impact on the capital market's perception of securitization-related transactions by Texas utility companies, severing the issue into a separate proceeding would be the best approach to address the appropriate treatment of the EDIT amounts related to CEHE's four securitized bonds currently outstanding.[192]

CEHE argues that the language in the settlement agreements prohibit amendments to the orders, and doing so would result in poor public policy.[193] By arguing that it would be

185 *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 30485 (Order, March 16, 2005).

186 *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 34448 (Order, September 18, 2007).

187 *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 37200 (Order, August 27, 2009).

188 *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 39809 (Order, October 27, 2011).

189 PFD at 380.

190 Staff Ex. 1A at 23.

191 *Id.*

192 *Id.*

193 CEHE Exceptions at 98.

and the number-running instructions explicitly provided exact amounts, and to achieve those exact amounts, certain cells must be hard-coded.

Additionally, CEHE alleges that there is a disparity between the two models. However, Staff maintains that it ~~this is necessary in order to~~ complied~~y~~ with the PFD and the number-running instructions. In its application in this docket, CEHE ~~forced its two models to balance by~~ made~~king~~ a sizable adjustment to FERC Account No. 565 in the revenue requirement model, based on further "downstream" considerations from the total cost of service model as explained further below. The PFD and the number-running instructions do not specify that the accounting revenue requirement model should be sizably adjusted in FERC Account No. 565 as CEHE did in its application, so Staff did not implement such an adjustment in its execution of the number run. Like many of CEHE's assertions regarding the number run, here CEHE takes issue with the PFD or number-running instructions, not with the number run.

With respect to the purported $40 million disparity, CEHE presented a cost study that does not match its requested level of revenues. CEHE's lead witness, Kenny Mercado, testified, "With respect to the cost of service portion of its request, ~~the~~ CEHE's filed cost of service data demonstrates that CenterPoint Houston's annual cost of service totals approximately $2.3 billion."[198]

Consistent with Mr. Mercado's statement, Schedule I-A-1 to ~~the~~ CEHE's rate filing package indicates a "total adjusted revenue requirement" of $2.282 billion.[199] However, $2.3 billion is not CEHE's total cost of service or its total requested revenue requirement. The actual total revenue requirement of $2.678 billion requested by CEHE in this case can be found in the application.[200] The $2.3 billion amount reflects ~~the~~ CEHE's proposed retail cost of service. The disparity between what CEHE claimed it was asking for and its actual total request is approximately $400 million dollars, and the source of the difference between the two number-running models relates to the manner in which ~~the~~ CEHE presented its case.

In Staff's direct case, Staff provided an explanation that accounts for the $400 million gap between what CEHE represented as its total cost of service and what ~~the~~ CEHE was actually requesting:

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198 Direct Testimony of Kenny Mercado (Mercado Direct), CEHE Ex. 6 at 21.
199 Schedule I-A-1.
200 Application at 12.

> [Total requested revenue requirement] is the term CEHE uses for its retail delivery revenue requirement. The wholesale revenue requirement is overlaid within the retail cost of service's transmission function, and Account 565 is used in that function as a plug to ensure that the transmission functional 'revenue requirement' ties to the ~~CEHE's~~ company's total wholesale transmission expenses, which are costs associated with serving CEHE's retail customers that the ~~CEHE~~ company incurs in its role as a DSP.[201]

In other words, CEHE did not properly present its total cost of service as composed of wholesale transmission cost of service plus retail cost of service, where the actual wholesale transmission cost of service (TCOS) amounts comprise the transmission function and where the transmission expenses CEHE incurs as a distribution provider for receiving wholesale transmission service (Account 565 amounts) are included as a retail distribution expense in the distribution function. Instead, ~~the~~ CEHE included both wholesale TCOS amounts and also retail transmission expenses in the transmission function, then adjusted downward the amounts in Account 565 below the actual level of Account 565 expenses, an adjustment that reduces the stated total CEHE cost of service amount to a level that reflects only the retail cost of service.

Consistent with the above explanation provided in Staff's direct case, which was not challenged by CEHE in its rebuttal case, and consistent with the fact that the appropriate Account 565 amounts cannot be determined until after the functional allocation process,[202] the PFD number-running communications filed in this docket contain the following notes to the ALJs:

> **Overall base revenues.** For an investor-owned transmission and distribution utility like CEHE, changes in retail base revenues, wholesale base revenues, and total base revenues cannot be determined until the functionalization process has been completed. See Attachment C 1 for a summary of present base revenues, PFD-adopted base revenues, and base revenue changes on a retail, wholesale, and CEHE total basis. Attachment Cl is analogous to the information presented by CEHE in its application, on the table at Bates 23. PFD number-running rates have been set based on these amounts.[203]

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[201] Direct Testimony of Brian Murphy (Murphy Direct), Staff Ex. 2A at 9.

[202] This fact occurs because a TDU as a TSP provides wholesale transmission service in part to itself as DSP. Therefore, in calculating rates the TDU's wholesale transmission rate (derived from its TCOS) is an input into its retail distribution rates as a transmission expense incurred as a DSP under Account 565.

[203] Number-running communications at Bates 35 (Sep 17, 2019).

In the context of the above discussion, the "49421 – Rev Req Model – ALJ Number Run – 9-9-2019.xlsx" file does not reflect the post-functionalization flow-through effects on Account 565 and does not correct for CEHE's misleading downward adjustment to Account 565, but rather reflects various total CEHE adjustments to CEHE's request, and provides inputs into the class cost of service study. The class cost of service model, file "49421 – Model of CEHE's CCOSS – PFD.xlsm," includes the functional allocations necessary to determine the appropriate level of retail transmission expense, and it is this model that is used in calculating the rates.

In its exceptions, CEHE refers to a figure from an intermediate step in the ratemaking process, upstream from Attachment C1 to the PFD, before the functionalization was performed. As indicated above, CEHE used Account 565 as a plug in CEHE's cost study to produce a transmission functional revenue total that matches CEHE's total ERCOT transmission expenses it incurs as a DSP. Following CEHE's method of presentation, the required adjustment to Account 565 in the amount of $40.38 million is shown in the PFD's electronic workpapers. As explained in the above quote, the PFD's number-running rates were set based on the fully adjusted amounts. CEHE's Exceptions represent this as an error, but in fact it is not, because there is no compelling need to reach back and adjust upstream values from intermediate steps in the ratemaking process that occur before the functionalization of costs.

In addition to the general objections to the number run, CEHE also identified several specific purported errors,[204] in bold, which Staff addresses in turn below:

1. **The amounts requested by CEHE Houston should be derived from its errata filing.[205] Certain items in the PFD number run models do not tie to amounts contained in ~~the~~ CEHE's errata filing and require correction.**

   Staff identified the incorrect starting point for the PFD's flow-through adjustment to cash working capital and noted this issue in Staff's Exceptions in this docket.[206]

   There are no other departures from using CEHE's errata request for the starting point for the number run in this docket.

[204] *Id.*
[205] CEHE Ex. 2 Errata 1 Schedules and Schedule Workpapers.
[206] Staff Exceptions at 4.

test year requested numbers. Second, the calculation neglected to remove capitalized STI in order to calculate the O&M adjustment.

In Staff's exceptions, Staff identified an error in the number run; while the number run complied with the number-running instructions, the PFD provided an exact specification of the starting amount included in CEHE's request for rates in this docket.[207]

Regarding the capitalized portion of STI, Staff's number run correctly removed amounts of capitalized STI amounts per the number-running instructions and the PFD. Again, here CEHE's issue appears to be with the PFD and not with the number run.

5. **Bad debt amortization is missing from the PFD number run model.**

The number run complied with the number-running instructions that ordered number-running Staff to start with CEHE's request in its errata filing and make a number of adjustments, including providing for a regulatory asset for bad debt and then "approving CEHE's proposed amortization period for all assets and liabilities recommended by the ALJs in Section I above." Number-running Staff looked to CEHE's request in its errata for the requested amortization treatment of its regulatory assets. As shown on WP II-E-4.1.1 in CEHE's errata, CEHE did not request amortization of its bad debt along with its request for amortization of its regulatory assets. Accordingly, the number run complied with the number running instructions and, by following CEHE's errata request, did not include amortization of bad debt.

6. **Incorrect functionalization factors were used.**

CEHE has made a non-specific and conclusory assertion regarding the functionalization factors used in the PFD's number run. To the extent CEHE has identified in its Exceptions specific functionalization factors that ~~the~~ CEHE believes should be adjusted in subsequent number runs, those are addressed on a case-by-case basis in this document.

[207] Previously, Staff had used the amounts that CEHE had identified were the amounts it had included in its request for rates in this docket, as provided in CEHE's response and updated response to RFI No. Staff 03-01. See Section

CEHE erroneously labeled its D2 allocation factor as "ERCOT" demand when in fact it was "CEHE" demand information.[211] Staff suspects that CEHE's exceptions to the D2 allocation factor used in the PFD number run stem from failing to note that, per ~~the~~ CEHE's errata filing, ~~the~~ CEHE initially mislabeled "CEHE" demand information as "ERCOT" demand information in its application, and therefore in its exceptions, ~~the~~ CEHE is looking at CEHE demand at source and concluding erroneously that it represents ERCOT demand at 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.**

To calculate rates and to accurately characterize the revenue increase that customers will experience under the rates adopted by the Commission in this proceeding, adjusted test-year billing units must be determined. These adjusted test-year billing units are used to calculate the "present revenues" which are compared to the Commission-adopted revenue requirement. The determination of present revenues as an input into the revenue-increase calculation is a standard part of the ratemaking process. To determine present revenues in this case, CEHE measured the amount of revenues it collected during the Test Year, and requested a number of adjustments to Test-Year revenues. Two of ~~the~~ CEHE's proposed adjustments were disputed: weather normalization of sales (i.e., kilowatt-hours of energy),[212] and the energy-efficiency adjustment to sales.[213] In practice, the only rate classes affected by adjustments to Test-Year energy sales are the Residential and Secondary voltage (small) classes, as the other classes are not subject to energy charges for their retail delivery base rates.[214] In the PFD, the ALJs adopted CEHE's weather normalization modeling, but using a ten-year weather normal period as opposed to the

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[211] Errata to the Direct Testimony of Matthew Troxle.
[212] PFD at 313-321.
[213] Id. 321-325.
[214] The rate design schedules for the other classes (all of which are not subject to energy rates) can be found in the Direct Testimony of Matthew A. Troxle, Exhibit MAT-9 at 89-100. CEHE presents weather normalization data for all classes, to both energy and demand values. However, the contested weather normalization issue only implicated the adjustments to Test-Year energy values, not demand values, and hence only the Residential and small secondary classes. In the event the Commission wishes to apply Mr. McMenamin's 10-year weather normalization adjustment to the demand billing units for the classes with demand charges, the information required to do so is present in the evidentiary record; and, such an adjustment could be implemented in the final Commission number run.

20-year period requested by ~~the~~ CEHE.[215] The ALJs also rejected CEHE's proposed energy-efficiency adjustment.[216] In its exceptions, CEHE states that the PFD number run "does not appear" to have used Mr. McMenamin's weather normalization adjustment as directed by the PFD, which is incorrect. The PFD number-run correctly incorporates the adjustment directed by the ALJs. In the number-running communications for the PFD, the ALJs directed Staff as follows:

> The ALJs recommend approving CEHE witness Stuart McMenamin's weather adjustment as applied to his alternative 10-year normal weather period. Dr. McMenamin provided information and data regarding his estimated weather adjustment based on a 10-year normal weather period as electronic attachments to his rebuttal testimony. *See* CenterPoint Ex. 44, Exh. R-JSM-1.[217]

CEHE's originally requested weather-normalization to the Test-Year level of sales, based on a 20-year weather normal period, included downward adjustments of 1,578,040,193 kWhs for the residential class,[218] and 11,584,670 kWhs for the secondary voltage (small) class.[219] The present revenue impact of CEHE's requested weather normalization was a downward adjustment of $39.5 million.[220] The PFD's adjustments are smaller, resulting in a higher level of adjusted Test-Year sales as compared to ~~the~~ CEHE's request.~~ed~~ For the residential class, the weather normalization adjustment to Test-Year sales from CEHE Exhibit R-JSM-1 is a downward adjustment of 1,140,057,980 kWhs.[221] For the secondary voltage (small) class, the downward adjustment is 8,479,130 kWhs.[222] ~~The~~ CEHE's requested weather normalization of Test-

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[215] PFD at 319.
[216] *Id.* at 325.
[217] Number-running communications at Bates 10 (Sep 17, 2019).
[218] Application, Schedule II-H-1.1 at Microsoft Excel cell G13.
[219] *Id.*, at cell G16.
[220] Application, Schedule II-H-4.1.5 at column (11). Although CEHE performed a weather normalization of Test-Year energy for other rate classes (Secondary voltage-large, and primary), the adjustments for other classes has no bearing on present revenues or rates because, as discussed above, other classes are not subject to energy rates as part of the rate structure under existing and proposed rate schedules. For ~~the~~ CEHE's existing and proposed rate schedules, *see* direct testimony of Matthew A. Troxle at Exhibit MAT-9.
[221] Rebuttal testimony of J. Stuart McMenamin, Exhibit R-JSM-1, Figure R-1 at Microsoft Excel cell O21 (June 19, 2019).
[222] *Id.*, at cell O22.

Year energy for classes subject to energy rates, the PFD's recommended weather normalization, and the effects on present revenues can be seen in the following table:

Class	Weather normalization of sales (in kWh)			Effect of weather normalization on present base revenues (in millions of dollars)		
	CEHE[223]	PFD[224]	Difference	CEHE[225]	PFD	Difference
Residential	1,578,040,193	1,140,057,980	437,982,213	- $39.34M	-$28.42M[226]	+ $10.92M
Secondary-Small	11,584,670	8,479,130	3,105,540	-$0.19M	-$0.14M[227]	+ $0.05M
Total	1,589,624,863	1,148,537,110	441,087,753	-$39.53M	-$28.56M	+ $10.97M

The total PFD-adopted increase to CEHE's present revenues resulting from the ALJs' decision on the weather normalization issue is $10,969,743. The increase to CEHE's present revenues resulting from the PFD's rejection of CEHE's energy-efficiency adjustment to present revenues is $1,205,285.58. The sum of the PFD's adjustments to present revenues is $12,175,029.[228] The correct amount is shown in the PFD number-running workpapers as the PFD-adopted increase to present revenues.[229]

CEHE fails to refer to the record to assert that the inputs to the number run model were incorrect. However, in researching ~~the~~ CEHE's claims, Staff discovered that there was an ancillary flow-through effect of the PFD's weather normalization and energy-efficiency plant decisions that were not reflected in the PFD number-run. It involves an interaction between the weather normalization adjustment, the energy-efficiency adjustment, and a third adjustment to kWh that was not contested in the case—the flow-through effect of the weather and energy-efficiency adjustments on the *customer-related* kWh adjustment. Staff believes it is appropriate

[223] Schedule II-H-1.2 at Microsoft Excel column D.

[224] Rebuttal testimony of J. Stuart McMenamin, Exhibit R-JSM-1 at Figure R-1.

[225] Schedule II-H-4.1.5 at column (11).

[226] The effect of the PFD's weather normalization adjustment on residential present base revenues is calculated by multiplying the current residential transmission and distribution charges by the kWh adjustment. For current transmission and distribution charges, *see* Schedule IV-J-7 Residential. The current residential transmission charge of $0.008439 per kWh can be found in Microsoft Excel cell Q16. The current residential distribution charge of $0.016489 can be found in Microsoft Excel cell Q18. The full calculation is as follows: (1,140,057,980 kWhs x $0.008439 per kWh) + (1,140,057,980 kWhs x $0.016489 per kWh) = $28,419,365.

[227] The effect of the PFD's weather normalization adjustment on secondary voltage-small present base revenues is calculated by multiplying the current secondary-small transmission and distribution charges by the kWh adjustment. For current transmission and distribution charges, *see* Schedule IV-J-7 Secondary - Small. The current secondary-small transmission charge of $0.004437 per kWh can be found in Microsoft Excel cell Q15. The current secondary-small distribution charge of $0.012218 can be found in Microsoft Excel cell Q17. The full calculation is as follows: (8,479,130 kWhs x $0.004437 per kWh) + (8,479,130 kWhs x $0.012218 per kWh) = $141,220.

[228] $10,969,743 + $1,205,285.58 = $12,175,029.

[229] Number-running communications, Attachment C.1, column "PFD adjustment," row "CEHE total present base revenues." (Sep 17, 2019)

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

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR AUTHORITY TO CHANGE RATES	§ § § §	PUBLIC UTILITY COMMISSION OF TEXAS

COMMISSION STAFF'S REPLIES TO EXCEPTIONS TO THE PROPOSAL FOR DECISION

I. INTRODUCTION [PO ISSUES 1, 2, 3]

Most of the conclusions reached by the Administrative Law Judges (ALJs) in the Proposal for Decision (PFD) are correct and should be maintained over CenterPoint Energy Houston's (CEHE) objections. Staff remains grateful for the reasoned consideration of the ALJs, and Staff supports their conclusions in the PFD, with the exception of the points discussed by Staff in their exceptions to the PFD.

In addition, Staff responds to Texas Competitive Power Associates (TCPA) and Texas Industrial Energy Consumers' exceptions regarding 4 Coincident Peak (4CP) method and transmission cost recovery factor (TCRF).

Staff responds to new requests made by CEHE that should not be considered or, in the alternative, should be denied, as the record-close deadline in this proceeding was July 16, 2019 and this is not an appropriate time to make new requests in this proceeding. CEHE attempted to introduce new evidence into the record in its exceptions.[1] Staff filed an objection and motion to strike new evidence regarding the number run in this docket.[2]

II. RATE BASE [PO ISSUES 4, 5, 10, 11, 12, 13, 15, 16, 17, 18, 19, 59]

Despite clear precedent to the contrary, CEHE requested amounts for, and objected to the PFD's recommendations regarding, the following historically disallowed items: compensation for use of capital paid to affiliates; non-qualified pension expense to highly compensated individuals; financially based long-term incentive compensation (LTI); and, financially based

[1] CenterPoint Energy Houston Electric, LLC's Exceptions to Proposal for Decision (CEHE Exceptions) at Attachments A, C, and D (Oct. 10, 2019).

threshold"[131], as CEHE asserts, that would justify disregarding long-standing and unambiguous precedent on operational payments based on financial triggers.

Lastly and importantly, CEHE has finally delivered proof that it had previously provided incorrect information in response to a crucial RFI in this docket.

In its exceptions, CEHE writes:

> The PFD finds that the total STI expense CEHE Houston requested to recover through rates in this proceeding is $16,879,888. The calculation of this total amount can be found in the record on WP R-KLC-02. This should be the starting point of any STI disallowance calculation. The PFD's [*sic*] calculation, however, relies on an incorrect starting point, using RFI PUC03-01 for Direct STI and V-K-6.1 for Affiliate STI. Importantly, RFI PUC03-01 includes both capital and O&M book amounts for the test year. This is not the amount requested in the case.[132]

RFI No. Staff 03-01 specifically requested the amount of incentive compensation included in CEHE's request for rates in this docket.[133] CEHE, in its rebuttal testimony and briefs, claimed that Staff and intervenors used the wrong amounts for STI compensation, when CEHE was responsible for providing said information.[134] Now, in its exceptions, CEHE finally explains the discrepancy without acknowledging its error.[135] The issue remains: RFI No. Staff 03-01 asked for the amount of STI CEHE included in its request for rates in this docket; CEHE now asserts that, instead of providing the amount of STI it was requesting for rates in this docket, it instead provided both capital and book amounts for the test year in its response.[136] As noted in Staff's exceptions, it is Staff's position that any benefit resulting from the discrepancy arising from CEHE's contradictory evidence in this case should accrue to the benefit of ratepayers and not CEHE, and that the PFD should be modified to reflect this.

2. Executive Employee Related Expenses

Staff supports the PFD's recommended adjustment to remove these executive employee-related expenses.

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[131] *Id.*
[132] CEHE Exceptions at 84-85.
[133] Workpapers to the Direct Testimony of Mark Filarowicz (Filarowicz Direct), Staff Ex. 4A at 57-68 (Attachment MF-11).
[134] CEHE Reply Brief at 83.
[135] CEHE Exceptions at 84-85.
[136] RFI No. Staff 03-01 does not use the terms "test year" or "book amount."

VII. FUNCTIONALIZATION AND COST ALLOCATION [PO ISSUES 4, 5, 43, 44, 46]

A. Functionalization

1. Texas Margin Tax Expense and Associated Accounts

Staff agrees with CEHE that the PFD holds the functionalization percentages constant to CEHE's original filing,[160] and that it would be appropriate for the functionalization percentages to be updated as a flow-through impact from other adjustments.

2. Miscellaneous General Expense (FERC Account 930.2)

Staff agrees with CEHE that the PFD holds the functionalization percentages constant to the proportions shown in Staff Ex. 2A at 34-39,[161] and that it would be more appropriate for the functionalization percentages to be updated as a flow-through impact from other adjustments.

3. Unprotected Excess Deferred Income Tax

The PFD correctly recommended the adoption of Staff witness Brian Murphy's recommendation to functionalize unprotected excess deferred income tax (UEDIT) as 24.5% to wholesale transmission customers and 75.5% to retail customers.[162] Staff based its proposed functionalization of UEDIT on excess accumulated deferred income tax information adopted by the Commission in prior dockets and provided by CEHE witness Pringle in CEHE's direct case.[163]

Additionally, CEHE's request to use a net plant functionalization factor for UEDIT amounts[164] was not presented in its direct or rebuttal cases or in CEHE's briefing on this issue, and it would be inappropriate to consider this request at this point in the proceeding.

B. Class Allocation

1. Class Allocation of Transmission Costs

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[160] Number-running Communications at Bates 11 (Sept. 17, 2019): "The ALJs recommend approving CenterPoint's proposal on how to functionalize the Texas Margins Tax (TMT) expense as 14.8% to the Transmission Service Function and 85.2% to the Distribution Service Function. CenterPoint rejected its initial functionalization approach for TMT expense to adopt Staff witness Brian Murphy's recommended approach instead."

[161] Number-running Communications at Bates 11 (Sept. 17, 2019): "Accordingly, the $146.2 million Account 930.2 expenses should be functionalized based on the allocation proportions illustrated below..."

[162] PFD at 335.

[163] Direct Testimony of Charles W. Pringle (Pringle Direct), CEHE Ex. 13 at 2.

[164] CEHE Exceptions at 94-95.

The PFD correctly rejected TCPA's argument that CEHE's allocation of and rate design for transmission costs should not be based on an ERCOT Four Coincident Peak (4CP) method.[165] Despite the evidence and argument in the record to the contrary, TCPA continues to maintain that the ERCOT 4CP allocation and rate design for the retail transmission costs result in cost-shifting and are inconsistent with cost-causation, and TCPA recommends finding that the non-coincident peak (NCP) allocation of retail transmission costs is reasonable and cost-based.[166] TCPA's arguments were thoroughly evaluated by the ALJs based on the evidence in the record, and properly rejected. Staff comprehensively addressed TCPA's arguments in its reply brief,[167] and briefly addresses them here.

TCPA maintains that the PFD's conclusions that an ERCOT 4CP allocation and rate design for retail transmission costs align with cost causation are "erroneous and factually unsupported," and that the ALJs "conflate the allocation of transmission costs in ERCOT with the cause of the underlying costs themselves."[168] These claims are incorrect as reference to PURA, the Commission rules, and the record clearly shows that:

1. PURA § 35.004(d) mandates a coincident peak rate design for TSPs' wholesale transmission rates in ERCOT.
2. 16 TAC § 25.192(b)(1) more specifically requires that the coincident peak rate design for TSPs' wholesale transmission rates is one based on the ERCOT 4CP.
3. 16 TAC § 25.192(d), in combination with 16 TAC § 25.192(b)(1), requires that each DSP be charged for wholesale transmission service based on the total ERCOT 4CP demand of all the customers connected to the DSP. Therefore, it is unambiguous that it is CEHE's customers' ERCOT 4CP loads that cause CEHE to incur wholesale transmission charges as a distribution service provider (DSP).
4. CEHE's retail transmission costs are effectively a "pass-through" to retail customers of the wholesale transmission charges that CEHE incurs as a DSP.[169]

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[165] PFD at 336-343.
[166] TCPA Exceptions at 1.
[167] Staff Reply at 61-69.
[168] TCPA Exceptions at 2.
[169] Staff Ex. 7B at 33.

5. 16 TAC § 25.234 requires that rates be based on cost. 16 TAC § 25.192 establishes that customer's load at the ERCOT 4CP is what causes CEHE to incur wholesale transmission charges.
6. Therefore, cost causation dictates that CEHE's retail transmission costs, which are incurred based on ERCOT 4CP load, should be allocated to classes based on ERCOT 4CP load, and that it is appropriate to charge individual customers based on their ERCOT 4CP load.

At the hearing, Staff witness William Abbott testified to the clarity of the cost-causation in this situation:

> Substantive Rule 25.192 mandates how cost causation occurs in this situation. It says wholesale transmission charges are charged to distribution service providers based upon their 4CP -- their ERCOT 4CP load. So this is the most clear-cut case of cost causation I think there is. The rules say how those costs are incurred.[170]

TCPA claims the PFD errs regarding the cause of the underlying costs, stating that "transmission costs remain fixed regardless of each Distribution Service Provider's (DSP's) rate design" immediately subsequent to claiming that "the issues with 4CP will only continue to grow as transmission costs continue to increase." The underlying costs at issue are the wholesale transmission costs charged to DSPs such as CEHE, which then allocates the costs among retail rate classes and collects them via retail rates. As an initial matter, TCPA's suggestion that wholesale transmission costs within ERCOT would remain the same if the ERCOT coincident peak load were to double or triple is entirely without support in the record.

Furthermore, TCPA's argument misses the point as to the costs at issue in this proceeding; regarding the contested retail transmission cost allocation and rate design for CEHE customers in this proceeding, these retail transmission costs are not fixed over time. As 16 TAC § 25.192(b)(1) states, a DSP such as CEHE pays to each TSP in ERCOT an amount equal to the TSP's wholesale transmission service rate multiplied by the DSP's ERCOT 4CP load:

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[170] Tr. at 924:3-9.

> The monthly transmission service charge to be paid by each DSP is the product of each TSP's monthly rate as specified in its tariff and the DSP's previous year's average of the 4CP demand that is coincident with the ERCOT 4CP.

With respect to CEHE's test year retail transmission costs at issue in this proceeding, those costs are not fixed – they would be lower if CEHE's aggregate customer ERCOT 4CP were lower, and they would be higher if such load were higher. As Staff witness William Abbott stated in cross-rebuttal testimony, "if a customer with a 4CP rate design reduces its 4CP load, the customer's load reduction directly results in CenterPoint being charged less for wholesale transmission service – costs are *avoided* for CenterPoint."[171] As indicated in Staff's reply brief, and demonstrated by TCPA's discussion of and reference to wholesale transmission planning at ERCOT, TCPA appears to take issue with the ERCOT 4CP rate design for wholesale transmission rates mandated under 16 TAC § 25.192, and misapplies opposition to that rule to the issue in this proceeding of the allocation and rate design of costs incurred by CEHE as a result of adhering to the requirements of that rule.

Staff respectfully requests that the Commission adopt the PFD's recommendation regarding the appropriateness of the ERCOT 4CP allocation and rate design for retail transmission costs.

VIII. REVENUE DISTRIBUTION AND RATE DESIGN [PO ISSUES 4, 5, 43, 49, 50]

C. Transmission Service Rate

Staff disagrees with TIEC's exceptions to the PFD's recommendation to approve CEHE's request to "zero out" its TCRF rider and move all current transmission expense into base rates.[172]

In excepting on this issue, TIEC maintains that Staff's support for CEHE's proposal is inconsistent with Staff's prior positions and is aimed at solving a different issue than the over-recovery that occurs as a result of transmission expenses being included in base rates instead of the TCRF rider.[173] The "different issue" refers to an allocation issue that arises under the TCRF rule due to the mismatch between TCRF allocation factors being fixed between base rate cases

[171] Cross-Rebuttal of William Abbott, Staff Ex. 7B at 33.
[172] TIEC Exceptions at 24.
[173] *Id.*

while the TCRF billing units are updated semiannually, which can result in TCRF rates that drift further away from cost as load patterns change over time, and potentially produce large changes in rates when they are reset at cost in a rate case.[174] While TIEC claims that the allocation issue is irrelevant to the issue of "zeroing out" the TCRF,[175] it is the allocation issue which is the basis of Staff's support for CEHE's proposal to "zero out" the TCRF rider in this case. As pointed out in testimony and at the hearing, while it does not conflict with the TCRF rule, moving retail transmission cost recovery entirely out of base rates and into the TCRF rider, as TIEC requests, exacerbates the mismatch that exists under the TCRF rule when the allocation factors are not updated between base rate cases.[176] "Zeroing out" the TCRF as CEHE requests reduces the amount of costs recovered in the TCRF, and therefore mitigates any allocation mismatch and therefore reduces rate volatility when rates are reset to cost in a rate case.[177] However, TIEC is correct that "zeroing out" the TCRF rider increases the likelihood that CEHE will over-recover what ideally would be a straight pass-through of transmission expenses to customers.[178]

Due to the combination of these two issues, Staff agrees that the best outcome is one in which CEHE is ordered to update the TCRF allocation factors on an annual or biennial basis, and transmission cost recovery is moved entirely out of base rates and into the TCRF rider as TIEC requests.[179] However, absent such a requirement for frequent updates to the TCRF allocation factors, Staff respectfully recommends that the Commission adopt the PFD's recommendation to approve CEHE's request to zero out the TCRF rider.

D. Street Lighting Service

The PFD correctly rejected CEHE's proposal to amend provisions in its Lighting Services Tariff to mandate installation of LED lights for the 160 municipalities it serves.

CEHE failed to explain why it is necessary to strip away the lighting customer's discretion to choose a non-LED lamp type.[180] In its exceptions, CEHE again failed to explain why it necessary to eliminate the customer's choice, instead mischaracterizing the ALJs'

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[174] Staff Ex. 7B at 24-25; Tr. at 922:6-10 (Abbott Cross).
[175] TIEC Exceptions at 28.
[176] Staff Ex. 7B at 27; Tr. at 921:9-922:20.
[177] *Id.*
[178] TIEC Exceptions at 24 – 26.
[179] Staff Ex. 7B at 25; Tr. at 929:4-12.

30485[185]	March 2005	$1,851,000,000	Stranded/True-up	August 2019
34448[186]	September 2007	$488,000,000	Stranded/True-up	February 2020
37200[187]	August 2009	$665,000,000	System Restoration	August 2022
39809[188]	October 2011	$1,695,000,000	Stranded/True-up	October 2024

As stated in the table above, the final payment dates range from August 2019 to October 2024, with amounts ranging from $488,000,000 to $1,851,000,000. These orders were entered in March 2005, September 2007, August 2009, and October 2011.

In the intervening time period between the entry of those orders and the dates of the final payments associated with refunding the amounts associated with the securitization orders, the TCJA was passed in December 2017, changing the corporate tax rate from 35% to 21%.[189] The decrease in the corporate tax rate converted a portion of CEHE's remaining securitization-related ADFIT balances to *excess* accumulated deferred income tax, or EDIT.[190] This EDIT portion of the ADFIT balance, amounting to approximately $158 million, was previously funded at least in part by rate payers, but is now no longer due to the Internal Revenue Service.[191] As a result of the amount involved and the complexity of the issues, Staff witness Darryl Tietjen recommended that, subject to the Commission's consideration of the potential impact on the capital market's perception of securitization-related transactions by Texas utility companies, severing the issue into a separate proceeding would be the best approach to address the appropriate treatment of the EDIT amounts related to CEHE's four securitized bonds currently outstanding.[192]

CEHE argues that the language in the settlement agreements prohibit amendments to the orders, and doing so would result in poor public policy.[193] By arguing that it would be

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[185] *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 30485 (Order, March 16, 2005).
[186] *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 34448 (Order, September 18, 2007).
[187] *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 37200 (Order, August 27, 2009).
[188] *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 39809 (Order, October 27, 2011).
[189] PFD at 380.
[190] Staff Ex. 1A at 23.
[191] *Id.*
[192] *Id.*
[193] CEHE Exceptions at 98.

and the number-running instructions explicitly provided exact amounts, and to achieve those exact amounts, certain cells must be hard-coded.

Additionally, CEHE alleges that there is a disparity between the two models. However, Staff maintains that it complied with the PFD and the number-running instructions. In its application in this docket, CEHE made a sizable adjustment to FERC Account No. 565 in the revenue requirement model, based on further "downstream" considerations from the total cost of service model as explained further below. The PFD and the number-running instructions do not specify that the accounting revenue requirement model should be sizably adjusted in FERC Account No. 565 as CEHE did in its application, so Staff did not implement such an adjustment in its execution of the number run. Like many of CEHE's assertions regarding the number run, here CEHE takes issue with the PFD or number-running instructions, not with the number run.

With respect to the purported $40 million disparity, CEHE presented a cost study that does not match its requested level of revenues. CEHE's lead witness, Kenny Mercado, testified, "With respect to the cost of service portion of its request, CEHE's filed cost of service data demonstrates that CenterPoint Houston's annual cost of service totals approximately $2.3 billion."[198]

Consistent with Mr. Mercado's statement, Schedule I-A-1 to CEHE's rate filing package indicates a "total adjusted revenue requirement" of $2.282 billion.[199] However, $2.3 billion is not CEHE's total cost of service or its total requested revenue requirement. The actual total revenue requirement of $2.678 billion requested by CEHE in this case can be found in the application.[200] The $2.3 billion amount reflects CEHE's proposed retail cost of service. The disparity between what CEHE claimed it was asking for and its actual total request is approximately $400 million dollars, and the source of the difference between the two number-running models relates to the manner in which CEHE presented its case.

In Staff's direct case, Staff provided an explanation that accounts for the $400 million gap between what CEHE represented as its total cost of service and what CEHE was actually requesting:

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[198] Direct Testimony of Kenny Mercado (Mercado Direct), CEHE Ex. 6 at 21.

[199] Schedule I-A-1.

[200] Application at 12.

> [Total requested revenue requirement] is the term CEHE uses for its retail delivery revenue requirement. The wholesale revenue requirement is overlaid within the retail cost of service's transmission function, and Account 565 is used in that function as a plug to ensure that the transmission functional 'revenue requirement' ties to the company's total wholesale transmission expenses, which are costs associated with serving CEHE's retail customers that the company incurs in its role as a DSP.[201]

In other words, CEHE did not properly present its total cost of service as composed of wholesale transmission cost of service plus retail cost of service, where the actual wholesale transmission cost of service (TCOS) amounts comprise the transmission function and where the transmission expenses CEHE incurs as a distribution provider for receiving wholesale transmission service (Account 565 amounts) are included as a retail distribution expense in the distribution function. Instead, CEHE included both wholesale TCOS amounts and also retail transmission expenses in the transmission function, then adjusted downward the amounts in Account 565 below the actual level of Account 565 expenses, an adjustment that reduces the stated total CEHE cost of service amount to a level that reflects only the retail cost of service.

Consistent with the above explanation provided in Staff's direct case, which was not challenged by CEHE in its rebuttal case, and consistent with the fact that the appropriate Account 565 amounts cannot be determined until after the functional allocation process,[202] the PFD number-running communications filed in this docket contain the following notes to the ALJs:

> **Overall base revenues.** For an investor-owned transmission and distribution utility like CEHE, changes in retail base revenues, wholesale base revenues, and total base revenues cannot be determined until the functionalization process has been completed. See Attachment C 1 for a summary of present base revenues, PFD-adopted base revenues, and base revenue changes on a retail, wholesale, and CEHE total basis. Attachment Cl is analogous to the information presented by CEHE in its application, on the table at Bates 23. PFD number-running rates have been set based on these amounts.[203]

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[201] Direct Testimony of Brian Murphy (Murphy Direct), Staff Ex. 2A at 9.

[202] This fact occurs because a TDU as a TSP provides wholesale transmission service in part to itself as DSP. Therefore, in calculating rates the TDU's wholesale transmission rate (derived from its TCOS) is an input into its retail distribution rates as a transmission expense incurred as a DSP under Account 565.

[203] Number-running communications at Bates 35 (Sep 17, 2019).

In the context of the above discussion, the "49421 – Rev Req Model – ALJ Number Run – 9-9-2019.xlsx" file does not reflect the post-functionalization flow-through effects on Account 565 and does not correct for CEHE's misleading downward adjustment to Account 565, but rather reflects various total CEHE adjustments to CEHE's request, and provides inputs into the class cost of service study. The class cost of service model, file "49421 – Model of CEHE's CCOSS – PFD.xlsm," includes the functional allocations necessary to determine the appropriate level of retail transmission expense, and it is this model that is used in calculating the rates.

In its exceptions, CEHE refers to a figure from an intermediate step in the ratemaking process, upstream from Attachment C1 to the PFD, before the functionalization was performed. As indicated above, CEHE used Account 565 as a plug in CEHE's cost study to produce a transmission functional revenue total that matches CEHE's total ERCOT transmission expenses it incurs as a DSP. Following CEHE's method of presentation, the required adjustment to Account 565 in the amount of $40.38 million is shown in the PFD's electronic workpapers. As explained in the above quote, the PFD's number-running rates were set based on the fully adjusted amounts. CEHE's Exceptions represent this as an error, but in fact it is not, because there is no compelling need to reach back and adjust upstream values from intermediate steps in the ratemaking process that occur before the functionalization of costs.

In addition to the general objections to the number run, CEHE also identified several specific purported errors,[204] in bold, which Staff addresses in turn below:

1. **The amounts requested by CEHE Houston should be derived from its errata filing.[205] Certain items in the PFD number run models do not tie to amounts contained in CEHE's errata filing and require correction.**

   Staff identified the incorrect starting point for the PFD's flow-through adjustment to cash working capital and noted this issue in Staff's Exceptions in this docket.[206]

   There are no other departures from using CEHE's errata request for the starting point for the number run in this docket.

[204] *Id.*
[205] CEHE Ex. 2 Errata 1 Schedules and Schedule Workpapers.
[206] Staff Exceptions at 4.

test year requested numbers. Second, the calculation neglected to remove capitalized STI in order to calculate the O&M adjustment.

In Staff's exceptions, Staff identified an error in the number run; while the number run complied with the number-running instructions, the PFD provided an exact specification of the starting amount included in CEHE's request for rates in this docket.[207]

Regarding the capitalized portion of STI, Staff's number run correctly removed amounts of capitalized STI amounts per the number-running instructions and the PFD. Again, here CEHE's issue appears to be with the PFD and not with the number run.

5. **Bad debt amortization is missing from the PFD number run model.**

The number run complied with the number-running instructions that ordered number-running Staff to start with CEHE's request in its errata filing and make a number of adjustments, including providing for a regulatory asset for bad debt and then "approving CEHE's proposed amortization period for all assets and liabilities recommended by the ALJs in Section I above." Number-running Staff looked to CEHE's request in its errata for the requested amortization treatment of its regulatory assets. As shown on WP II-E-4.1.1 in CEHE's errata, CEHE did not request amortization of its bad debt along with its request for amortization of its regulatory assets. Accordingly, the number run complied with the number running instructions and, by following CEHE's errata request, did not include amortization of bad debt.

6. **Incorrect functionalization factors were used.**

CEHE has made a non-specific and conclusory assertion regarding the functionalization factors used in the PFD's number run. To the extent CEHE has identified in its Exceptions specific functionalization factors that CEHE believes should be adjusted in subsequent number runs, those are addressed on a case-by-case basis in this document.

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[207] Previously, Staff had used the amounts that CEHE had identified were the amounts it had included in its request for rates in this docket, as provided in CEHE's response and updated response to RFI No. Staff 03-01. See Section

CEHE erroneously labeled its D2 allocation factor as "ERCOT" demand when in fact it was "CEHE" demand information.[211] Staff suspects that CEHE's exceptions to the D2 allocation factor used in the PFD number run stem from failing to note that, per CEHE's errata filing, CEHE initially mislabeled "CEHE" demand information as "ERCOT" demand information in its application, and therefore in its exceptions, CEHE is looking at CEHE demand at source and concluding erroneously that it represents ERCOT demand at 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.**

To calculate rates and to accurately characterize the revenue increase that customers will experience under the rates adopted by the Commission in this proceeding, adjusted test-year billing units must be determined. These adjusted test-year billing units are used to calculate the "present revenues" which are compared to the Commission-adopted revenue requirement. The determination of present revenues as an input into the revenue-increase calculation is a standard part of the ratemaking process. To determine present revenues in this case, CEHE measured the amount of revenues it collected during the Test Year, and requested a number of adjustments to Test-Year revenues. Two of CEHE's proposed adjustments were disputed: weather normalization of sales (i.e., kilowatt-hours of energy),[212] and the energy-efficiency adjustment to sales.[213] In practice, the only rate classes affected by adjustments to Test-Year energy sales are the Residential and Secondary voltage (small) classes, as the other classes are not subject to energy charges for their retail delivery base rates.[214] In the PFD, the ALJs adopted CEHE's weather normalization modeling, but using a ten-year weather normal period as opposed to the

[211] Errata to the Direct Testimony of Matthew Troxle.
[212] PFD at 313-321.
[213] Id. 321-325.
[214] The rate design schedules for the other classes (all of which are not subject to energy rates) can be found in the Direct Testimony of Matthew A. Troxle, Exhibit MAT-9 at 89-100. CEHE presents weather normalization data for all classes, to both energy and demand values. However, the contested weather normalization issue only implicated the adjustments to Test-Year energy values, not demand values, and hence only the Residential and small secondary classes. In the event the Commission wishes to apply Mr. McMenamin's 10-year weather normalization adjustment to the demand billing units for the classes with demand charges, the information required to do so is present in the evidentiary record; and, such an adjustment could be implemented in the final Commission number run.

20-year period requested by CEHE.[215] The ALJs also rejected CEHE's proposed energy-efficiency adjustment.[216] In its exceptions, CEHE states that the PFD number run "does not appear" to have used Mr. McMenamin's weather normalization adjustment as directed by the PFD, which is incorrect. The PFD number-run correctly incorporates the adjustment directed by the ALJs. In the number-running communications for the PFD, the ALJs directed Staff as follows:

> The ALJs recommend approving CEHE witness Stuart McMenamin's weather adjustment as applied to his alternative 10-year normal weather period. Dr. McMenamin provided information and data regarding his estimated weather adjustment based on a 10-year normal weather period as electronic attachments to his rebuttal testimony. *See* CenterPoint Ex. 44, Exh. R-JSM-1.[217]

CEHE's originally requested weather-normalization to the Test-Year level of sales, based on a 20-year weather normal period, included downward adjustments of 1,578,040,193 kWhs for the residential class,[218] and 11,584,670 kWhs for the secondary voltage (small) class.[219] The present revenue impact of CEHE's requested weather normalization was a downward adjustment of $39.5 million.[220] The PFD's adjustments are smaller, resulting in a higher level of adjusted Test-Year sales as compared to CEHE's request. For the residential class, the weather normalization adjustment to Test-Year sales from CEHE Exhibit R-JSM-1 is a downward adjustment of 1,140,057,980 kWhs.[221] For the secondary voltage (small) class, the downward adjustment is 8,479,130 kWhs.[222] CEHE's requested weather normalization of Test-Year energy for classes

[215] PFD at 319.
[216] *Id.* at 325.
[217] Number-running communications at Bates 10 (Sep 17, 2019).
[218] Application, Schedule II-H-1.1 at Microsoft Excel cell G13.
[219] *Id.*, at cell G16.
[220] Application, Schedule II-H-4.1.5 at column (11). Although CEHE performed a weather normalization of Test-Year energy for other rate classes (Secondary voltage-large, and primary), the adjustments for other classes has no bearing on present revenues or rates because, as discussed above, other classes are not subject to energy rates as part of the rate structure under existing and proposed rate schedules. For CEHE's existing and proposed rate schedules, *see* direct testimony of Matthew A. Troxle at Exhibit MAT-9.
[221] Rebuttal testimony of J. Stuart McMenamin, Exhibit R-JSM-1, Figure R-1 at Microsoft Excel cell O21 (June 19, 2019).
[222] *Id.*, at cell O22.

subject to energy rates, the PFD's recommended weather normalization, and the effects on present revenues can be seen in the following table:

Class	Weather normalization of sales (in kWh)			Effect of weather normalization on present base revenues (in millions of dollars)		
	CEHE[223]	PFD[224]	Difference	CEHE[225]	PFD	Difference
Residential	1,578,040,193	1,140,057,980	437,982,213	- $39.34M	-$28.42M[226]	+ $10.92M
Secondary-Small	11,584,670	8,479,130	3,105,540	-$0.19M	-$0.14M[227]	+ $0.05M
Total	1,589,624,863	1,148,537,110	441,087,753	-$39.53M	-$28.56M	+ $10.97M

The total PFD-adopted increase to CEHE's present revenues resulting from the ALJs' decision on the weather normalization issue is $10,969,743. The increase to CEHE's present revenues resulting from the PFD's rejection of CEHE's energy-efficiency adjustment to present revenues is $1,205,285.58. The sum of the PFD's adjustments to present revenues is $12,175,029.[228] The correct amount is shown in the PFD number-running workpapers as the PFD-adopted increase to present revenues.[229]

CEHE fails to refer to the record to assert that the inputs to the number run model were incorrect. However, in researching CEHE's claims, Staff discovered that there was an ancillary flow-through effect of the PFD's weather normalization and energy-efficiency plant decisions that were not reflected in the PFD number-run. It involves an interaction between the weather normalization adjustment, the energy-efficiency adjustment, and a third adjustment to kWh that was not contested in the case—the flow-through effect of the weather and energy-efficiency adjustments on the *customer-related* kWh adjustment. Staff believes it is appropriate to

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[223] Schedule II-H-1.2 at Microsoft Excel column D.

[224] Rebuttal testimony of J. Stuart McMenamin, Exhibit R-JSM-1 at Figure R-1.

[225] Schedule II-H-4.1.5 at column (11).

[226] The effect of the PFD's weather normalization adjustment on residential present base revenues is calculated by multiplying the current residential transmission and distribution charges by the kWh adjustment. For current transmission and distribution charges, *see* Schedule IV-J-7 Residential. The current residential transmission charge of $0.008439 per kWh can be found in Microsoft Excel cell Q16. The current residential distribution charge of $0.016489 can be found in Microsoft Excel cell Q18. The full calculation is as follows: (1,140,057,980 kWhs x $0.008439 per kWh) + (1,140,057,980 kWhs x $0.016489 per kWh) = $28,419,365.

[227] The effect of the PFD's weather normalization adjustment on secondary voltage-small present base revenues is calculated by multiplying the current secondary-small transmission and distribution charges by the kWh adjustment. For current transmission and distribution charges, *see* Schedule IV-J-7 Secondary - Small. The current secondary-small transmission charge of $0.004437 per kWh can be found in Microsoft Excel cell Q15. The current secondary-small distribution charge of $0.012218 can be found in Microsoft Excel cell Q17. The full calculation is as follows: (8,479,130 kWhs x $0.004437 per kWh) + (8,479,130 kWhs x $0.012218 per kWh) = $141,220.

[228] $10,969,743 + $1,205,285.58 = $12,175,029.

[229] Number-running communications, Attachment C.1, column "PFD adjustment," row "CEHE total present base revenues." (Sep 17, 2019)