



Control Number: 49421



Item Number: 786

Addendum StartPage: 0

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

RECEIVED

APPLICATION OF CENTERPOINT §
ENERGY HOUSTON ELECTRIC, LLC §
FOR AUTHORITY TO CHANGE RATES §

2020 JAN 24 PM 1:40
BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS
FILED CLERK

TESTIMONY IN SUPPORT OF AGREEMENT
OF
KRISTIE L. COLVIN
ON BEHALF OF
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

January 24, 2020

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND 3

II. HISTORY OF THE CASE AND OVERVIEW 4

III. AGREEMENT OVERVIEW..... 6

IV. REASONABLENESS OF AGREEMENT..... 9

EXHIBITS

Exhibit KLC-AGREE-1 Settlement Schedules

Supporting Electronic Files and Workpapers provided in Exhibit KLC-AGREE-1:

Rev 1.18.2020 Final Version-49421-Settlement Model of CEHE’s CCOSS-Final Order.xlsx
CEHE UEDIT Workpapers (01202020).xlsx
49421-Model of CEHE’s CCOSS-Settlement Baseline.xlsx
DCRF Baseline-Rate Case 49421-Settlement (Commission Final).xlsx

1 **TESTIMONY IN SUPPORT OF AGREEMENT OF KRISTIE L. COLVIN**

2 **I. INTRODUCTION AND BACKGROUND**

3 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.**

4 A. My name is Kristie L. Colvin. I am Senior Vice President and Chief Accounting
5 Officer of CenterPoint Energy Service Company, LLC (“Service Company”) and
6 CenterPoint Energy Houston Electric, LLC (“CenterPoint Houston” or the
7 “Company”), a wholly owned subsidiary of CenterPoint Energy, Inc. (“CNP”). My
8 business address is 1111 Louisiana Street, Houston, Texas 77002.

9 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

10 A. I am testifying on behalf of CenterPoint Houston.

11 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?**

12 A. Yes. I filed direct testimony as well as rebuttal testimony.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. Through this testimony, I sponsor the Stipulation and Settlement Agreement
15 (“Agreement”) among the parties to this proceeding. The Signatories to the
16 Agreement include: CenterPoint Houston, the Staff of the Public Utility
17 Commission of Texas (“Staff”), the Office of Public Utility Counsel, the City of
18 Houston/Houston Coalition of Cities, Texas Coast Utilities Coalition, Gulf Coast
19 Coalition of Cities, H-E-B, LP, Texas Energy Association for Marketers, Alliance
20 for Retail Markets, Texas Industrial Energy Consumers and Walmart Inc. Texas
21 Competitive Power Advocates, Calpine Corporation, Olin Corporation, Solar
22 Energy Industries Association, Enel X North America, Inc., Generation Park
23 Management District, and McCord Development, Inc. are unopposed to the

1 settlement agreement. My testimony provides an overview of the Agreement and
2 explains why the settlement is an appropriate resolution of this rate case and should
3 be approved by the Public Utility Commission of Texas (“Commission”). I have
4 attached Exhibit KLC-AGREE-1 which includes supporting electronic files and
5 workpapers.

6 **II. HISTORY OF THE CASE AND OVERVIEW**

7 **Q. PLEASE DESCRIBE THE INITIAL FILING MADE BY CENTERPOINT** 8 **HOUSTON IN THIS PROCEEDING.**

9 A. CenterPoint Houston filed its statement of intent, as well as the required application
10 and rate filing package (“RFP”), with the Commission and municipalities retaining
11 original jurisdiction on April 5, 2019. The filing included the testimony of 26
12 witnesses and over 7,000 pages of testimony, exhibits and schedules. It was the
13 Company’s first base rate filing since Docket No. 38339, approximately nine years
14 ago. Consistent with any general base rate filing, CenterPoint Houston sought a
15 review of its expenses, cost of capital, and investment since the Commission last
16 reviewed those items and found them to be reasonable in 2011. The ultimate
17 objective of the case was to provide for revised rates that would permit CenterPoint
18 Houston to recover its costs and to earn a fair and reasonable rate of return on its
19 investments necessary to provide safe and reliable service to its customers.

20 **Q. HOW WAS THE RECORD IN THE CASE DEVELOPED?**

21 A. Inclusive of Staff, 18 parties intervened and participated in the development of the
22 evidentiary record. CenterPoint Houston responded to over 1,400 discovery
23 requests, inclusive of subparts. Intervenors and Staff filed direct testimony.

1 CenterPoint Houston filed rebuttal testimony and a five-day evidentiary hearing
2 took place at the State Office of Administrative Hearings. The issues varied in
3 complexity. And, while the parties worked well together in developing the
4 evidentiary record (the case only involved one discovery dispute, which was
5 ultimately settled amongst the parties), the Company and parties had substantially
6 different views as to what revenue requirement, cost of capital, invested capital,
7 and ring-fencing measures should be approved for CenterPoint Houston.

8 **Q. HOW DOES THE SETTLEMENT REFLECT THE POSITIONS OF**
9 **PARTIES DEVELOPED THROUGH THE EVIDENTIARY RECORD?**

10 A. As with any settlement, the Agreement required both the Company and parties to
11 compromise. The cost of capital reflected in the agreement, for example, reflects a
12 compromise among the parties' filed cases. Similarly, the amortization/refund
13 period for unprotected excess deferred income taxes ("UEDIT") is over
14 approximately 30-36 months, whereas certain parties and the Proposal for Decision
15 ("PFD") recommended a shorter refund period. The Agreement also presents a
16 compromise on cost allocation and rate design—the recovery of all existing and
17 future retail transmission-related costs through the Company's Transmission Cost
18 Recovery Factor ("TCRF")—that is different than the PFD's recommendation.
19 Finally, the "black box" revenue requirement increase amount of \$13 million
20 reflects the parties' overall compromise on the Company's rate request taking into
21 account the parties' various positions in the proceeding.

1 **Ring-Fencing.** CenterPoint Houston agreed to many of the ring-fencing
2 measures proposed by the parties and the parties agreed that the
3 Commission will decide whether to impose dividend restriction ring-
4 fencing provisions on CenterPoint Houston based on the record and the
5 parties' briefing currently on file with the Commission, unless the
6 Commission requests additional briefing.

7 **Invested Capital.** Investment through the end of the test year (December
8 31, 2018) is agreed to be used and useful in providing service, and prudent
9 and properly included in rate base. This includes approximately
10 \$41.2 million in Underground Cable Life Extension Program investment
11 placed in service from January 1, 2013 through December 31, 2017.
12 Additionally, for preparation of CenterPoint Houston's Earnings
13 Monitoring Reports for reporting years beginning in 2020, CenterPoint
14 Houston's total Company Cash Working Capital is \$24,269,000.

15 **Certain Tax Matters. UEDIT.** CenterPoint Houston will refund through
16 Rider UEDIT and its Wholesale Transmission Service tariff a UEDIT
17 amount of \$64,903,763, protected excess deferred income tax amount of
18 \$18,659,227, and gross up of \$21,886,079 for a total UEDIT refund of
19 \$105,449,069 plus carrying costs. The refund and amortization period for
20 UEDIT will be approximately 30 months for Residential Service,
21 Secondary Service Less Than or Equal to 10 KVA, Street Lighting Service,
22 and Miscellaneous Lighting Service and approximately 36 months for
23 Secondary Service Greater Than 10 KVA, Primary Service, and
24 Transmission Service. The refund and amortization period for the amount
25 included in the Wholesale Transmission Service tariff is approximately 36
26 months. The refund will begin with the effective date of the rates authorized
27 in this proceeding.

28 **Proceeding Related to Securitized EDIT.** The Signatories agreed that no
29 proceeding should be initiated to review CenterPoint Houston's or its
30 affiliates' ADFIT balances on CenterPoint Houston's or its affiliates'
31 transition and restoration bonds and that no Signatory will raise issues
32 related to the appropriate treatment of EDIT amounts associated with those
33 bonds in future Commission proceedings related to CenterPoint Houston or
34 its affiliates.

35 **Accounting Matters.** The Agreement reflects the parties' compromise on
36 certain accounting matters and intent that, with the exception of rate case
37 expenses, nothing in the "black box" Agreement is to be construed in such
38 a way as to require CenterPoint Houston to write off any investment, assets
39 or liabilities currently maintained on its books and records.

40 **Rate Case Expenses.** CenterPoint Houston agrees to reimburse cities
41 participating in this docket for rate case expenses incurred in all dockets
42 subject to Docket No. 49595 and to forego recovery of all rate case expenses

1 requested in Docket No. 49595, including its own requested rate case
2 expenses.

3 **Statutory Requirements and Baseline Values.** Finally, the Agreement
4 presents the parties' agreement on affiliate expenses at issue in the filing,
5 the Company's self-insurance reserve and baselines for future DCRF,
6 TCRF and TCOS filings.

7 The Agreement includes additional details and contains the controlling language
8 regarding the elements summarized above. I have not covered every element
9 contained within the Agreement and the Agreement contains miscellaneous
10 provisions that are normal for settlement agreements.

11 **Q. WHAT HAPPENS IF THE COMMISSION MODIFIES A PROVISION OF**
12 **THE AGREEMENT?**

13 A. Except with respect to the ring-fencing/dividend issue described above, the
14 Signatories agree that the Agreement should be viewed as a whole. The Agreement
15 is the result of give and take among all parties during negotiations. As such, the
16 parties have agreed that if the Commission makes any modification to the terms of
17 the Agreement, any adversely impacted Signatory may withdraw from the
18 Agreement and be released from its obligations.

19 **Q. WHAT CONCLUSIONS DO YOU REACH REGARDING THE**
20 **AGREEMENT?**

21 A. The Agreement represents an appropriate resolution of this case in its current
22 posture before the Commission and should be approved.

1 **IV. REASONABLENESS OF AGREEMENT**

2 **Q. DID THE INTERVENORS AND COMMISSION STAFF PROPOSE**
3 **ADJUSTMENTS TO THE COMPANY’S FILED REQUEST?**

4 A. Yes. The testimony of the intervenors and Commission Staff addressed a number
5 of issues with the Company’s application, including certain reductions to the
6 Company’s request.

7 **Q. DOES THE AGREEMENT REPRESENT A REASONABLE**
8 **COMPROMISE AMONG ALL OF THE SIGNATORIES?**

9 A. Yes. The Signatories agreed to avoid the uncertainty, time, inconvenience and
10 expense of further litigation of the issues addressed in the Agreement by
11 compromising on the Company’s revenue requirement, cost of capital, tariffs and
12 other litigated issues.

13 **Q. DOES THE AGREEMENT REPRESENT A REASONABLE RESOLUTION**
14 **OF THE ISSUES IN THIS PROCEEDING?**

15 A. Yes. The Agreement represents an overall reasonable outcome in the context of
16 the current posture of the case and the number of contested matters and should be
17 adopted by the Commission. The Agreement is the product of informed
18 consideration and analysis by all Signatories. Discovery was conducted on the
19 Company’s application, all parties’ direct testimony and CenterPoint Houston’s
20 rebuttal testimony were filed, a hearing was held and the Commissioners expressed
21 their views on certain contested issues before the Agreement was reached. The
22 Agreement results in a revenue requirement lower than that proposed by
23 CenterPoint Houston, but higher than was claimed appropriate by some Signatories.

1 The Agreement also mitigates the potential costs associated with conducting a
2 hearing on rate case expenses. Finally, the Agreement represents a compromise by
3 all parties involved and represents an overall compromise and settlement of many
4 issues. As such, it should be viewed in its entirety rather than on an issue-by-issue
5 basis.

6 **Q. IS COMMISSION APPROVAL OF THE AGREEMENT IN THE PUBLIC**
7 **INTEREST?**

8 A. Yes. From CenterPoint Houston's perspective, the Agreement resolves the
9 uncertainty associated with the outcome of a general base rate proceeding and
10 provides the Company with the direction and regulatory parameters it needs in
11 order to operate the electric utility moving forward. It will also avoid further
12 professional fees and expenses associated with rate case expense recovery and
13 appeals. Moreover, the base rate increase is supported by record evidence and is
14 also clearly reasonable in light of the overall amount. A base rate revenue increase
15 of \$13 million reflects a 0.52% increase over adjusted present base revenues.
16 Further, CenterPoint Houston's agreement not to file a DCRF proceeding in 2020
17 necessarily means that the Company will wait an extra year before it can begin
18 recovery of approximately \$1 billion in used and useful 2019 distribution plant
19 investment. Given that the Company's DCRF filings have generally ranged from
20 \$30 to \$50 million per year, customers will see substantial benefit from the terms
21 of the Agreement.

1 **Q. IS THE 6.51% WEIGHTED AVERAGE COST OF CAPITAL IN THE**
2 **AGREEMENT REASONABLE?**

3 A. While CenterPoint Houston considers its cost of equity to be higher, as indicated in
4 the direct and rebuttal testimonies of its witness Robert Hevert, determining the
5 appropriate cost of equity is complex and is not simply a matter of using a
6 formula—as evidenced by the significant range of recommendations among the
7 cost of equity witnesses. The settlement presents a cost of capital that is based on
8 an agreed capital structure that is different than CenterPoint Houston’s current
9 capital structure of 55% debt to 45% equity and it reflects a compromise among
10 well-represented parties in the context of a comprehensive and difficult to achieve
11 settlement. It is reasonable in that context.

12 **Q. WHAT ACTIONS WILL CENTERPOINT HOUSTON UNDERTAKE TO**
13 **EFFECTUATE THE CHANGE IN CAPITAL STRUCTURE PRESENTED**
14 **IN THE AGREEMENT?**

15 A. Upon entry of a Commission final order approving the new capital structure,
16 CenterPoint Houston will issue a dividend to CenterPoint Energy, Inc. to rebalance
17 CenterPoint Houston’s capital structure in accordance with the 42.5% equity limit
18 of the Agreement. The amount of the dividend is dependent on the capital structure
19 at the time of the final order and is currently estimated at between \$325 million and
20 \$425 million.

1 **Q. ARE THE ACCOUNTING-RELATED PORTIONS OF THE AGREEMENT**
2 **REASONABLE?**

3 A. Yes. In particular, the parties' agreement that nothing in the Agreement shall be
4 construed as to require CenterPoint Houston to write off any assets, liabilities or
5 investment is important because it ensures that the result of the case and intent of
6 the parties is solely to arrive at a forward-looking base rate-related decision.

7 **Q. HOW WERE THE TCOS, TCRF AND DCRF BASELINES THAT ARE**
8 **PRESENTED IN THE AGREEMENT DEVELOPED?**

9 A. The TCOS, TCRF and DCRF baselines were developed using Commission Staff's
10 number run filed on December 5, 2019 and adjusted for the Underground Cable
11 Life Extension Program per the Agreement. Values from the relevant functional
12 worksheets of Staff's model were copied into a separate Excel workbook for each
13 cost recovery mechanism using the Commission's respective interim filing
14 packages. The TCOS baseline was developed directly from the TRANS function,
15 exclusive of FERC account 565 (Transmission of Electricity by Others). The
16 DCRF baseline was developed directly from combining the DIST, MET, and TDCS
17 functions. For each rate class, the baseline values reflect the functionalization and
18 class allocation treatments for each line item in the model. The TCRF baseline was
19 also updated to reflect the Commission's most recent update to CenterPoint
20 Houston's TCRF in Docket No. 50294. The parties' agreement on the TCOS,
21 TCRF and DCRF baselines should help to limit any controversy over those
22 baselines in future proceedings.

1 **Q. HAS THE COMPANY CALCULATED THE RATES RESULTING FROM**
2 **THE AGREEMENT IN ACCORDANCE WITH THE COMMISSION'S**
3 **RFP?**

4 A. Yes. Exhibit KLC-AGREE-1 presents the values consistent with the Agreement
5 and the Commission's RFP.

6 **Q. WHAT ACTION DOES CENTERPOINT HOUSTON REQUEST THAT**
7 **THE COMMISSION TAKE IN THIS PROCEEDING?**

8 A. The Company requests that the Commission approve the Agreement as filed, and
9 the accompanying tariffs as proposed.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 A. Yes, it does.

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

AFFIDAVIT OF Kristie L. Colvin

BEFORE ME, the undersigned authority, on this day personally appeared Kristie L. Colvin who having been placed under oath by me did depose as follows:

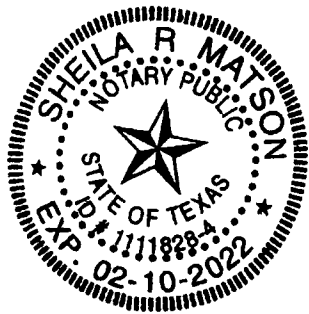
1. “My name is Kristie L. Colvin. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
2. I have prepared the foregoing Settlement Testimony and the information contained in this document is true and correct to the best of my knowledge.”

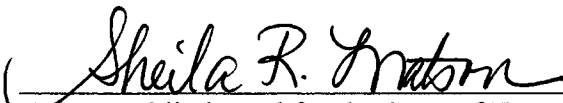
Further affiant sayeth not.



Kristie L. Colvin

SUBSCRIBED AND SWORN TO BEFORE ME on this 21 day of January 2020.





Notary Public in and for the State of Texas

My commission expires: 02-10-2022

**Testimony in Support of Agreement of Kristie L. Colvin
CenterPoint Energy Houston Electric, LLC**