



Control Number: 49421



Item Number: 788

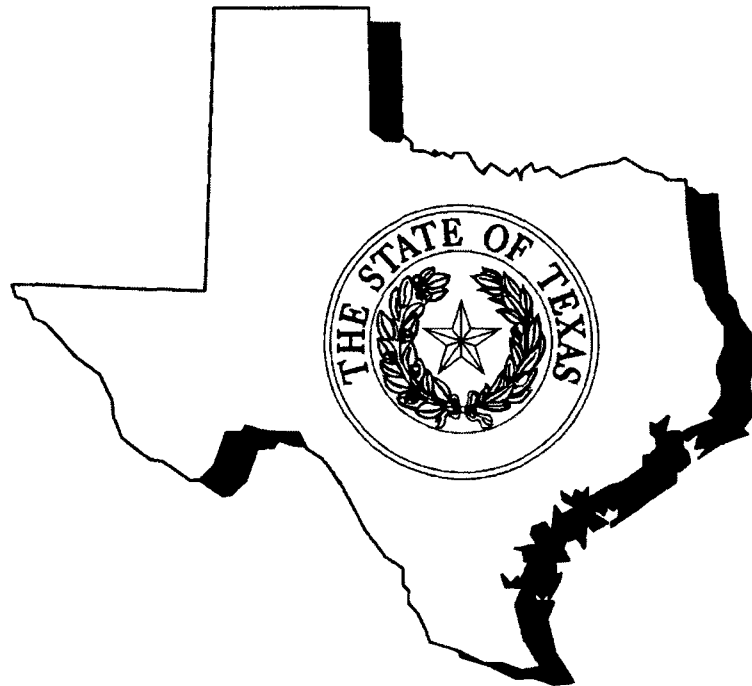
Addendum StartPage: 0

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

RECEIVED
2020 JAN 28 PM 2:09
PUBLIC UTILITY COMMISSION
FILING CLERK

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

**BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS**



**TESTIMONY OF DARRYL TIETJEN
IN SUPPORT OF STIPULATION
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
JANUARY 28, 2020**

000001
7874

TESTIMONY OF DARRYL TIETJEN
IN SUPPORT OF STIPULATION

TABLE OF CONTENTS

I. Introduction.....2

II. Purpose of Testimony.....2

III. Discussion of Key Provisions of the Transaction.....3

IV. Recommendation.....9

Attachment DT-1
List of Testimonies by Darryl Tietjen

I. INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. Darryl Tietjen, 1701 N. Congress Avenue, Austin, Texas.
3
4

5 **Q. Are you the same Darryl Tietjen who previously submitted direct testimony on behalf**
6 **of the Commission Staff in this case?**

7 A. Yes.
8

II. PURPOSE OF TESTIMONY

9
10 **Q. What is the purpose of your supplemental testimony in this proceeding, Docket No.**
11 **49421, *Application of CenterPoint Energy Houston Electric, LLC for Authority to***
12 ***Change Rates?***

13 A. The purpose of my testimony is to support the stipulated agreement (Agreement) that
14 CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), intervening parties, and
15 Commission Staff (collectively, Signatories) have reached in this proceeding.
16

17 **Q. Does the Agreement provide for an acceptable resolution of CenterPoint Houston's**
18 **request in this proceeding?**

19 A. Yes. The terms of the Agreement address a broad range of issues, and the Agreement
20 reflects an appropriate and reasonable balancing of the interests of CenterPoint Houston,
21 its customers, and other participants in the Texas electricity market. The final terms
22 constitute a negotiated compromise to which the Signatories agreed after detailed
23 discussions, and any changes to the Agreement could undermine its purpose, result in the
24 withdrawal from the Agreement by Signatories negatively affected by the changes, and
25 create additional litigation and costs.
26

27 **Q. When did CenterPoint Houston file its initial application in this proceeding?**

28 A. CenterPoint Houston filed its application with the Commission and municipalities retaining
29 original jurisdiction on April 5, 2019. This case is CenterPoint Houston's first

1 comprehensive rate review since Docket No. 38339, for which the Commission issued an
2 order in May 2011.

3
4 **Q. Who are the parties in this proceeding that support or do not oppose the Agreement?**

5 A. In addition to the CenterPoint Houston and the Commission Staff, the Office of Public
6 Utility Counsel, the City of Houston/Houston Coalition of Cities, Texas Coast Utilities
7 Coalition, Gulf Coast Coalition of Cities, H-E-B LP, Texas Energy Association for
8 Marketers, Alliance for Retail Market, Texas Industrial Energy Consumers and Walmart
9 Inc. support the Agreement. The parties that are unopposed are Texas Competitive Power
10 Advocates, Calpine Corporation, Olin Corporation, Solar Energy Industries Association,
11 Enel X North America, Inc., Generation Park Management District, and McCord
12 Development, Inc.

13
14 **Q. Do any parties oppose the Agreement?**

15 A. No.

16
17 **Q. Are you the only witness providing testimony in support of the Agreement?**

18 A. No. Kristie L. Colvin, on behalf of CenterPoint Houston, is also providing supporting
19 testimony.

20
21 **III. DISCUSSION OF KEY PROVISIONS OF THE STIPULATION**

22 **Q. What are the major provisions of the Agreement?**

23 A. The Agreement includes the following terms:

24
25 **A. Overall Revenues.** CenterPoint Houston's total base rate revenue requirement will
26 be increased by a "black box" amount of \$13 million. If the Commission issues a
27 Final Order on or before February 5, 2020, then the approved rates will be effective
28 on March 1, 2020. If the Commission issues a Final Order on or after February 6,
29 2020, then the approved rates will be effective 45 days after the date of the Order.

30
31 **B. Cost of Capital.** Beginning with the effective date of the new rates authorized in
32 this proceeding, CenterPoint Houston's Weighted Average Cost of Capital
33 (WACC) shall be 6.51% based upon an as-filed 4.38% Cost of Debt, an agreed

1 Return on Equity (ROE) of 9.4%, and an agreed regulatory capital structure of
2 57.5% long-term debt and 42.5% equity. The foregoing WACC, Cost of Debt,
3 ROE, and Capital Structure are in accord with Public Utility Regulatory Act
4 (PURA) §§ 36.051 and 36.052, and will apply, in accordance with the PURA and
5 Commission rules, in all Commission proceedings or Commission filings requiring
6 the application of the WACC, Cost of Debt, ROE, or Capital Structure as
7 established in this case.

8
9 **C. Future Base Rate Proceeding.** CenterPoint Houston will file a base rate case no
10 later than four years from the date of the Commission's final order in this docket
11 and will not request a delay of the filing of its next base rate case using the
12 provisions of 16 Texas Administrative Code (TAC) § 25.247(b)(2). Nothing in this
13 paragraph prohibits CenterPoint Houston from filing, or any regulatory authority
14 from requiring pursuant to applicable law, a base rate case earlier than four years
15 from the date of the Commission's final order in this docket.

16
17 **D. Distribution Cost Recovery Factor (DCRF) Proceeding.** CenterPoint Houston
18 will not file a DCRF proceeding during the 2020 calendar year. When updating its
19 distribution rate base through future DCRF proceedings, CenterPoint Houston will
20 update its distribution rate base to account for the effects of changed accumulated
21 deferred federal income tax (ADFIT) and excess deferred income tax (EDIT)
22 regulatory liability balances, in each proceeding requesting an update of its
23 distribution rates.

24
25 **E. Transmission Cost of Service (TCOS) Proceedings.** Between the date of the
26 final order in this proceeding and the date of the final order in CenterPoint
27 Houston's next base rate proceeding, when updating its transmission rate base
28 through TCOS proceedings, CenterPoint Houston will update its transmission rate
29 base to account for the effects of changed ADFIT and EDIT regulatory liability
30 balances, in each proceeding requesting an update of its wholesale transmission
31 rates.

32
33 **F. Revenue Allocation.** The revenue requirement, including the revenue increase
34 authorized under Paragraph I.A. above, will be distributed among customer classes
35 per the allocation set forth in Staff's number run filed on December 5, 2019. In
36 accordance with this Agreement, CenterPoint Houston will recover all existing and
37 future transmission-related costs through its transmission cost recovery factor
38 (TCRF) instead of through base rates.

39
40 **G. Rate Design and Tariff Approval.** The tariff sheets in Exhibit C attached to the
41 Agreement and incorporated by reference set out the rate design agreed to by the
42 Signatories and incorporate the total base revenue increase described above.
43 CenterPoint Houston's proposed tariff text changes and rates for the various classes
44 are consistent with this Agreement, as set out in Exhibit C.

45
46 **H. Ring-Fencing.** The parties agree to the following ring-fencing measures:
47

- 1 a. CenterPoint Houston’s credit agreements and indentures shall not contain
2 cross-default provisions by which a default by CenterPoint Energy, Inc. (CNP)
3 or its other affiliates would cause a default at CenterPoint Houston.
4
- 5 b. The financial covenant in CenterPoint Houston’s credit agreement shall not be
6 related to any entity other than CenterPoint Houston. CenterPoint Houston
7 shall not include in its debt or credit agreements any financial covenants or
8 rating agency triggers related to any entity other than CenterPoint Houston.
9
- 10 c. CenterPoint Houston shall not pledge its assets in respect of or guaranty any
11 debt or obligation of any of its affiliates. CenterPoint Houston shall not pledge,
12 mortgage, hypothecate, or grant a lien upon the property of CenterPoint
13 Houston except pursuant to an exception in effect in CenterPoint Houston’s
14 current credit agreement, such as the first mortgage and general mortgage.
15
- 16 d. CenterPoint Houston shall maintain its own stand-alone credit facility, and
17 CenterPoint Houston shall not share its credit facility with any regulated or
18 unregulated affiliate.
19
- 20 e. CenterPoint Houston shall maintain registrations with all three ratings agencies.
21
- 22 f. CenterPoint Houston shall maintain a stand-alone credit rating.
23
- 24 g. CenterPoint Houston’s first mortgage bonds and general mortgage bonds shall
25 be secured only with CenterPoint Houston’s assets.
26
- 27 h. No CenterPoint Houston assets may be used to secure the debt of CNP or its
28 non-CenterPoint Houston affiliates.
29
- 30 i. CenterPoint Houston shall not hold out its credit as being available to pay the
31 debt of any affiliates (provided that, for the avoidance of doubt, CenterPoint
32 Houston is not considered to be holding its credit out to pay the debt of
33 affiliates, or in breach of any other ring-fencing measure, with respect to the
34 \$68 million of CenterPoint Houston general mortgage bonds that currently
35 serve as collateral for certain outstanding CNP pollution control bonds).
36
- 37 j. Without prior approval of the Commission, neither CNP nor any affiliate of
38 CNP (excluding CenterPoint Houston) may incur, guaranty, or pledge assets in
39 respect of any incremental new debt that is dependent on: (1) the revenues of
40 CenterPoint Houston in more than a proportionate degree than the other
41 revenues of CNP¹; or (2) the stock of CenterPoint Houston.
42

¹ Staff modified the language “the revenues of CenterPoint Houston in more than a proportionate degree than the other revenues of *CenterPoint Houston*.” While the previous sentence is consistent with both the Proposal for Decision and the Stipulation, Staff believes that the change from “CenterPoint Houston” to “CNP” is not a substantive modification and gives the ring-fencing provision its intended meaning.

- 1 k. CenterPoint Houston shall not transfer any material assets or facilities to any
2 affiliates, other than a transfer that is on an arm's length basis consistent with
3 the Commission's affiliate standards applicable to CenterPoint Houston.
4
- 5 l. Except for its participation in an affiliate money pool, CenterPoint Houston
6 shall not commingle its assets with those of other CNP affiliates.
7
- 8 m. Except for its participation in an affiliate money pool, CenterPoint Houston
9 shall not lend money to or borrow money from CNP affiliates.
10
- 11 n. CenterPoint Houston shall notify the Commission if its credit issuer rating or
12 corporate rating as rated by any of the three major rating agencies falls below
13 investment grade level.
14

15 The Signatories further agree that the Commission will decide whether to adopt
16 dividend restriction ringfencing provisions for CenterPoint Houston based on
17 the record and the parties' briefing currently on file with the Commission,
18 unless the Commission requests additional briefing. If CenterPoint Houston
19 appeals any Commission decision related to dividend restrictions, CenterPoint
20 Houston will reimburse, on a monthly basis, the expenses of other parties
21 incurred to litigate that appeal and not seek recovery of those expenses in rates.
22

- 23 **I. Invested Capital.** CenterPoint Houston's invested capital, including its plant in
24 service through the end of the test year (December 31, 2018), as reflected on Exhibit
25 D attached to the Agreement and incorporated by reference, is used and useful in
26 providing service, and prudent and properly included in rate base. This includes
27 approximately \$41.2 million in Underground Cable Life Extension Program
28 investment placed in service from January 1, 2013 through December 31, 2017.
29 For purposes of CenterPoint Houston's Earnings Monitoring Reports for reporting
30 years beginning in 2020, CenterPoint Houston's total Company Cash Working
31 Capital is \$24,269,000, as shown on Exhibit D.
32
- 33 **J. Certain Tax Matters.**
- 34 a. **UEDIT.** CenterPoint Houston will refund through Rider UEDIT and its Wholesale
35 Transmission Service tariff an unprotected excess deferred income tax (UEDIT)
36 amount of \$64,903,763, protected excess deferred income tax amount of
37 \$18,659,227, and gross-up of \$21,886,079 for a total UEDIT refund of
38 \$105,449,069 plus carrying costs. The refund and amortization period for UEDIT
39 for Residential Service, Secondary Service Less Than or Equal to 10 KVA, Street
40 Lighting Service, and Miscellaneous Lighting Service beginning will be
41 approximately 30 months beginning with the effective date of the rates authorized
42 in this proceeding, as shown in the rate schedules on Exhibit E to the Agreement.
43 The refund and amortization period for UEDIT for Secondary Service Greater Than
44 10 KVA, Primary Service, and Transmission Service will be approximately 36
45 months beginning with the effective date of the rates authorized in this proceeding,
46 as shown in the rate schedules on Exhibit E to the Agreement. The refund and
47 amortization period for the amount included in the Wholesale Transmission Service

1 (WTS) tariff is approximately 36 months, as shown in the WTS rate schedule on
2 Exhibit C to the Agreement.

3
4 **b. Proceeding Related to Securitized EDIT.** The Signatories agree that no
5 proceeding should be initiated to review CenterPoint Houston's or its affiliate's
6 ADFIT balances on CenterPoint Houston's or its affiliate's transition and
7 restoration bonds and that no Signatory will raise issues related to the appropriate
8 treatment of EDIT amounts associated with those bonds in future Commission
9 proceedings related to CenterPoint Houston or its affiliates.

10
11 **K. Accounting Matters.** CenterPoint Houston will be permitted, for purposes of
12 future DCRF, TCOS and general rate case proceedings, to reflect Texas Margin
13 Tax (TMT) expense based on the current TMT rate applicable in the period that
14 rates are recovered. Except with respect to EDIT regulatory assets and liabilities,
15 regulatory assets and liabilities maintained on the Company's books and records
16 and at issue in this proceeding may be amortized over five years. The Texas Margin
17 Tax regulatory asset included in CenterPoint Houston's rate filing package is not
18 considered in the regulatory assets and the amount of the amortization expense
19 referenced in this Agreement. CenterPoint Houston's total Prepaid Pension Asset
20 will be reduced by the capital component identified as Construction Work in
21 Progress (CWIP) and CenterPoint Houston is authorized to apply and recover an
22 amount for AFUDC. With the exception of rate case expenses as described below,
23 nothing in the "black box" Agreement shall be construed in such a way as to require
24 CenterPoint Houston to write off any investment, assets, or liabilities currently
25 maintained on its books and records.

26
27 **L. Rate Case Expenses.** CenterPoint Houston agrees to reimburse cities participating
28 in this docket for rate case expenses incurred in all dockets subject to Docket No.
29 49595. CenterPoint Houston agrees not to seek recovery of rate case expenses
30 requested in Docket No. 49595, including expenses associated with this
31 proceeding, Docket No. 49421, and any appeals of this proceeding. Cities will
32 provide CenterPoint Houston with invoices for all rate case expenses incurred
33 within 10 days of a final order in this proceeding. CenterPoint Houston will
34 reimburse Cities for rate case expenses included on invoices submitted in
35 accordance with this timeline within 30 days of a final order in this proceeding.
36 CenterPoint Houston will not be required to reimburse Cities for rate case expenses
37 not included on invoices provided in accordance with this timeline. CenterPoint
38 Houston will withdraw or move to dismiss Docket No. 49595 within 30 days of a
39 final order in this proceeding.

40
41 **M. Statutory Requirements and Baseline Values.**

42
43 **a. Affiliate Expenses.** The affiliate amounts included in the rates developed
44 through this Agreement, are reasonable and necessary, are allowable, and are
45 charged to CenterPoint Houston at a price no higher than was charged by the
46 supplying affiliate to other affiliates. Each Signatory reserves the right, in a
47 future CenterPoint Houston proceeding and for prospective application, to

1 dispute whether, and in what amount, CenterPoint Houston may include in rate
2 base or expense, amounts related to affiliate services.
3

4 **b. Self-Insurance Reserve.** CenterPoint Houston's request for an annual self-
5 insurance reserve accrual of \$7.685 million and a new target property insurance
6 reserve of \$6.55 million is reasonable and should be approved by the
7 Commission. The accrual consists of (1) \$3.575 million to provide for average
8 annual expected operations and maintenance (O&M) expense losses from
9 events where losses are greater than \$100,000; and (2) \$4.11 million accrued
10 annually for three years to achieve a target reserve of \$6.55 million from the
11 current reserve deficit level of (\$5.79 million).
12

13 **c. Depreciation.** Beginning with the effective date of the new rates authorized in
14 this proceeding, CenterPoint Houston will use the depreciation rates as
15 proposed in the direct testimony of CenterPoint Houston witness Dane Watson
16 (CenterPoint Houston Ex. 25). These rates are shown on Exhibit F of the
17 agreement, which is a copy of Exhibit DAW-1 from Mr. Watson's direct
18 testimony.
19

20 **d. Pension and Other Postemployment Benefit Baselines.** Consistent with
21 PURA § 36.065, CenterPoint Houston's Pension and Other Postemployment
22 Benefits (OPEB) Baselines are \$23,853,739 for pension and \$2,671,274 for
23 OPEB expense. The combined total of \$26,525,013 consists of the amount for
24 CenterPoint Houston of \$19,627,483 and Service Company of \$6,897,530.
25

26 **e. Interim Update of Transmission Rates.** When CenterPoint Houston files an
27 application to update its transmission rates on an interim basis pursuant to 16
28 TAC § 25.192(h), the baseline values to be used in that application are as
29 provided in Exhibit G attached to and incorporated into the Agreement. The
30 baseline values are a product of compromise between the Signatories. The fact
31 that the Signatories have agreed to the use of these baseline values as specified
32 in this section does not reflect an agreement on any methodology that may or
33 may not have been used to derive those baselines.
34

35 **f. Transmission Cost Recovery Factor (TCRF).** The rates set following this
36 proceeding will reflect CenterPoint Houston's updated TCRF, as approved in
37 Commission Docket No. 50294. When CenterPoint Houston files an
38 application to update its TCRF under 16 TAC § 25.193, the baseline values to
39 be used in that application are as provided in Exhibit H attached to and
40 incorporated into this Agreement. The baseline values are a product of
41 compromise between the Signatories. The fact that the Signatories have agreed
42 to the use of these baseline values as specified in this section does not reflect an
43 agreement on any methodology that may or may not have been used to derive
44 those baselines.
45

46 **g. Distribution Cost Recovery Factor (DCRF).** When CenterPoint Houston
47 files an application for a DCRF pursuant to 16 TAC § 25.243, the baseline
48 values to be used in that application are as provided in Exhibit I attached to and

1 incorporated into this Agreement. The baseline values are a product of
2 compromise between the Signatories. The fact that the Signatories have agreed
3 to the use of these baseline values as specified in this section does not reflect an
4 agreement on any methodology that may or may not have been used to derive
5 those baselines.
6

7
8 **Q. Are the terms of the Agreement fair and reasonable?**

9 A. Yes. I believe that implementation of the various terms in the Agreement will result in a
10 fair and reasonable outcome for affected stakeholders. The Agreement provides certainty
11 on the resolution of a variety of issues, and it ensures an outcome that, in the aggregate, is
12 at least equal to—or, in some instances, possibly better than—what would result from
13 continued litigation of this proceeding.
14

15 **IV. RECOMMENDATION**

16 **Q. What is your recommendation in this proceeding?**

17 A. In my opinion, the Agreement represents an agreement between the parties that results in
18 an acceptable resolution to this proceeding that is consistent with the public interest. The
19 Agreement takes into account the effect not only on CenterPoint Houston and its
20 customers, but on public-interest considerations from an overall industry and statewide
21 perspective as well.

22 Accordingly, I believe that the terms of the Agreement provide an acceptable
23 degree of certainty to both CenterPoint Houston and its customers. Given the broad
24 spectrum of issues addressed by the Agreement and the certainty provided by the formal
25 agreement of the stipulating and non-opposing parties, I recommend that the Commission
26 adopt the Agreement in its entirety.
27

28 **Q. Does this conclude your testimony?**

29 A. Yes.

**LIST OF TESTIMONIES
BY DARRYL TIETJEN**

<u>P.U.C. Docket</u>	<u>Company</u>	<u>Subject</u>
10060	Brazos River Authority	Rate of Return
10462	Tex-La Electric Cooperative	Interim Rates/ROR
10325	Central Texas Electric Cooperative	Rate of Return
10744	Rayburn Country Electric Cooperative	Sale, Transfer, Merger
10820	Magic Valley Electric Cooperative	Rate of Return
11347	Johnson County Electric Cooperative	Rate of Return
11571	Fayette Electric Cooperative	Rate of Return
11520	Southwestern Public Service Company	Rate of Return
12065	Houston Lighting & Power Company	Decomm. Exp.
12700	El Paso Electric Company	Rate Moderation/ Mirror CWIP
12815	Pedernales Electric Cooperative	Rate of Return
12820	Central Power and Light Company	Decomm. Exp.
12852	Gulf States Utilities Company	Decomm. Expense/ Contra-AFUDC
13827	Southwestern Public Service	Notice of Intent
14965	Central Power and Light Company	ROR/ Decomm. Exp.
15638	Texas Utilities Electric Company	Transmission COS
16585	T&H Communications	SPCOA
16705	Entergy Gulf States	Rate of Return
16705	Entergy Gulf States	ROR on ECOM
18290	Entergy Gulf States	Int. on Tax Remand
18845	Central and South West Companies	Financial Condition of Resource Providers
21527	TXU Electric Company	Securitization
21528	Central Power and Light Company	Securitization
22344	Generic Unbundled Docket	Return on Equity
22355	Reliant Energy	ECOM Estimate
22352	Central Power and Light Company	Cost of Debt
22354	West Texas Utilities Company	Refinancing Costs
22350	TXU Electric Company	ECOM Estimate
26942	Texas-New Mexico Power Company	Reg Asset Treatment
29206	Texas-New Mexico Power Company	Stranded Costs & True-up Issues
29206	Texas-New Mexico Power Company	Int on Stranded Costs
29526	CenterPoint Energy Houston Electric	Stranded Costs & True-up Issues
29526	CenterPoint Energy Houston Electric	Int. on Stranded Costs
30485	CenterPoint Energy Houston Electric	Financing Order

**LIST OF TESTIMONIES
BY DARRYL TIETJEN (cont.)**

30706	CenterPoint Energy Houston Electric	Comp. Transition Charge
31056	AEP Texas Central Company	Stranded Costs & True-up Issues
31994	Texas-New Mexico Power Company	Comp. Transition Charge
32475	AEP Texas Central	Financing Order
32907	Entergy Gulf States, Inc.	Interest on Storm Costs
33106	Texas-New Mexico Power Company	Interest Rate on CTC Financing Order
33586	Entergy Gulf States, Inc.	Financing Order
32795	\$5 Billion Stranded-Cost Threshold	Interest Amount
34448	CenterPoint Energy Houston Electric	Financing Order
34077	Oncor Electric Delivery and Texas Energy Future Holdings Limited Partnership	Support of Agreement
35038	Texas-New Mexico Power Company	Tariff Filing
33891	Southwestern Electric Power Co.	CCN Application
36918	CenterPoint Energy Houston Electric	Restoration Costs
36931	Entergy Texas	Restoration Costs
39504	CenterPoint Energy Houston Electric	Remanded True-up Costs
39722	AEP Texas Central Company	Remanded True-up Costs
40627	Austin Energy	Rate Issues
45188	Oncor Electric Delivery Company, et al.	Federal Inc. Taxes; Cost of Capital
46238	NextEra, Oncor	Federal Income Taxes
45414	Sharyland Utilities, et al.	Federal Income Taxes
46936	Southwestern Public Service Co.	Wind Facilities—Rate Treatment
46936	Southwestern Public Service Co.	Testimony in Support of Agreement
46957	Oncor Electric Delivery Company	Testimony in Support of Agreement (included in AIS item #420)
47527	Southwestern Public Service Company	Testimony in Support of Agreement
48401	Texas-New Mexico Power Company	Testimony in Support of Agreement

**LIST OF TESTIMONIES
BY DARRYL TIETJEN (cont.)**

48439	Entergy Texas	Testimony in Support of Agreement (Rate Case Exp) Rate-Related Issues
48929	Oncor Electric Delivery Company, Sharyland Utilities, LP, et al.	
49308	AEP Texas, Inc.	Testimony in Support of Agreement (Financing Order)
49421	CenterPoint Energy Houston Electric, LLC	Financial Protection Measures; Securitization-Related ADFIT
49494	AEP Texas	Financial Protection Measures; Securitization-Related ADFIT
49849	El Paso Electric Company, et al.	Accounting Issues; Testimony in Support of Agreement