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Addendum StartPage: 0

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

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PUBLIC UTILITY COMMISSION
OF TEXAS

ORDER

This Order addresses the application of CenterPoint Energy Houston Electric, LLC for authority to change its rates. CenterPoint Houston filed a settlement agreement that resolves certain issues between the parties to the proceeding. The Commission approves the rates, terms, and conditions set forth in the agreement to the extent provided in this Order.

I. Background

On April 5, 2019, CenterPoint Houston filed an application for authority to change its rates. CenterPoint Houston initially sought to increase its annual transmission and distribution revenues by approximately \$161 million but revised its requested increase in an errata filing to approximately \$154.6 million, inclusive of a rider (rider UEDIT) to refund to customers the unprotected excess deferred federal income tax (EDIT) balance that resulted from the Tax Cuts and Jobs Act of 2017. CenterPoint Houston requested an overall rate of return of 7.39%, based on a cost of debt of 4.38%, a return on equity of 10.4%, and a capital structure of 50% long-term debt and 50% equity.

The Commission referred this docket to the State Office of Administrative Hearings (SOAH) on April 8, 2019. Parties filed testimony and engaged in discovery. After a hearing on the merits was held, the SOAH administrative law judges (ALJs) filed a proposal for decision on September 9, 2019. In the proposal for decision, the SOAH ALJs recommended an increase of \$2,644,193 to CenterPoint Houston's total base-rate revenue requirement. The SOAH ALJs also recommended an overall rate of return of 6.65%, based on a cost of debt of 4.38%, a return on equity of 9.45%, and a capital structure of 55% long-term debt and 45% equity.

The Commission considered the proposal for decision at its November 14, 2019 open meeting but did not formally act on it at that time. On January 9, 2020, CenterPoint Houston filed

792

a letter indicating that all parties had either agreed in principle to an agreement or were unopposed to it. CenterPoint Houston filed a non-unanimous but unopposed agreement on January 23, 2020. The signatories agreed to a \$13 million black-box increase to CenterPoint Houston's total base-rate revenue requirement. The signatories agreed that CenterPoint Houston's overall rate of return should be 6.51%, based on a cost of debt of 4.38%, a return on equity of 9.4%, and a capital structure of 57.5% long-term debt and 42.5% equity. The agreement also specified that CenterPoint Houston will recover all existing and future transmission-related costs through its transmission cost recovery factor instead of through base rates. However, the agreement left to the Commission the resolution of whether dividend restrictions should be imposed on CenterPoint Houston.

At its February 14, 2020 open meeting, the Commission considered the agreement in lieu of the proposal for decision and voted to approve it without imposing dividend restrictions on CenterPoint Houston. Accordingly, the Commission does not adopt the proposal for decision.

II. Findings of Fact

The Commission makes the following findings of fact.

Applicant

1. CenterPoint Houston is an investor-owned electric utility within the Electric Reliability Council of Texas (ERCOT) system.
2. CenterPoint Houston is a subsidiary of CenterPoint Energy, Inc.
3. CenterPoint Houston serves approximately 2.5 million metered customers.
4. CenterPoint Houston's electric system covers approximately 5,000 square miles located in and around Houston, Texas and has approximately 58,000 miles of overhead and underground transmission and distribution lines.
5. CenterPoint Houston's last base-rate case was filed on June 30, 2010 and docketed as Docket No. 38339.¹

¹ *Application of CenterPoint Energy Houston Electric LLC for Authority to Change Rates*, Docket No. 38339 Order on Rehearing (Jun. 23, 2011).

Application

6. On April 5, 2019, CenterPoint Houston filed an application and statement of intent to change retail transmission and distribution rates and wholesale transmission rates.
7. CenterPoint Houston used a test year from January 1, 2018 through December 31, 2018.
8. CenterPoint Houston initially sought Commission approval to increase transmission and distribution revenues by approximately \$161 million, inclusive of rider UEDIT. The requested adjustment included a net annual increase in retail transmission and distribution revenue of approximately \$154.2 million over adjusted test-year revenues. The requested increase also included an annual increase of approximately \$6.8 million for wholesale transmission service.
9. CenterPoint Houston also initially proposed the establishment of rider UEDIT to continue returning to customers over three years approximately \$97 million in unprotected EDIT resulting from the enactment of the Tax Cuts and Jobs Act of 2017.²
10. In an errata filed on May 20, 2019, CenterPoint Houston amended its requested annual increase in transmission and distribution revenues to \$154.6 million, inclusive of rider UEDIT. This increase comprises a net annual increase in retail transmission and distribution revenue of approximately \$149.2 million over adjusted test-year revenues and an annual increase of approximately \$5.4 million for wholesale transmission service. In its errata filing, CenterPoint Houston proposed to return approximately \$119 million to customers over a three-year period through rider UEDIT.
11. In addition to the rate increase, CenterPoint Houston requested a prudence determination for all capital investment made between January 1, 2010 and December 31, 2018, approval to establish and recover certain regulatory assets and liabilities, permission to install voltage-regulation battery assets, approval of new facility-extension policies for electric-vehicle public charging stations, and the recovery of reasonable rate-case expenses.

² Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, Pub. L. No. 115-97, 113 Stat. 2054 (Dec. 22, 2017).

12. No party challenged the adequacy and completeness of CenterPoint Houston's application.
13. In SOAH Order No. 4 filed May 28, 2019, the SOAH ALJs found the application sufficient.
14. CenterPoint Houston complied with the form and instructions for the Commission's rate-filing package and the application was administratively complete.

Effective Date of Proposed Rates

15. CenterPoint Houston's application to change rates initially proposed an effective date of May 10, 2019.
16. In SOAH Order No. 1 filed April 9, 2019, the SOAH ALJs suspended CenterPoint Houston's proposed effective date until October 7, 2019 and provided notice of a prehearing conference.
17. At the June 24, 2019 prehearing conference, CenterPoint Houston agreed to extend the effective date of its proposed rates to October 12, 2019.
18. In a letter to the Commission filed October 11, 2019, CenterPoint Houston agreed to extend the effective date of its proposed rates to November 15, 2019.
19. In a letter to the Commission filed December 13, 2019, CenterPoint Houston agreed to extend the effective date of its proposed rates to January 16, 2019 to allow settlement discussions to continue.
20. On January 23, 2020, CenterPoint Houston filed a non-unanimous but unopposed agreement that resolved certain issues between the parties. The signatories agreed for the approved rates to be effective 45 days after the date of this Order if the Order was filed after February 5, 2020.

Notice

21. Notice of CenterPoint Houston's application was published once each week for four consecutive weeks on April 18, April 25, May 2, and May 9, 2019 in the *Houston Chronicle*, which is a newspaper that has general circulation in each county of CenterPoint Houston's Texas service area. On May 14, 2019, CenterPoint Houston filed the affidavit of Alice S. Hart, who attested to the completion of notice as described in this finding of

fact. In addition, CenterPoint Houston filed publisher's affidavits from the *Houston Chronicle*.

22. No party challenged the adequacy of the notice provided by CenterPoint Houston, and Commission Staff recommended that the SOAH ALJs find that the notice was sufficient.
23. In SOAH Order No. 2 filed May 1, 2019, the SOAH ALJs found CenterPoint Houston's notice of the application sufficient.
24. A copy of the application and rate-filing package was sent by hand delivery or overnight mail to each party that participated in Docket No. 38339.
25. CenterPoint Houston served a copy of its statement of intent on each municipality within CenterPoint Houston's service area and provided a copy of its petition to each municipality with original jurisdiction over CenterPoint Houston's rates and services on March 1, 2019.
26. CenterPoint Houston served notice of the application by mail to each of the ERCOT wholesale transmission customers on the service list in Docket No. 48928.³
27. CenterPoint Houston served by mail notice of the application to each retail electric provider listed on the Commission's website as of the date on which service was sent.
28. On April 16, 2019, a revised notice was mailed to each of the ERCOT wholesale transmission customers on the service list in Docket No. 48928 and to each retail electric provider listed on the Commission's website.

Intervenors

29. In SOAH Order No. 2 filed May 1, 2019, the SOAH ALJs granted the motions to intervene of the following entities: Office of Public Utility Council (OPUC), City of Houston, Gulf Coast Coalition of Cities, Texas Coast Utilities Coalition, Texas Industrial Energy Consumers (TIEC), Alliance for Retail Markets, and Texas Energy Association for Marketers.

³ *Application to Set 2019 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas*, Order (Apr. 4, 2019).

30. In SOAH Order No. 3 filed May 16, 2019, the SOAH ALJs granted the motions to intervene of the following entities: Calpine Corporation, Texas Competitive Power Advocates, and Olin Corporation.
31. In SOAH Order No. 6 filed June 4, 2019, the SOAH ALJs granted the motions to intervene of the following entities: McCord Development, Inc.; Generation Park Management District; H-E-B, LP; Enel X North America, Inc.; Walmart Inc.; Solar Energy Industries Association; and Houston Coalition of Cities. The SOAH ALJs also held that any party who did not timely file either direct testimony or a statement of position by the deadline was subject to being stricken as a party.
32. Olin Corporation did not file testimony or a statement of position. On June 20, 2019, CenterPoint Houston filed a motion to strike all intervenors who failed to file direct testimony or a statement of position. On June 24, 2019, the SOAH ALJs granted the motion and Olin Corporation was struck as a party to this proceeding.

Appeals of Municipal Ordinances

33. CenterPoint Houston appealed to the Commission the actions of the following municipalities exercising original jurisdiction within CenterPoint Houston's service territory: Brookside Village, Clute, Danbury, East Bernard, El Lago, Freeport, Jones Creek, Meadows Place, Oak Ridge North, Oyster Creek, Richmond, Richwood, Sandy Point, Shoreacres, Simonton, Southside Place, Stafford, Surfside Beach Village, Thompsons, Weston Lakes, Wharton, the Village of Fairchilds, the Village of Pleak, the Town of Quintana, La Marque, South Houston, Dickinson, Jersey Village, Manvel, Lake Jackson, Deer Park, Rosenberg, Webster, Brazos Country, Santa Fe, La Porte, West University Place, Spring Valley Village, Galveston, Hedwig Village, Houston, Alvin, Friendswood, Clear Lake Shores, Pasadena, Sugar Land, Baytown, Missouri City, Pearland, West Columbia, Sealy, League City, Beach City, Bellaire, Bunker Hill Village, Fulshear, Hunter's Creek, Seabrook, Taylor Lake Village, Texas City, and Tiki Island.
34. In SOAH Order No. 7 filed June 18, 2019, municipal rate appeals of the following municipalities were consolidated into this proceeding: Brookside Village, Clute, Danbury, East Bernard, El Lago, Freeport, Jones Creek, Meadows Place, Oak Ridge North, Oyster

Creek, Richmond, Richwood, Sandy Point, Shoreacres, Simonton, Southside Place, Stafford, Surfside Beach Village, Thompsons, Weston Lakes, Wharton, the Village of Fairchilds, the Village of Pleak, and the Town of Quintana.

35. In SOAH Order No. 11 filed September 11, 2019, municipal rate appeals of the following municipalities were consolidated into this proceeding: La Marque, South Houston, Dickinson, Jersey Village, Manvel, Lake Jackson, Deer Park, Rosenberg, Webster, Stafford, Brazos Country, Santa Fe, La Porte, West University Place, Spring Valley Village, Galveston, Hedwig Village, Oak Ridge North, Houston, Alvin, Friendswood, Clear Lake Shores, Pasadena, Sugar Land, Baytown, Missouri City, Freeport, Pearland, West Columbia, Sealy, Clute, League City, Wharton, Beach City, Bellaire, Brookside Village, Bunker Hill Village, Fulshear, Hunter's Creek, Oyster Creek, Seabrook, Simonton, Taylor Lake Village, Texas City, and Tiki Island.

Testimony and Statements of Position

36. CenterPoint Houston included in its application the direct testimonies and exhibits of Kenny M. Mercado, Randal M. Pryor, Martin W. Narendorf Jr., Dale Bodden, Julianne P. Sugarek, John R. Hudson, Kristie L. Colvin, Charles W. Pringle, Justin J. Hyland, Michelle M. Townsend, John E. Slanina, Shachella D. James, Rebecca Demarr, Shane Kimzey, Kelly C. Gauger, Diane M. Englet, Lynne Harkel-Rumford, John J. Reed, Timothy S. Lyons, Dane A. Watson, Robert B. Hevert, Robert B. McRae, Gregory S. Wilson, J. Stuart McMenemy, Matthew A. Troxle, and Myles F. Reynolds.
37. On June 6, 2019, OPUC filed the direct testimonies and exhibits of June M. Dively, Anjali Winker, and Karl Nalepa; City of Houston and Houston Coalition of Cities jointly filed the direct testimonies and exhibits of Kit Pevoto, Mark E. Garrett, and Scott Norwood; Gulf Coast Coalition of Cities filed the direct testimony and exhibits of Lane Kollen; Texas Coast Utilities Coalition filed the direct testimonies and exhibits of J. Randall Woolridge and David J. Garrett; Walmart filed the direct testimony of Steve W. Chriss; TIEC filed the direct testimonies and exhibits of Jeffrey Pollock, Billie S. LaConte, Michael P. Gorman, and Charles S. Griffey; and H-E-B filed the direct testimony of George W. Presses.

38. On June 12, 2019, Commission Staff filed the direct testimonies and exhibits of Brian T. Murphy, Reginald J. Tuvilla, William B. Abbott, Mark Filarowicz, Blake P. Ianni, Alicia Maloy, Jorge Ordonez, Tom Sweatman, and Darryl Tietjen.
39. On June 12, 2019, Alliance for Retail Markets, Calpine Corporation, Enel X, Generation Park Management District, McCord Development, Solar Energy Industries Association, Texas Competitive Power Advocates, and Texas Energy Association for Marketers each filed a statement of position either individually or jointly.
40. On June 19, 2019, CenterPoint Houston filed the rebuttal testimonies of Randal M. Pryor, Martin W. Narendorf Jr., Julianne P. Sugarek, John R. Hudson, Kristie L. Colvin, Charles W. Pringle, Michelle M. Townsend, Kelly C. Gauger, Lynne Harkel-Rumford, John J. Reed, Dane A. Watson, Robert B. Hevert, Robert B. McRae, J. Stuart McMenamin, Matthew A. Troxle, Jeffrey S. Myerson, Ellen Lapson, and George C. Sanger.
41. On June 19, 2019, City of Houston and Houston Coalition of Cities jointly filed the cross-rebuttal testimony of Kit Pevoto; TIEC filed the cross-rebuttal testimony of Jeffrey Pollock; OPUC filed the cross-rebuttal testimony of Karl Nalepa; H-E-B filed the cross-rebuttal testimony of George W. Presses; and Commission Staff filed the cross-rebuttal testimonies of William B. Abbott and Brian T. Murphy.
42. At the hearing on the merits, Commission Staff produced the supplemental direct testimony of Tom Sweatman. The testimony was filed on July 3, 2019.

Referral to SOAH

43. On April 8, 2019, the Commission referred this docket to SOAH.
44. On May 9, 2019, the Commission approved the preliminary order for this docket, setting forth a list of 59 issues to be addressed. The preliminary order stated that the following issues would not be addressed in this proceeding:
 - a. Whether CenterPoint Houston should be permitted to install voltage-regulation battery assets; and
 - b. Whether CenterPoint Houston should be permitted to modify its tariff to add an additional allowance for facility extensions to electric charging stations.

45. In SOAH Order No. 5 filed June 4, 2019, the SOAH ALJs granted CenterPoint Houston's motion to sever issues related to rate-case expenses incurred in this docket and other prior dockets and established Docket No. 49595, *Review of Rate Case Expenses Incurred by CenterPoint Energy Houston Electric, LLC in Docket Nos. 38339, 45747, 47032, 47364, 48226, and 49421*.
46. The hearing on the merits convened on June 24, 2019 and adjourned on June 28, 2019.
47. On July 9, 2019, the parties filed initial post-hearing briefs.
48. On July 16, 2019, the parties filed reply briefs, and the record was closed.
49. On September 16, 2019, the SOAH ALJs filed a proposal for decision for the Commission's consideration.
50. Parties filed exceptions to the proposal for decision on October 10, 2019 and replies to the exceptions on October 24, 2019.
51. On November 7, 2019, the SOAH ALJs filed a letter recommending certain corrections to the proposal for decision.

Agreement

52. On December 13, 2019, CenterPoint Houston filed a letter requesting that the Commission defer further consideration of this docket until its January 16, 2020 open meeting to allow parties to engage in settlement discussions.
53. On January 22, 2020, CenterPoint Houston filed a non-unanimous but unopposed agreement between the parties.
54. The following parties signed the agreement: CenterPoint Houston, Commission Staff, OPUC, City of Houston and Houston Coalition of Cities, Gulf Coast Coalition of Cities, H-E-B, TIEC, Alliance for Retail Markets, Texas Energy Association for Marketers, and Walmart.
55. The following parties are unopposed to the agreement: Texas Competitive Power Advocates, Calpine Corporation, Solar Energy Industries Association, Enel X, Generation Park Management District, and McCord Development.

56. The agreement between the parties is reasonable.

Agreement – Overall Revenues

57. The signatories agreed that CenterPoint Houston's total base-rate revenue requirement should be increased by a black-box amount of \$13 million, as reflected in exhibit A to the agreement.

58. The signatories agreed for the approved rates to be effective 45 days after the date of this Order.

59. The revenues produced by the rates approved in this Order will provide CenterPoint Houston with revenues sufficient to cover its expenses and provide an adequate return.

Agreement – Return and Capital Structure

60. The signatories agreed that, beginning on the effective date of the rates approved by this Order, CenterPoint Houston's weighted average cost of capital will be 6.51%, based on a cost of debt of 4.38%, a return on equity of 9.4%, and a capital structure of 57.5% long-term debt and 42.5% equity.

61. It is appropriate for CenterPoint Houston to have an overall rate of return of 6.51%, based on a cost of debt of 4.38%, a return on equity of 9.4%, and a capital structure of 57.5% long-term debt and 42.5% equity.

62. The signatories agreed that the weighted average cost of capital, cost of debt, return on equity, and capital structure of CenterPoint Houston will apply in all Commission proceedings or Commission filings requiring the application of those items.

63. It is appropriate for the overall rate of return (referenced as the weighted average cost of capital in the agreement), cost of debt, return of equity, and capital structure for CenterPoint Houston to apply in all Commission proceedings or Commission filings requiring the application of those items.

Agreement – Allocation of Revenue Requirement

64. The signatories agreed that the revenue requirement, including the revenue increase, must be distributed among CenterPoint's customer classes per the allocation as set forth in

Commission Staff's number run filed on December 5, 2019 and as set forth in exhibit B to the agreement.

65. The allocation of the revenue requirement as set forth in exhibit B to the agreement is just and reasonable.
66. The signatories agreed that CenterPoint Houston will recover all existing and future retail transmission-related costs through its transmission cost recovery factor (TCRF) instead of through base rates.

Agreement – Rates and Tariff Approval

67. The signatories agreed to use the tariffs and rates set forth in exhibit C to the agreement.
68. The tariffs and rates in exhibit C to the agreement incorporate the total base-revenue increase approved by this Order.
69. The tariffs and rates in exhibit C to the agreement are just and reasonable.
70. The tariffs and rates in exhibit C to the agreement properly reflect the rates adopted by this Order.

Agreement – Ring-Fencing

71. The signatories agreed to adopt ring-fencing measures for CenterPoint Houston as set forth in findings of fact 72 through 87 of this Order.
72. CenterPoint Houston's credit agreements and indentures must not contain cross-default provisions by which a default by CenterPoint Energy, Inc. (CNP) or its other affiliates would cause a default at CenterPoint Houston.
73. The financial covenant in CenterPoint Houston's credit agreement must not be related to any entity other than CenterPoint Houston. CenterPoint Houston must not include in its debt or credit agreements any financial covenants or rating-agency triggers related to any entity other than CenterPoint Houston.
74. CenterPoint Houston must not pledge its assets in respect of or guaranty any debt or obligation of any of its affiliates. CenterPoint Houston must not pledge, mortgage, hypothecate, or grant a lien on the property of CenterPoint Houston except under an

exception in effect in CenterPoint Houston's current credit agreement, such as the first mortgage and general mortgage.

75. CenterPoint Houston must maintain its own stand-alone credit facility, and CenterPoint Houston must not share its credit facility with any regulated or unregulated affiliate.
76. CenterPoint Houston must maintain registrations with all three ratings agencies.
77. CenterPoint Houston must maintain a stand-alone credit rating.
78. CenterPoint Houston's first mortgage bonds and general mortgage bonds must be secured only with CenterPoint Houston's assets.
79. No CenterPoint Houston assets may be used to secure the debt of CNP or its non-CenterPoint Houston affiliates.
80. CenterPoint Houston must not hold out its credit as being available to pay the debt of any affiliates (provided that, for the avoidance of doubt, CenterPoint Houston is not considered to be holding its credit out to pay the debt of affiliates, or in breach of any other ring-fencing measure, with respect to the \$68 million of CenterPoint Houston general mortgage bonds that currently serve as collateral for certain outstanding CNP pollution control bonds).
81. Without prior approval of the Commission, neither CNP nor any affiliate of CNP (except for CenterPoint Houston) may incur, guaranty, or pledge assets in respect of any incremental new debt that is dependent on the revenues of CenterPoint Houston in more than a proportionate degree than the other revenues of CNP or the stock of CenterPoint Houston.
82. CenterPoint Houston must not transfer any material assets or facilities to any affiliates, except through a transfer that is on an arm's-length basis in accordance with the Commission's affiliate standards applicable to CenterPoint Houston.
83. Except for its participation in an affiliate money pool, CenterPoint Houston must not commingle its assets with those of other CNP affiliates.
84. Except for its participation in an affiliate money pool, CenterPoint Houston must not lend money to or borrow money from CNP affiliates.

85. CenterPoint Houston must notify the Commission if its credit issuer rating or corporate rating as rated by any of the three major rating agencies falls below investment-grade level.
86. Based on the Commission's review of the record and the parties' briefing in this docket, the Commission does not adopt a dividend restriction.
87. The signatories agreed that, if CenterPoint Houston appeals any Commission decision related to dividend restrictions, CenterPoint Houston will reimburse on a monthly basis the expenses that other parties incur to litigate that appeal and will not seek recovery of those expenses in rates.

Agreement – Invested Capital

88. CenterPoint Houston's invested capital, including its plant in service through the end of the test year (December 31, 2018), as reflected on exhibit D to the agreement, is used and useful in providing service and was prudently incurred and properly included in rate base.

Agreement – Cash Working Capital

89. The signatories agreed that, for purposes of CenterPoint Houston's earnings monitoring reports for reporting years beginning in 2020, CenterPoint Houston's total company cash working capital is \$24,269,000, as shown on exhibit D to the agreement.
90. CenterPoint Houston's total company cash working capital of \$24,269,000 is reasonable and is appropriate to use in CenterPoint Houston's earnings monitoring reports.

Agreement – Certain Tax Matters

91. The signatories agreed that CenterPoint Houston must refund through rider UEDIT and its wholesale transmission service tariff a total UEDIT refund of \$105,449,069 (plus carrying costs), comprising a UEDIT amount of \$64,903,763, protected EDIT amount of \$18,659,227, and gross up of \$21,886,079. The refund and amortization period for UEDIT for residential service, secondary service less than or equal to ten kilovolt-amperes (kVA), street lighting service, and miscellaneous lighting service will be approximately 30 months beginning with the effective date of the rates authorized in this proceeding, as shown in the rate schedules in exhibit E to the agreement. The refund and amortization period for UEDIT for secondary service greater than ten kVA, primary service, and transmission service will be approximately 36 months beginning with the effective date of the rates

authorized in this proceeding, as shown in the rate schedules in exhibit E to the agreement. The refund and amortization period for the amount included in the wholesale transmission service tariff is approximately 36 months, as shown in the wholesale transmission service rate schedule in exhibit C to the agreement.

92. The signatories agreed that no proceeding should be initiated to review CenterPoint Houston's or its affiliate's accumulated deferred federal income tax (ADFIT) balances on CenterPoint Houston's or its affiliate's transition and restoration bonds and that no signatory will raise issues related to the appropriate treatment of EDIT amounts associated with those bonds in future Commission proceedings related to CenterPoint Houston or its affiliates.
93. CenterPoint Houston's protected EDIT balance related to the Tax Cuts and Jobs Act of 2017 is \$562.5 million and must be returned to customers under the average rate assumption method.
94. CenterPoint Houston's proposal to return the protected EDIT balance through rates under the average rate assumption method and the unprotected EDIT balance through rider UEDIT and its wholesale transmission service tariff is just and reasonable.
95. The agreement's treatment of UEDIT is appropriate.

Agreement – Accounting Matters

96. The signatories agreed that CenterPoint Houston should be permitted, for purposes of future distribution cost recovery factor (DCRF), transmission cost of service, and general rate-case proceedings, to reflect its Texas margin tax expense based on the current Texas margin tax rate applicable in the period that rates are recovered.
97. The signatories agreed that, except with respect to EDIT regulatory assets and liabilities, CenterPoint Houston should be permitted to amortize regulatory assets and liabilities maintained on its books and records and at issue in this proceeding over five years. The Texas margin tax regulatory asset included in CenterPoint Houston's rate-filing package is not considered in the regulatory assets and the amount of the amortization expense referenced in the agreement.

98. Except with respect to EDIT regulatory assets and liabilities, five years is an appropriate amount of time to amortize CenterPoint Houston's regulatory assets and liabilities maintained on its books and records and at issue in this proceeding.
99. The signatories agreed that CenterPoint Houston's total prepaid pension asset will be reduced by the capital component identified as construction work in progress and that CenterPoint Houston could apply and seek recovery for an amount for allowance for funds used during construction.
100. The signatories agreed that, with exception of rate-case expenses, nothing in the black-box agreement will be construed in such a way as to require CenterPoint Houston to write off any investment, assets, or liabilities currently maintained on its books and records.

Agreement – Rate-Case Expenses

101. CenterPoint Houston agreed to reimburse the cities participating in this docket for rate-case expenses incurred in all dockets subject to Docket No. 49595. CenterPoint Houston agreed not to seek recovery of rate-case expenses requested in Docket No. 49595, including expenses associated with this proceeding (Docket No. 49421) and any appeals of this proceeding.
102. The signatories agreed that the cities must provide CenterPoint Houston with invoices for all rate-case expenses incurred within ten days of this Order.
103. The signatories agreed that CenterPoint Houston must reimburse the cities for rate-case expenses included on invoices submitted in accordance with this timeline within 30 days of this Order.
104. The signatories agreed that CenterPoint Houston will not be required to reimburse the cities for rate-case expenses not included on invoices provided in accordance with this timeline.
105. The signatories agreed that CenterPoint Houston must withdraw or move to dismiss Docket No. 49595 within 30 days of a final order in this proceeding.

Agreement – Affiliate Expenses

106. To the extent that affiliate costs are included in the agreed-to rates, they are reasonable and necessary for each class of affiliate costs presented in CenterPoint Houston's application.

107. To the extent that affiliate costs are included in the agreed-to rates, the price charged to CenterPoint Houston is not higher than the prices charged by the supplying affiliate for the same item or class of items to its other affiliates or divisions or to a non-affiliated person within the same market area or having the same market conditions.
108. Each signatory reserved the right, in a future CenterPoint Houston proceeding and for prospective application, to dispute whether and in what amount CenterPoint Houston may include in rate base or expense amounts related to affiliate services.

Agreement – Self-Insurance Reserve

109. The signatories agreed that CenterPoint Houston's request for an annual self-insurance reserve accrual of \$7.685 million and a new target property insurance reserve of \$6.55 million is reasonable and appropriate. The accrual is composed of \$3.575 million to provide for average annual expected operations and maintenance (O&M) expense losses from events where losses are greater than \$100,000 and of \$4.11 million accrued annually for three years to achieve a target reserve of \$6.55 million from the current reserve deficit level of (\$5.79 million).
110. The agreement's treatment of a self-insurance reserve is appropriate.
111. CenterPoint Houston's self-insurance reserve is in the public interest and is a lower-cost alternative to purchasing commercial insurance.
112. CenterPoint Houston's self-insurance reserve results in savings that would benefit ratepayers.

Agreement – Depreciation

113. Beginning with the effective date of the rates approved by this Order, CenterPoint Houston will use the depreciation rates as proposed in the direct testimony of CenterPoint Houston's witness Dane Watson and set forth in exhibit F to the agreement.
114. The treatment of depreciation rates in the agreement is appropriate.

Agreement – Pension and Other Post-employment Benefit Baselines

115. The signatories agreed that CenterPoint Houston's pension and other post-employment benefits baselines are \$23,853,739 for pension and \$2,671,274 for other post-employment

benefits expense. The combined total of \$26,525,013 is composed of \$19,627,483 for CenterPoint Houston and \$6,897,530 for CenterPoint Energy Service Company, LLC.

116. The baselines for CenterPoint Houston's pension and other post-employment benefits expense are reasonable and appropriate.

Agreement – Interim Update of Transmission Rates

117. The signatories agreed that when CenterPoint Houston files an application to update its transmission rates on an interim basis under 16 TAC § 25.192(h), the baseline values to be used in that application are those set forth in exhibit G to the agreement.
118. It is appropriate for CenterPoint Houston to use the baseline values set forth in exhibit G to the agreement.

Agreement – Baseline Values for Transmission Cost Recovery Factor Filings

119. The signatories agreed that when CenterPoint Houston files an application to update its TCRF under 16 TAC § 25.193, the baseline values to be used in that application are those set forth in exhibit H to the agreement.
120. The signatories agreed that the TCRF rates set following this proceeding will reflect CenterPoint Houston's updated TCRF, as approved in Docket No. 50294.⁴
121. The agreement's treatment of the baseline values for TCRF filings is appropriate.

Agreement – Baseline Values for Distribution Cost Recovery Factor Filings

122. The signatories agreed that when CenterPoint Houston files an application for a DCRF under 16 TAC § 25.243, the baseline values to be used in that application will be those set forth in exhibit I to the agreement.
123. The agreement's treatment of the baseline values for DCRF filings is appropriate.

Agreement – Future Base-Rate Proceeding

124. The signatories agreed that CenterPoint Houston will file a base-rate case no later than four years from the date of the Commission's final order in this docket and will not request a delay of the filing of its next base-rate case using the provisions of 16 TAC § 25.247(b)(2).

⁴ *Petition of CenterPoint Energy Houston Electric, LLC to Update its Transmission Cost Recovery Factor*, Notice of Approval (Jan. 9, 2020).

The signatories also agreed that CenterPoint Houston is not prohibited from filing, or any regulatory authority from requiring under applicable law, a base-rate case earlier than four years from the date of the Commission's final order in this docket.

125. Settlement is good cause for an exception to the requirement that the Commission extend the filing requirements for investor-owned electric utilities in the ERCOT region by one year under 16 TAC § 25.247(b)(2).

Agreement – Distribution Cost Recovery Factor Proceedings

126. The signatories agreed that CenterPoint Houston will not file a DCRF proceeding during the 2020 calendar year.
127. The signatories agreed that in future updates to its distribution rate base through future DCRF proceedings, CenterPoint Houston will update its distribution rate base to account for the effects of changed ADFIT and EDIT regulatory liability balances, in each proceeding requesting an update of its distribution rates.

Agreement – Transmission Cost of Service Proceedings

128. The signatories agreed that, between the date of the final order in this proceeding and the date of the final order in CenterPoint Houston's next base-rate proceeding, when updating its transmission rate base through transmission cost of service proceedings, CenterPoint Houston will update its transmission rate base to account for the effects of changed ADFIT and EDIT regulatory liability balances, in each proceeding requesting an update of its wholesale transmission rates.

III. Conclusions of Law

The Commission makes the following conclusions of law.

1. CenterPoint Houston is a public utility as that term is defined in PURA⁵ § 11.004(1) and an electric utility as that term is defined in PURA § 31.002(b).
2. The Commission has jurisdiction over this matter under PURA §§ 14.001, 32.001, 33.051, 36.001 through 36.211, and 39.552.

⁵ Public Utility Regulatory Act, Tex. Util. Code §§ 11.001–66.016.

3. The Commission has jurisdiction over an appeal from municipalities' rate proceedings under PURA § 33.051.
4. The Commission processed the application in accordance with the requirements of PURA, the Administrative Procedure Act,⁷ and Commission rules.
5. The Commission's approval of the agreement is in accordance with the requirements of PURA, the Administrative Procedure Act, and Commission rules.
6. SOAH exercised jurisdiction over this proceeding under PURA § 14.053 and Texas Government Code § 2003.049.
7. CenterPoint Houston provided notice of the application in compliance with PURA § 36.103 and 16 TAC § 22.51(a) and filed affidavits attesting to the completion of notice in compliance with 16 TAC § 22.51(d).
8. CenterPoint Houston timely appealed to the Commission the actions of the municipalities described in findings of fact 33 through 35.
9. Notice of the hearing on the merits was given in compliance with Texas Government Code §§ 2001.051 and 2001.052.
10. In accordance with PURA § 36.051, the revenue produced by the rates approved by this Order permit CenterPoint Houston a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.
11. The rates approved by this Order are just and reasonable; are not unreasonably preferential, prejudicial, or discriminatory; are sufficient, equitable, and consistent in application to each consumer class; and meet the requirements of PURA § 36.003.
12. The rates approved by this Order do not include any expenses prohibited from recovery under PURA §§ 36.061(a) and 36.062.
13. CenterPoint Houston's invested capital through the end of the test year meets the requirement of PURA § 36.058.

⁷ Tex. Gov't Code § 2001.001–.902.

14. The affiliate expenses included in CenterPoint Houston's rates under the agreement comply with the requirements of PURA § 36.058.
15. The rates approved by this Order include expenses for pension and other post-employment benefits in accordance with PURA § 36.065(b).
16. The refund of the unprotected EDIT regulatory liability related to the Tax Cuts and Jobs Act of 2017, which is described in finding of fact 91, is in accordance with the requirement of the Commission's order in Project No. 47945.⁹
17. The Commission may excuse the requirement under 16 TAC § 25.247(b)(2) to extend the filing requirements for investor-owned utilities in the ERCOT region by one year on a finding of good cause.
18. The Commission may resolve CenterPoint Houston's application through approval of an agreed settlement under Texas Government Code § 2001.056.

IV. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders.

1. The Commission approves the rates, terms, and conditions of the agreement to the extent provided in this Order.
2. The Commission approves CenterPoint Houston's tariffs attached to the agreement.
3. The final rates approved by this Order are effective 45 days after the date of this Order.
4. Within 20 days of the date of this Order, CenterPoint Houston must file a clean record copy of the approved tariffs to be stamped *Approved* by central records and retained by the Commission.
5. CenterPoint Houston must serve copies of all tariff-related filings on all parties of record.
6. CenterPoint Houston's depreciation rates must be those set forth in exhibit F to the agreement.

⁹ *Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*, Order (Jan. 25, 2018).

7. CenterPoint Houston must use the baseline values set forth in exhibit G to the agreement when it files an application to update its transmission rates on an interim basis under 16 TAC § 25.192(h).
8. CenterPoint Houston must use the baseline values set forth in exhibit H to the agreement when it files an application to update its TCRF under 16 TAC § 25.193.
9. CenterPoint Houston must use the baseline values set forth in exhibit I to the agreement when it files an application for a DCRF under 16 TAC § 25.243.
10. CenterPoint Houston may not file a DCRF proceeding during the 2020 calendar year.
11. CenterPoint Houston must update its distribution rate base to account for the effects of changed ADFIT and EDIT regulatory liability balances, in each future DCRF proceeding in which it requests an update of its distribution rates.
12. Between the date of the final order in this proceeding and the date of the final order in CenterPoint Houston's next base-rate proceeding, when updating its transmission rate base through transmission cost of service proceedings, CenterPoint Houston must update its transmission rate base to account for the effects of changed ADFIT and EDIT regulatory liability balances, in each proceeding requesting an update of its wholesale transmission rates.
13. CenterPoint Houston must allocate the revenue increase approved by this Order among the rate classes as set forth in exhibit B to the agreement.
14. The Commission approves the rates in exhibit C to the agreement.
15. In all Commission proceedings or filings requiring application of those items, CenterPoint Houston must use an overall rate of return (or weighted average cost of capital, as appropriate) of 6.51%, which is based on a cost of debt of 4.38%; a return on equity of 9.4%; and a capital structure of 57.5% long-term debt and 42.5% equity,.
16. CenterPoint Houston must file a base-rate case no later than four years from the date of this Order. CenterPoint Houston may file a base-rate case earlier than four years from the date of this Order.

17. CenterPoint Houston may not request to delay the filing of its next base-rate case under the provisions of 16 TAC § 25.247(b)(2).
18. CenterPoint Houston must use a total company cash working capital of \$24,269,000 in earnings monitoring reports for reporting years beginning in 2020.
19. CenterPoint Houston must refund excess ADFIT resulting from the change in federal corporate income tax rates under the Tax Cuts and Jobs Act of 2017. CenterPoint Houston must accomplish a portion of this refund through rider UEDIT and its wholesale transmission service tariff in accordance with finding of fact 91.
20. For purposes of future DCRF, transmission cost of service, and general rate-case proceedings, CenterPoint is permitted to reflect its Texas margin tax expense based on the current Texas margin tax rate applicable in the period that rates are recovered.
21. Except with respect to EDIT regulatory assets and liabilities, CenterPoint must amortize regulatory assets and liabilities maintained on its books and records and at issue in this proceeding over five years. The Texas margin tax regulatory asset included in CenterPoint's rate-filing package is not considered in those regulatory assets and the amount of the amortization expense referenced in the agreement.
22. CenterPoint Houston must reimburse the cities participating in this docket within 30 days of this Order for rate-case expenses incurred in all dockets subject to Docket No. 49595, provided that Cities provide invoices in accordance with the timeline in the agreement.
23. CenterPoint Houston may not seek recovery of rate-case expenses requested in Docket No. 49595, including expenses associated with this proceeding, Docket No. 49421, and any appeals of this proceeding.
24. CenterPoint Houston must withdraw or move to dismiss Docket No. 49595 within 30 days of the date of this Order.
25. CenterPoint Houston must make an annual self-insurance reserve accrual to achieve a target reserve of \$6.55 million from the current reserve deficit level of (\$5.79 million). The annual self-insurance reserve accrual must be \$7.685 million, to be composed of \$3.575

- million to provide for average annual expected O&M expense losses from events where losses are greater than \$100,000 and of \$4.11 million accrued annually for three years.
26. CenterPoint Houston's credit agreements and indentures must not contain cross-default provisions by which a default by CNP or its other affiliates would cause a default at CenterPoint Houston.
 27. The financial covenant in CenterPoint Houston's credit agreement must not be related to any entity other than CenterPoint Houston. CenterPoint Houston must not include in its debt or credit agreements any financial covenants or rating-agency triggers related to any entity other than CenterPoint Houston.
 28. CenterPoint Houston must not pledge its assets in respect of or guaranty any debt or obligation of any of its affiliates. CenterPoint Houston must not pledge, mortgage, hypothecate, or grant a lien on the property of CenterPoint Houston except under an exception in effect in CenterPoint Houston's current credit agreement, such as the first mortgage and general mortgage.
 29. CenterPoint Houston must maintain its own stand-alone credit facility, and CenterPoint Houston must not share its credit facility with any regulated or unregulated affiliate.
 30. CenterPoint Houston must maintain registrations with all three ratings agencies.
 31. CenterPoint Houston must maintain a stand-alone credit rating.
 32. CenterPoint Houston's first mortgage bonds and general mortgage bonds must be secured only with CenterPoint Houston's assets.
 33. No CenterPoint Houston assets may be used to secure the debt of CNP or its affiliates other than CenterPoint Houston.
 34. CenterPoint Houston must not hold out its credit as being available to pay the debt of any affiliates. CenterPoint Houston is not considered to be holding its credit out to pay the debt of affiliates, or in breach of any other ring-fencing measure, with respect to the \$68 million of CenterPoint Houston's general mortgage bonds that currently serve as collateral for certain outstanding CNP pollution control bonds).

35. Without prior approval of the Commission, neither CNP nor any affiliate of CNP (excluding CenterPoint Houston) may incur, guaranty, or pledge assets in respect of any incremental new debt that depends on the revenues of CenterPoint Houston in more than a proportionate degree than the other revenues of CNP or the stock of CenterPoint Houston.
36. CenterPoint Houston must not transfer any material assets or facilities to any affiliates, except through a transfer that is on an arm's-length basis in accordance with the Commission's affiliate standards applicable to CenterPoint Houston.
37. Except for its participation in an affiliate money pool, CenterPoint Houston must not commingle its assets with those of other CNP affiliates.
38. Except for its participation in an affiliate money pool, CenterPoint Houston must not lend money to or borrow money from CNP affiliates.
39. CenterPoint Houston must notify the Commission if its credit issuer rating or corporate rating as rated by any of the three major rating agencies falls below investment-grade level.
40. Entry of this Order does not indicate the Commission's endorsement or approval of any principle or methodology that may underlie the agreement and must not be regarded as precedential as to the appropriateness of any principle or methodology underlying the agreement.
41. The Commission denies all other motions and any other requests for general or specific relief that are not expressly granted.

Signed at Austin, Texas the 9th day of March 2020.

PUBLIC UTILITY COMMISSION OF TEXAS


DEANN T. WALKER, CHAIRMAN


ARTHUR C. D'ANDREA, COMMISSIONER


SHELLY BOTKIN, COMMISSIONER

