A. Following Winter Storm Uri in February 2021 and the accompanying financial challenges in the ERCOT wholesale energy market, five CRs defaulted on delivery charge payments owed to CenterPoint Houston. After the Company's efforts to collect the amounts owed were exhausted, the Company wrote off approximately $7.9 million to a Regulatory Asset. Figure 2 below lists the CRs that defaulted and the corresponding amounts written off.

Figure 2

Competitive Retailer	Gross Default ($)	Bad Debt ($)
BRILLIANT ENERGY LLC	6,348,274.46	2,391,033.20
GBPOWER LLC	102,727.77	76,765.54
GRIDDY ENERGY LLC	1,269,117.82	1,185,100.79
POWER OF TEXAS HOLDINGS INC	84,658.24	75,858.24
ENTRUST ENERGY INC	4,690,631.02	4,164,612.48
Total:	**12,495,409.31**	**7,893,370.25**

Q. WHAT STEPS DID CENTERPOINT HOUSTON TAKE TO COLLECT THE POST-URI DEFAULTS PRIOR TO WRITING THEM OFF TO THE REGULATORY ASSET?

A. CenterPoint Houston communicated with the defaulted CRs throughout the post-Uri period to attempt to collect as much of the outstanding debt as possible. In several cases, the CRs declared bankruptcy, and the Company participated in the bankruptcy proceedings. Through these efforts, the Company was able to recover $4.6 million of the original defaulted amounts.

Q. HOW MANY CRS FILED FOR BANKRUPTCY AFTER WINTER STORM URI?

A. After Winter Storm Uri, seven (7) CRs filed for bankruptcy: Brilliant Energy;

Entrust Energy; Griddy Energy; Just Energy; Liberty Power; Power of Texas; and POGO Energy (collectively, the "Bankrupt CRs").

Q. WAS THE COMPANY INVOLVED IN THE BANKRUPT CRS' RESPECTIVE BANKRUPTCY CASES?

A. Yes.

Q. WHY DID THE COMPANY GET INVOLVED IN THE BANKRUPT CRS' BANKRUPTCY CASES?

A. The Company participated in the bankruptcy cases to monitor and protect the Company's interests, and to seek terms on the payment of invoices for delivery service that occurred following the filing of bankruptcy petitions by the Bankrupt CRs.

Q. WHAT WAS THE NATURE AND EXTENT OF THE COMPANY'S INVOLVEMENT IN THE CRS' BANKRUPTCY CASES?

A. The Company's involvement in the Bankrupt CRs' respective bankruptcy cases was two-fold. First, the Company filed proofs of claim in each Bankrupt CR's bankruptcy case. The proofs of claim filed by the Company identified amounts owed by each Bankrupt CR to CenterPoint Houston as of the bankruptcy filing date of each Bankrupt CR, and provided documentation in support of Company's interest. Table 1 below summarizes the proofs of claim filed by the Company in the Bankrupt CRs' respective bankruptcy cases:

Table 1

Bankrupt CR	Category	Amount
Brilliant Energy	Delivery charges	$2,334,168.47
Entrust Energy	Delivery charges	$4,306,124.05
Griddy Energy	Delivery charges	$1,184,792.71
	TC4 charges	$60,207.39
	SRC charges	$23,786.65
Just Energy	Delivery charges	$6,044,411.59
	TC5 charges	$89,617.62
	SRC charges	$60,316.96
Liberty Power	TC5 true-up charge	$25,433.81
	SRC true-up charge	$5,573.45
Power of Texas	Delivery charges	$74,524.92
	TC4 charges	$3,628.54
	SRC charges	$1,438.12
POGO Energy	Delivery charges	$247,590.99
	SRC charges	$2,413.08
	Total:	$14,464,028.35

To the extent that there are sufficient funds in the Bankrupt CR`s bankruptcy for repayment to general unsecured creditors such as the Company, CenterPoint Houston will share with other general unsecured creditors of the Bankrupt CR in the pro rata recovery of amounts owed, subject to the terms and conditions detailed in the Bankrupt CR's bankruptcy plan of reorganization or plan of liquidation. The proofs of claim filed by the Company will be used by the bankruptcy administrator of the Bankrupt CR to calculate payments to the Company, subject to the terms and conditions detailed in the Bankrupt CR's bankruptcy plan of reorganization or plan of liquidation. In addition to filing proofs of claim in each Bankrupt CR's bankruptcy case, the Company negotiated terms with certain Bankrupt CRs that were still operating during the pendency of their respective bankruptcy cases.

Q. PLEASE EXPLAIN COMPANY'S NEGOTIATIONS WITH THE BANKRUPT CRS.

A. CenterPoint Houston negotiated terms related to: (1) payment of invoiced amounts accrued and due during the pendency of the Bankrupt CR's bankruptcy case; (2) replenishment of deposits for transition and/or securitization charges; and (3) use of excess deposits for transition and/or securitization charges to pay down invoiced amounts accrued and owed as of the Bankrupt CR's bankruptcy filing. Some of the Bankrupt CRs operated as going concerns during the pendency of their respective bankruptcy cases while they worked to develop a bankruptcy plan of reorganization or plan of liquidation. To ensure that such Bankrupt CRs paid post-bankruptcy filing invoices, the Company negotiated payment terms to minimize the risk of non-payment from the Bankrupt CR. The Company negotiated with two Bankrupt CRs for periodic pre-payments based on estimated usage. Pre-payments would be reconciled with actual usage, and the Bankrupt CR would receive a credit for an overpayment and would receive an invoice for an underpayment.

Q. WHAT WAS THE PURPOSE OF THE PRE-PAYMENT ARRANGEMENT?

A. The purpose of the pre-payment arrangement was to mitigate the risk of non-payment of invoiced amounts accrued and due during the pendency of the Bankrupt CR's bankruptcy case. Normally, the Company provides a CR an invoice after the provision of service, and the CR has 35 days to pay the invoice. For a CR that is in bankruptcy, there is a greater risk of non-payment of invoiced amounts accrued and due during the pendency of the Bankrupt CR's bankruptcy case. The pre-payment arrangement reduced the risk of non-payment by ensuring that the Bankrupt CR advance funds to the Company rather than have the Company wait for payment.

Q. WHAT OTHER TERMS DID THE COMPANY NEGOTIATE WITH BANKRUPT CRS?

A. The Company also negotiated with certain Bankrupt CRs to replenish deposits related to transition and/or securitization charges.

Q. WHAT WAS THE PURPOSE OF HAVING THE BANKRUPT CRS REPLENISH DEPOSITS?

A. CenterPoint Houston is the servicer of transition and securitization bonds approved by the Commission. A CR is required to provide a deposit for transition and securitization charges to ensure that there is collateral in the event that the CR is unable to pay transition and securitization charges. Otherwise, any deficit in payment from the CR is uplifted to other CRs. Requiring certain Bankrupt CRs to replenish deposits related to transition and/or securitization charges ensured that the Company, as servicer, could draw down on collateral in the event that the Bankrupt CRs were unable to pay transition and/or securitization charges that were assessed during the pendency of the Bankrupt CRs' bankruptcy cases.

Q. ARE THERE OTHER TERMS RELATED TO DEPOSITS THAT WERE NEGOTIATED BY THE COMPANY?

A Yes. Each year CenterPoint Houston, as servicer of transition and securitization bonds approved by the Commission, performs a reconciliation for each CR on the appropriate amount of deposit for transition and securitization charges for the upcoming year. For a CR that needs to increase its deposit amount for the upcoming year, the Company will issue an invoice. For a CR that is able to have a lower deposit amount for the upcoming year, the CR has an option of receiving the excess deposit amount or leaving the deposit amount as is. For the Bankrupt CRs that had an excess deposit after the Company's reconciliation, the Company was able to negotiate with the Bankrupt CR to apply the excess deposit to pay down invoiced amounts accrued and owed as of the Bankrupt CR's bankruptcy filing.

Q. WHAT EFFECT DID APPLYING EXCESS DEPOSITS TO INVOICED AMOUNTS ACCRUED AND OWED AS OF THE BANKRUPT CR'S BANKRUPTCY FILING HAVE ON THE AMOUNT OWED BY THE BANKRUPT CR?

A Applying excess deposits to invoiced amounts accrued and owed as of the Bankrupt CR's bankruptcy filing reduced the amount owed by the Bankrupt CR to CenterPoint Houston, which in turn reduced the bad debt regulatory asset that is being sought by the Company. If excess deposits were not applied, the bad debt regulatory asset that is being sought by the Company would be a larger amount.

Q. WHAT WERE THE RESULTS OF THE COMPANY'S INVOLVEMENT IN THE BANKRUPT CRS' BANKRUPTCY CASES?

A. In sum, the Company's involvement in the Bankrupt CRs' respective bankruptcy cases:

- Reduced the risk of non-payment of invoiced amounts accrued and due during the pendency of a Bankrupt CR's bankruptcy case;

- Reduced the amount sought by the Company in the bad debt regulatory asset. Collectively, the Bankrupt CRs owed the Company approximately $14.5 million.

As a result of the Company's involvement in the Bankrupt CRs' respective bankruptcy cases, the Company booked approximately $7.8 million of bad debt to the regulatory asset that the Company is seeking.

VI. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

PUC DOCKET NO. 56211

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

DIRECT TESTIMONY

OF

KRISTIE L. COLVIN

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

MARCH 2024

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LIST OF EXHIBITS

GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym	Definition
ADFITC	Accumulated Deferred Federal Income Tax Credit
ADIT	Accumulated Deferred Income Tax
AFUDC	Allowance for Funds Used During Construction
A&G	Administrative and General
AMS	Advanced Metering System
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
CAO	Chief Accounting Officer
CCA	Cloud Computing Arrangement
CERC	CenterPoint Energy Resources Corporation
CFO	Chief Financial Officer
C.F.R.	Code of Federal Regulations
CNP	CenterPoint Energy, Inc.
COH	Construction Overhead
COVID-19	Coronavirus Disease of 2019
CPA	Competitive Pay Adjustment
CWC	Cash Working Capital
CWIP	Construction Work in Progress
DCRF	Distribution Cost Recovery Factor
DSP	Distribution Service Provider
EDIT	Excess Deferred Income Tax

GLOSSARY OF ACRONYMS AND DEFINED TERMS (cont'd)

Acronym	Definition
EE	Energy Efficiency
EECRF	Energy Efficiency Cost Recovery Factor
EM	Executive Management
EPIS	Electric Plant in Service
ERCOT	Electric Reliability Council of Texas
EVP	Executive Vice President
FERC	Federal Energy Regulatory Commission
FERC USOA	FERC Uniform System of Accounts
FICA	Federal Insurance Contributions Act
FP&A	Financial Planning and Analysis
FUTA	Federal Unemployment Tax Act
GAAP	Generally Accepted Accounting Principles
IaaS	Infrastructure as a Service
IR	Investor Relations
LLTF	Long Lead Time Facilities
LTI	Long-term Incentive
M&S	Materials & Supplies
O&M	Operations and Maintenance
On-Prem	On Premises Solution
OPEB	Other Post-Employment Benefit
PHFU	Plant Held for Future Use

GLOSSARY OF ACRONYMS AND DEFINED TERMS (cont'd)

Acronym	Definition
PURA	Public Utility Regulatory Act
RCE	Rate Case Expense
REP	Retail Electric Provider
RFP	Rate Filing Package
SaaS	Software as a Service
SLA	Service Level Agreement
SMT	Smart Meter Texas
SOX	Sarbanes-Oxley
STI	Short-term Incentive
TAC	Texas Administrative Code
TCOS	Transmission Cost of Service
TCJA	Tax Cuts and Job Act of 2017
TCRF	Transmission Cost Recovery Factor
TDCS	Transmission/Distribution Customer Service
TDU	Transmission and Distribution Utility
TEEEF	Temporary Emergency Electric Energy Facilities
TMT	Texas Margin Tax
UEDIT	Unprotected Excess Deferred Income Tax
VUH	Vectren Utility Holdings, LLC.

EXECUTIVE SUMMARY – ACCOUNTING

(KRISTIE L. COLVIN)

I sponsor the books and records of CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston" or the "Company"), which have been prepared in accordance with the requirements of the Public Utility Commission of Texas ("Commission"). My testimony supports the Company's cost of service for total transmission and distribution operations, including rate base. I sponsor the accounting schedules, and co-sponsor schedules related to affiliate expenses, salaries and benefits, and rate case expenses. I support the reasonableness and necessity of certain CenterPoint Energy Service Company, LLC ("Service Company") Executive Management services, Accounting, and certain financial corporate support services. I also support the reasonableness and necessity of Financial Planning and Analysis ("FP&A") and certain accounting transaction costs incurred directly by the Company.

My testimony and supporting materials:

- show the Company's cost of service and rate base are reasonable and necessary;
- itemize and explain all test year adjustments to arrive at the final requested amounts reflected in my testimony, exhibits, and schedules;
- support an overall rate of return of 7.03% and return on investment of $850.8 million to be included in the cost of service;
- demonstrate the reasonableness and necessity of certain Service Company Executive Management functions, the FP&A organization, and the Chief Accounting Officer ("CAO") organization services provided to CenterPoint Houston; and
- demonstrate the reasonableness and necessity of certain accounting transaction costs incurred directly by the Company.

DIRECT TESTIMONY OF KRISTIE L. COLVIN

I. INTRODUCTION

Q. WHAT IS YOUR NAME, POSITION, AND BUSINESS ADDRESS?

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

Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR VICE PRESIDENT AND CHIEF ACCOUNTING OFFICER FOR CNP?

A. As Chief Accounting Officer ("CAO"), I lead the Accounting department for CNP and have overall responsibility for the Company's accounting books and records. As such, I am responsible for ensuring that the Company has adequate staff, processes, and systems in place to meet its financial and regulatory accounting and reporting requirements. In addition, I am responsible for the adequacy of internal controls and compliance with Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS, AND PREVIOUS WORK EXPERIENCE.

A. I graduated from Houston Baptist University with a Bachelor of Arts degree with a major in both Accounting and Finance. I began my career at CNP and its predecessors in 1989. I have held numerous positions in accounting as well as financial planning, reporting and analysis and regulatory. I was promoted to Senior

Vice President and CAO in 2014. I was named Senior Vice President, Regulatory Planning in 2022, where I served until October 2023, when I assumed my current role of Senior Vice President and CAO. I am a Certified Public Accountant in the state of Texas.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of CenterPoint Houston, a wholly owned indirect subsidiary of CNP and a transmission and distribution service provider in the Electric Reliability Council of Texas ("ERCOT") Region.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY COMMISSIONS ON RATE AND REGULATORY MATTERS?

A. Yes. I have submitted direct and rebuttal testimony before the Public Utility Commission of Texas ("Commission") in Docket No. 49421. In addition, I have assisted with the preparation and review of accounting testimony and schedules filed in regulatory proceedings in various jurisdictions where CNP and its subsidiaries operate.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my direct testimony is to support the Company's application for a base rate change, filed with the Commission pursuant to Public Utility Regulatory Act ("PURA") § 36.102. Specifically, my testimony and exhibits present all supporting schedules, workpapers, and calculations to support the Company's cost of service, which has been prepared as required by 16 Texas Administrative Code ("TAC") § 25.231, "Cost of Service" and in accordance with the Transmission &

Distribution ("TDU") Investor-Owned Utilities Rate Filing Package for Cost-of-Service Determination ("RFP"). I explain certain Executive Management ("EM") functions and the Service Company Finance Organization, and how the related costs and services are reasonable and necessary, as well as the reasonableness and necessity of the CAO organization and the Financial Planning and Analysis ("FP&A") department. My testimony presents the rate base for the Company, the total transmission and distribution cost of service, and all itemized known and measurable changes to test year costs.[1] Finally, I discuss other accounting matters along with the Company's rate case expenses.

Q. HOW DOES YOUR DIRECT TESTIMONY RELATE TO THE TESTIMONY OF OTHER COMPANY WITNESSES?

A. I support all of the accounting schedules and workpapers including the underlying calculations for the Company's total cost of service filing. Other witnesses provide additional testimony supporting the reasonableness of various expenses and rate base items in the cost of service schedules. Company witness Lynnae Wilson identifies each of the Company's witnesses in her direct testimony.

For the weighted average cost of capital calculation, I rely on the direct testimonies of Company witness Ann E. Bulkley and Company witness Jacqueline M. Richert. I then apply the overall weighted average cost of capital to total rate base to obtain the Company's return on investment.

Q. WHAT SCHEDULES ARE YOU SPONSORING OR CO-SPONSORING?

A. I sponsor or co-sponsor the schedules listed on Exhibit KLC-01. Exhibit KLC-02

[1] *See* Section II, RFP Requirements.

attests that the books and records of the Company, as well as the books and records pertaining to affiliate transactions, are kept consistent with the Federal Energy Regulatory Commission ("FERC") Electric Uniform System of Accounts ("FERC USOA"). Subject to a protective order for access to confidential or highly sensitive information, all parties to the case may examine these records at a reasonable time by contacting the Company's designated representatives referenced in its application in the Statement of Intent.

Q. WAS YOUR TESTIMONY PREPARED BY YOU OR BY OTHERS WORKING UNDER YOUR DIRECTION AND CONTROL?

A. Yes.

Q. WHAT DIRECT ACCOUNTING COSTS DOES YOUR TESTIMONY SUPPORT?

A. I support certain accounting transactions that are incurred directly by the Company. These transactions include intercompany rent, overhead residuals, credits for bond company audits and management, credit facility fees, and other miscellaneous items. These costs have been functionalized based on the underlying transactions.

Q. WHEN WAS THE COMPANY'S LAST BASE RATE PROCEEDING?

A. The Company filed its last base rate proceeding, Docket No. 49421, in 2019 with a test year ending December 31, 2018. The Commission issued its final order on March 9, 2020.

Q. WHAT IS THE HISTORICAL TEST YEAR BEING USED IN THIS RATE FILING?

A. The amounts reflected in the RFP in this rate proceeding are derived from the

Company's books and records for the 12-month period ending December 31, 2023.

II. RFP REQUIREMENTS

A. General Compliance

Q. HOW DID THE COMPANY PREPARE ITS TESTIMONY, EXHIBITS AND SCHEDULES IN THIS PROCEEDING?

A. The Company prepared the testimony, exhibits, and schedules in this preceding as described by 16 TAC § 25.231, as well as followed the instructions contained in the Commission's RFP.[2]

Q. HAVE THE RFP INSTRUCTIONS CHANGED SINCE THE COMPANY'S LAST BASE RATE CASE?

A. Yes. The RFP requirements used in this rate proceeding are largely similar to the instructions used in the Company's prior base rate case proceeding. However, Section VI of the RFP has been expanded to include Schedules VI-M. These schedules include certain transmission plant additions with a cost exceeding $250,000. Schedules VI-M are discussed further in the direct testimonies of Company witnesses Eric D. Easton, David Mercado, and Mandie Shook.

In addition, RFP schedules II-B-15A and 15B are new schedules for this proceeding. These schedules provide statements related to methods, procedures, and calculations of Allowance for Funds Used During Construction ("AFUDC") and Construction Overhead ("COH").

[2] Project No. 49199 *Project to Revise Rate Filing Package for Investor-Owned Transmission and Distribution Utilities*, July 20, 2020 (Order).

Q. IN ACCORDANCE WITH THE RFP, IS THE INFORMATION PROVIDED TAKEN FROM THE COMPANY'S BOOKS AND RECORDS PRESCRIBED IN THE FERC CHART OF ACCOUNTS?

A. Yes. The information submitted in this filing is taken from the Company's books and records that are maintained according to the FERC USOA. The USOA is prescribed by FERC for public utilities and licensees subject to the provisions of the Federal Power Act. FERC prescribes accounting classifications and guidance by which public utilities achieve uniform accounting records for use in financial reporting, ratemaking, and other regulatory filings. These regulations are found and defined in the Code of Federal Regulations ("CFR") 18 – Conservation of Power and Water Resources, Subchapter C – Accounts, Federal Power Act, Part 101 – Uniform System of Accounts. The Commission, in 16 TAC § 25.72, explicitly requires that the Company keep its books in accordance with the FERC USOA. Many Texas cities within the Company's service territory impose a similar requirement. To demonstrate this compliance, the corresponding FERC accounts have been included in the RFP.

Q. HOW DID THE COMPANY ENSURE THAT TRANSACTIONS AND COSTS REFLECTED IN THE TEST YEAR WERE PROPERLY RECORDED?

A. CNP maintains a system of internal controls and policies and procedures that are implemented by management and other personnel and audited by Deloitte & Touche, LLP on an annual basis. CNP's internal control process with respect to classification of investment has two major objectives:

- to ensure that financial statements are fairly presented in conformity with generally accepted accounting principles ("GAAP") and contain no material misstatements; and

- to ensure compliance with applicable laws and regulations, including adherence to SOX.

B. Exclusions Required

Q. DID THE COMPANY EXCLUDE ANY EXPENSES FROM ITS COST OF SERVICE FILING UNDER 16 TAC § 25.231?

A. Yes. 16 TAC § 25.231(b)(2) requires that expenses for legislative advocacy, political or religious causes, support of or membership in various clubs or organizations, promoting increased consumption of electricity, advertisement, and similar types of activities be excluded from the cost of service. Charitable contributions and donations, dues, and certain advertising expenses were reviewed to determine if the thresholds specified in 16 TAC § 25.231(b)(1)(E) were exceeded. As shown on Schedule II-D.2.3, the thresholds were not exceeded; therefore, no advertising expenses, charitable contributions or donations, or dues were excluded. As required by the RFP General Instructions, Schedule II-E-4.2 presents a complete detailed analysis of excludable costs by FERC account that are not reflected in the cost of service and are considered below-the-line. "Below-the-line" items refer to expenses that are not allowed to be recovered through rates.

C. Functionalization

Q. DID THE COMPANY FOLLOW RFP GENERAL INSTRUCTION NO. 11, WITH RESPECT TO FUNCTIONALIZATION?

A. Yes. As described in the RFP General Instructions using the definitions provided in 16 TAC § 25.341 and as further defined in 16 TAC § 25.344, the Company has functionalized its cost of service and rate base into functions. The Company functionalized its costs and revenues, where appropriate, following the three-tier process as prescribed by RFP General Instruction No. 11.

III. AFFILIATE TRANSACTIONS

Q. HAVE ANY DIRECT ACCOUNTING COSTS BEEN INCLUDED IN THIS FILING?

A. Yes. I support certain accounting transactions that are incurred directly by the Company. These transactions include intercompany rent, overhead residuals, credits for bond company audits and management, credit facility fees, and other miscellaneous items. These costs have been functionalized based on the underlying transactions.

Q. HAVE AFFILIATE COSTS BEEN INCLUDED IN THIS FILING?

A. Yes. Company witness Mr. L. Darren Storey provides an overview of the Company's affiliate expense request and addresses the reasonableness of various classes of affiliate expense. In addition, various Company witnesses support the need for the services and support associated with the affiliate costs related to the various Company business units and divisions. Costs for affiliate services provided by CenterPoint Energy Resources Corporation ("CERC"), Vectren Utility Holdings, LLC ("VUH") and Service Company are included in the adjusted test year costs and are shown on the V-K Schedules sponsored by Mr. Storey.

Q. PLEASE DESCRIBE THE SERVICE COMPANY FUNCTION.

A. Service Company personnel carry out corporate oversight, managerial functions, and specialized support activities (i.e., Legal, Human Resources) for CNP and its business units. Costs incurred by Service Company are initially recorded on its books and are then directly billed or allocated, as appropriate, to the appropriate business units, which Mr. Storey addresses in his direct testimony. Mr. Storey, along with other Company witnesses, provides greater detail on the functions provided by Service Company to CenterPoint Houston.

Q. PLEASE DESCRIBE THE CERC AFFILIATE FUNCTIONS.

A. CNP's natural gas distribution organization reports under the CERC umbrella. During the test year, the Company received the following services from CERC: line locating, fleet services, meter reading, broadband services, damage prevention compliance reporting, and GIS and CAD engineering services. Please see the Direct Testimony of Mr. Storey for more information on CERC services.

Q. PLEASE DESCRIBE THE VUH AFFILIATE FUNCTIONS.

A. Services provided by VUH during the test year were for operational support activities including damage prevention and meter reading management, work order management, and GIS administration as discussed by Mr. Storey.

Q. HOW HAVE AFFILIATE EXPENSES BEEN REFLECTED IN THE FILING PACKAGE?

A. As required by the RFP General Instructions, test year affiliate transactions have been separately identified and presented in accordance with the specific schedule instructions in Section V of the RFP.

Q. DESCRIBE THE STEPS TAKEN TO FUNCTIONALIZE AFFILIATE EXPENSES.

A. Affiliate expenses were functionalized following the Operations and Maintenance ("O&M") or Administrative and General ("A&G") schedules based on where the underlying transaction occurred and then following the functionalization of that FERC account. For example, affiliate costs charged to FERC Account 5600 were traced to the function assigned on Schedule II-D-1, Operations and Maintenance. Please refer to Schedules II-D-1 and II-F for more functionalization detail.

Q. DESCRIBE THE AFFILIATE ORGANIZATIONS YOUR TESTIMONY SUPPORTS.

A. In my testimony below, I address certain services provided to CenterPoint Houston by EM, the Finance Organization and the CAO Organization.

Q. HOW ARE AFFILIATE COSTS BILLED TO THE COMPANY?

A. As Mr. Storey describes in his direct testimony, affiliate costs are either directly assigned or allocated in accordance with the Service Level Agreement ("SLA") between CenterPoint Houston and each respective affiliate. The SLA defines not only the services to be provided, but also the billing rates for services directly billed such as internal labor costs. Additionally, the SLA also governs the allocation factors used to assign costs that are allocated. Directly assigned charges occur for costs incurred for the direct benefit of CenterPoint Houston; these costs are tracked so that they may be billed appropriately. Affiliate costs that cannot be directly billed, such as activities and costs that are incurred in support of multiple business units, are allocated to the Company using allocation factors described by Mr. Storey

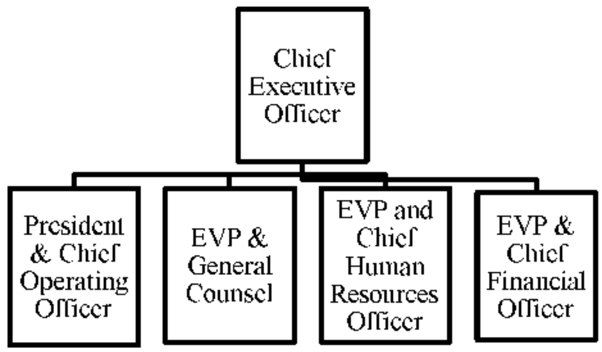
A. Executive Management

Q. PLEASE DESCRIBE THE EM SERVICES PROVIDED BY SERVICE COMPANY DURING THE TEST YEAR.

A. EM services included those services provided by the Chief Executive Officer ("CEO"); the President & Chief Operating Officer ("COO"); and the Executive

Vice President and Chief Financial Officer ("CFO"). Additionally, EM services also includes expenses related to the Board of Directors and general activities and costs incurred to support business development for CNP and the business units. The organization chart below in **Figure 1. Executive Management**, shows the CEO and his direct reports during the test year.

Figure 1. Executive Management



After the end of the test year, the COO role was vacated as a result of a planned transition that saw the retirement of the former CEO and the former COO's assumption of the role of President & CEO. Consistent with the currently existing organization that does not include both a CEO and COO, all compensation costs incurred during the test year associated with the former CEO have been removed from the Company's requested cost of service.

Q. **DOES EM OPERATE UNDER AN SLA?**

A. Yes. See Mr. Storey's direct testimony for the SLA governing EM.

Q. **WHAT TYPES OF COSTS ARE ALLOCATED TO THE VARIOUS BUSINESS UNITS FOR SERVICES PROVIDED BY EM?**

A. In order to provide leadership, oversight and support services, EM incurs labor and third-party costs that are allocated to CNP business units using allocation factors as defined in the cost allocation manuals sponsored by Mr. Storey and provided in Schedule V-K-4. Non-recoverable costs incurred by EM are recorded in the appropriate non-recoverable FERC accounts on the Company's books and records.

Q. HOW DO THE STRUCTURE OF THE EM ORGANIZATION AND THE COMPANY'S PRACTICES WITH RESPECT TO COMPENSATION ENSURE THAT THE COSTS ASSIGNED TO THE COMPANY ARE REASONABLE?

A. The EM Organization is structured to provide services that a large, publicly traded entity requires to support both its internal and external EM requirements. Company witness Bertha R. Villatoro addresses the reasonableness of CNP's and CenterPoint Houston's employee labor market salaries and benefit plans. Only required services are performed within the EM Organization. Therefore, those costs assigned to the Company are reasonable and necessary. The total cost for EM services billed to the Company during the test year is addressed in Mr. Storey's testimony.

Q. ARE EM SERVICES NECESSARY TO THE COMPANY?

A. Yes. The services of the CEO relate to providing support to CNP and interfacing with the CNP board of directors, shareholders, the investment community, customers, and regulators. The CEO provides oversight and leadership of the overall operations of CNP, including CenterPoint Houston. Services from this function are focused on providing a vision for the organization, leading the development of the short-term and long-term strategy of the organization, assessing risk and establishing strategic goals, reviewing the market and expansion opportunities, providing oversight of the executive leaders in the Company, and evaluating the financial and economic analysis of the Company, which are necessary functions for any large, publicly traded entity. The centralized structure of Service Company allows CNP to leverage executive resources across multiple business units in an efficient and cost-effective manner without duplicating those resources or functions within the Company itself. As discussed above, after the end of the test year, the title of this role changed to President & CEO, but the responsibilities remain unchanged.

Q. PLEASE DESCRIBE THE OTHER SERVICES PROVIDED BY EM DURING THE TEST YEAR THAT YOUR TESTIMONY SUPPORTS.

A. The President & COO provided oversight of the daily operations of the Company by supporting the Company's transmission and distribution delivery system. Along with the CEO, the President & COO provided guidance to ensure the Company provides safe and reliable electric service and meets its other goals and objectives. Company witnesses Lynnae Wilson, Randal M. Pryor, Deryl Tumlinson, David Mercado, Eric D. Easton, Rina H. Harris, and Mandie Shook also discuss the structure of the transmission and distribution organizations that were overseen by the CEO and President & COO during the test year. Also included within the President & COO's duties was oversight of Customer Operations, which is responsible for, among other things, customer service and the Call Center that serves CenterPoint Houston. Company witness Ms. Shonda Royston-Johnson addresses the Call Center operations in more detail in her testimony. Lastly, the President & COO was also charged with oversight of the Company's Utilities Operations Support, Regulatory Services and Government Affairs, and Information

Technology ("IT") functions. Company witnesses Steven Greenley, Brad Tutunjian, and Ronald W. Bahr, respectively, discuss these functions in more detail in their testimonies. Separate and apart from responsibilities associated with the Company, the President & COO also provided these services for CNP's other gas and electric subsidiaries. After the end of the test year, the title of President was added to the CEO title, but role responsibilities remain unchanged. As discussed above, all compensation costs incurred during the test year associated with the former CEO have been removed from the Company's requested cost of service.

The Executive Vice President and CFO provides oversight of the Finance Organization, which I address in greater detail later in my testimony. In general, the Finance Organization: establishes control over the cash flow position for the Company; oversees the overall capital structure of the Company; maintains shareholder relations and communications with other financial parties; develops financial and tax strategies; develops performance measures and reports related results to EM; and ensures timely and accurate financial and compliance reporting.

Q. IS IT REASONABLE FOR THE COMPANY TO OBTAIN THE SERVICES PROVIDED BY EM THROUGH A CENTRALIZED ORGANIZATION?

A. Yes. The EM services are necessary for the operation of any business regardless of whether the service is performed centrally, as is done at CNP, or resides within the business unit. A centralized Service Company that includes EM gives the business units within the Company access to high-quality and specialized services in a cost-effective manner because the cost is shared by multiple business units. Under the centralized structure, EM is responsible for oversight of the Company's

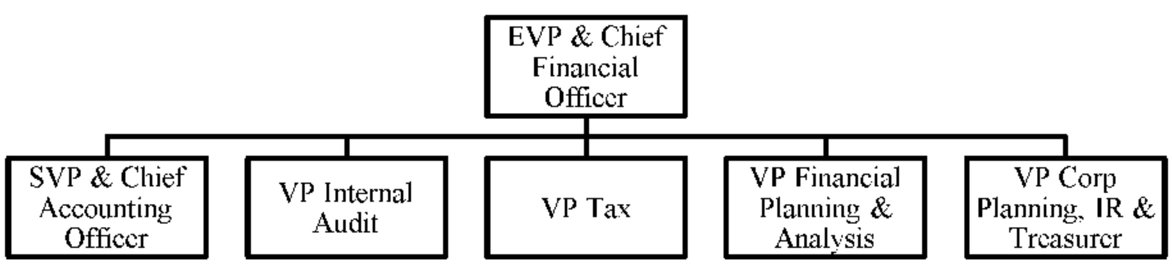
$15.0 billion in Net Plant in Service, which is approximately 50% of total CNP Net Property, Plant and Equipment, and the Company's December 2023 reported Operating Income of $994 million, which is approximately 56% of CNP's Operating Income for the period ending December 2023. Under the centralized EM Organization structure, the Company is assigned a portion of the costs rather than incurring 100% of costs as a stand-alone company.

B. Finance

Q. PLEASE DESCRIBE THE STRUCTURE OF THE FINANCE ORGANIZATION AND HOW IT SUPPORTS THE COMPANY.

A. The Finance Organization is led by the CFO and consists of several functions including but not limited to: Accounting, Internal Audit, Tax, FP&A, Investor Relations ("IR") and Treasury. **Figure 2. Finance Organization** below shows the structure of the Finance Organization during the test year discussed in my testimony.

Figure 2. Finance Organization



The Finance Organization provides support to ensure the Company is able to fund its operations daily, its vendors and employees are paid timely and accurately, and all financial and regulatory reporting requirements are met. In this way, the Finance Organization provides services that are necessary for the day-to-day functioning of the Company both internally and externally. The activities of the Finance Organization are also critical to ensuring the Company meets monthly, quarterly and annual reporting requirements.

Q. HOW ARE THE FUNCTIONS WITHIN THE FINANCE ORGANIZATION SUPPORTED IN THIS FILING?

A. The functions within the finance organization as shown within **Figure 2. Finance Organization** above are supported by the following witnesses as shown in **Table 1** below:

Table 1 - List of Witness Testimony

Functions	Company Witness
Chief Financial Officer	Kristie L. Colvin
Chief Accounting Officer	Kristie L. Colvin
Internal Audit	Stephanie Bundage-Juvane
Tax	Jennifer K. Story
FP&A	Kristie L. Colvin
Corporate Planning, IR & Treasury	Jacqueline M. Richert

Q. ARE THE FINANCE ORGANIZATION COSTS INCLUDED IN THE COMPANY'S FILING REASONABLE AND NECESSARY?

A. Yes. The Finance Organization activities noted above are corporate support activities that any utility would require on an ongoing basis. As noted for EM, if those activities were not provided by Service Company, CenterPoint Houston would need its own employees to perform the functions and services provided by the Finance Organization. Company witness Ms. Villatoro addresses the reasonableness of CNP's and CenterPoint Houston's employee labor market salaries and benefit plans. Additionally, the services provided by the Finance Organization are under a Service Level Agreement ("SLA"), governing transactions with affiliates, which Mr. Storey provides with his direct testimony. As Mr. Storey testifies, the Finance Organization's costs are controlled through CNP's annual budget process and adherence to cost control processes. The Commission should authorize the Company to recover its Finance Organization costs through the rates set in this proceeding.

Q. PLEASE DESCRIBE THE RESPONSIBILITIES AND FUNCTIONS OF FP&A.

A. FP&A provides two main areas of support to the Company as described in more detail below.

1. **Financial Planning and Performance Reporting** – coordinates and consolidates the corporate and business one-year plan, monthly forecast and performance reporting; supports the Service Company and affiliate billings to the business units; and supports regulatory filings across all jurisdictions.
2. **Financial Services** – provides accounts payable, remittance processing, corporate disbursement and payroll and benefits accounting services, as discussed below.
    a. Accounts Payable – pays vendors accurately and in a timely manner, in compliance with CNP policy for items including, but not limited

to, construction services and materials, stock materials and operating and maintenance services and materials for the Company.

b. Remittance Processing – processes payments, including customer payments received for the Company's account and other business units; and performs significant controls to ensure payments are processed accurately and cost effectively.

c. Corporate Disbursements – prints paychecks as well as checks payable to vendors in compliance with company policies and procedures; receives, scans and indexes invoices from vendors for construction services and materials, stock materials and operating and maintenance services and materials for the Company and other business units.

d. Payroll and Benefits Accounting – provides accounting for payroll and employee benefits, including payroll tax reporting and accounting for executive benefits plans.

Q. WHAT TYPES OF DIRECT-BILLED AFFILIATE SERVICES ARE PROVIDED BY THE FP&A ORGANIZATION TO THE VARIOUS CNP BUSINESS UNITS, INCLUDING THE COMPANY?

A. Functions in the FP&A organization for which affiliate costs are directly billed are specific to each business unit. Examples of direct charges to the Company are:

- Labor costs and expenses charged to specific business units. Employees who direct bill labor keep time records to document the activities they perform, their time records are entered into SAP, and billed to the specific business unit. For example, FP&A has personnel who work exclusively on behalf of CenterPoint Houston for all aspects of their work and whose costs discussed above are direct costs.

- Third-party costs that are applicable to and incurred on behalf of a specific business unit, such as consulting and professional services.

C. Chief Accounting Officer

Q. PLEASE DESCRIBE THE RESPONSIBILITIES AND FUNCTIONS THAT REPORT TO THE CAO.

A. The CAO organization maintains the Company's and CNP's books and records and associated accounting policies, as well as its internal controls. The CAO also reports on the financial results of CNP and its affiliates. **Figure 3. CAO Organization** below shows the structure of the CAO organization.

Figure 3. CAO Organization

The CAO functions provide support to the Company as follows:

1. **Accounting** – provides general accounting and financial oversight responsibilities for the business units; has a functional operating area that maintains and reports operating financial information; compiles the accounting and financial records in accordance with GAAP and ensures that revenue recognition complies with GAAP.
2. **Assistant Controller -** prepares consolidated external financial reports; oversees compliance with SOX requirements and coordinates with auditors;

monitors new accounting pronouncements; and maintains and develops accounting policies.

3. **Property Accounting** – tracks and reports on all capitalized assets and assists the business units with CNP's capitalization policy.[3]

4. **Regulatory Reporting –** compiles and reports information specifically required by regulators such as the Commission and confirms compliance with the FERC USOA.

5. **Financial Systems & Processes** – ensures the efficiency of and maintains the health of the financial applications from a functional perspective; maintains a working relationship with the business units to understand business processes and financial systems requirements; and acts as the liaison with the IT department to ensure visibility of priorities and strategic direction.

Q. WHAT TYPES OF DIRECT-BILLED AFFILIATE SERVICES ARE PROVIDED BY THE CAO ORGANIZATION TO THE VARIOUS CNP BUSINESS UNITS, INCLUDING THE COMPANY?

A. Functions in the CAO organization for which affiliate costs are directly billed are specific to each business unit. Examples of direct charges to the Company are:

- Labor costs and expenses charged to specific business units. Employees who direct bill labor keep time records to document the activities they perform, their time records are entered into SAP, and billed to the specific business unit. For example, during the test year, Regulatory Reporting had personnel who worked exclusively on behalf of CenterPoint Houston for various annual reports and regulatory filings and whose costs discussed above are direct costs.

- Third-party costs that are applicable to and incurred on behalf of a specific

[3] *See* Exhibit KLC-10 Capitalization Policy and Capitalization of Computer Software Policy

business unit, such as audit fees, consulting and professional services.

Q. WHAT TYPES OF COSTS ARE ALLOCATED TO THE VARIOUS BUSINESS UNITS BY THE CAO ORGANIZATION?

A. Labor and third-party costs in the CAO organization that are not identified as direct billed are allocated to CNP business units using allocation factors as defined in the Cost Allocation Manuals sponsored by Mr. Storey and provided in Schedule V-K-4. Examples of allocated costs include governance costs associated with the CAO and oversight of Finance internal controls.

Q. IS IT REASONABLE FOR THE COMPANY TO OBTAIN THE SERVICES PROVIDED BY THE FP&A AND CAO ORGANIZATIONS THROUGH A CENTRALIZED ORGANIZATION?

A. Yes. Similar to EM discussed above,[4] the FP&A and CAO services are necessary for the operation of any business regardless of whether the service is performed centrally, as is done at CNP, or resides within the business unit. A centralized Service Company gives the business units access to high-quality and specialized services in a cost-effective manner because the cost is shared by multiple business units. An example that helps illustrate the benefits to the Company of the centralized CAO Organization is the CAO itself. Under the centralized CAO Organization structure, the Company is assigned a portion of the costs of the CAO rather than incurring 100% of CAO costs as a stand-alone company.

Q. ARE THE FP&A AND CAO ORGANIZATIONS COSTS INCLUDED IN THE COMPANY'S FILING REASONABLE AND NECESSARY?

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[4] *Id.*

A. Yes. The FP&A and CAO Organizations' activities noted above are corporate support activities that any utility would require on an ongoing basis. If those activities were not provided by the Service Company, CenterPoint Houston would need its own employees to perform the functions and class of services provided by these organizations. As Mr. Storey testifies, the FP&A and CAO organizations' costs are controlled through CNP's annual budget process and adherence to cost control processes. The Commission should authorize the Company to recover these organizations' costs through the rates set in this base rate proceeding.

IV. RATE BASE

Q. WHAT COMPONENTS OF RATE BASE ARE INCLUDED IN THE COMPANY'S FILING?

A. 16 TAC § 25.231(c)(2) defines rate base interchangeably with invested capital and "includes as a major component the original cost of plant, property, and equipment, less accumulated depreciation, used and useful in rendering service to the public." Rate base primarily consists of the Company's investment in distribution and transmission system assets and related intangible and general plant assets that make up the original cost of utility plant, general plant and communication equipment, used and useful in providing utility service to the public. These items are designated as "plant" or Electric Plant in Service ("EPIS"). Plant is reduced by accumulated depreciation and amortization to arrive at net plant in service. Other rate base items include plant held for future use ("PHFU"), accumulated provisions (except Accumulated Deferred Income Taxes ("ADIT"), ADIT, materials and supplies, cash working capital, prepayments and other rate base items. The Company's total requested rate base is approximately $12.1 billion. The individual rate base components are described below and can be seen on Schedule II-B and Exhibit KLC-03. In addition, I address adjustments to rate base below, which are shown on Exhibit KLC-04a with explanations of the adjustments provided on Exhibit KLC-04b.

A. Electric Plant in Service

Q. PLEASE DESCRIBE EPIS.

A. EPIS is the capitalized expenditure for assets used and useful for the transmission and distribution of electricity within the Company's service territory. The Company utilizes the FERC USOA, which categorizes EPIS assets as having an expected life in service of more than one year from the date of installation in the primary areas: intangible plant, transmission, distribution and general plant. The RFP schedules combine intangible plant, transmission and distribution into one category as "Original Cost of Plant" and separate communications equipment out of general plant for presentation purposes.

Q. WHAT ARE THE EPIS AMOUNTS INCLUDED IN THIS FILING?

A. For the adjusted test year, total EPIS for the Company was $16.4 billion, excluding general and communication plant, as shown on Schedule II-B-1.

Q. HAVE ANY AMOUNTS RELATED TO ASSET RETIREMENT OBLIGATIONS ("ARO") BEEN ADJUSTED FROM THE TEST YEAR EPIS BALANCE?

A. Yes. ASC 410-20, *Asset Retirement Obligations,* requires the Company to estimate, recognize, and disclose the present value of future obligations related to the retirement or removal of assets. The Company is required to recognize the obligation as an ARO liability with a corresponding increase to the cost of the related plant. Consistent with Docket Nos. 38339 and 49421, the Company has removed ARO from EPIS.

Q. HAVE ANY OTHER ADJUSTMENTS BEEN MADE TO EPIS?

A. Yes. There are two other adjustments to EPIS. First, as I previously mentioned, the Company has removed all test year compensation costs associated with the former CEO due to the former CEO's retirement and the resulting COO-CEO transition. This includes both capital and expense amounts. The other adjustment to EPIS is a minor reclass for Security Lighting plant to reflect test year amounts in the proper plant FERC Account. All EPIS adjustments are shown on Exhibit KLC-04a and Schedule II-B with explanations provided on Exhibit KLC-04b. [5]

Q. HOW HAS EPIS BEEN FUNCTIONALIZED?

A. The Company relies on the FERC USOA as guidance to functionalize the Company's EPIS. Consistent with prior rate cases, a significant portion of the Company's EPIS can be directly functionalized based on the FERC USOA; however, a small number of EPIS FERC accounts require additional examination to be properly functionalized. EPIS FERC Accounts 303 through 374 have been specifically mapped to the functions supported by those assets. FERC Accounts 350 through 359 are primarily assigned to the transmission function, whereas FERC Accounts 360 through 374 have been specifically identified and functionalized to the distribution function, or to the metering function for FERC Account 370. 16 TAC § 25.341 defines transmission and distribution to be "system and discretionary services associated with facilities" necessary to transform and move electricity

[5] Also *See* WP/II-B-1.

from one point to another, and "related processes necessary to perform such transformation and movement."[6] Facilities or systems at or above 60 kilovolts are transmission, whereas those below 60 kilovolts are distribution.

Exceptions for these FERC accounts relate to the specific identification of substation land, facilities and equipment. Substation assets generating up to the step-up transformer, from that point to the step-down transformer, are deemed to be transmission. Beyond that point, the assets are deemed to be distribution. This principle has been applied throughout the Company's filing for substation-related assets and costs. To determine the proper identification for FERC Accounts 350, 352, 353, 360, 361, and 362, transmission and distribution operations personnel reviewed the charges within these FERC accounts and assigned the charges according to the type of facility or service.

B. General Plant

Q. WHAT IS GENERAL PLANT?

A. General plant reflects capitalized expenditures for assets that are used and useful by the Company to support general utility operations, activities, and uses included in FERC Accounts 389 through 396 and 398 through 399. General plant includes land, structures and improvements, office furniture and equipment, transportation equipment, stores equipment, tools, shop and garage equipment.

[6] 16 TAC § 25.341(5) defines "distribution," and 16 TAC § 25.341(14) defines "transmission."

Q. WHAT IS THE AMOUNT OF GENERAL PLANT INCLUDED IN THIS FILING?

A. The total adjusted general plant test year balance for the Company is $682.9 million and can be found on Schedule II-B-2.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO THE GENERAL PLANT IN SERVICE TEST YEAR AMOUNTS?

A. Yes. The Company has removed the following: (1) ARO of $9.4 million; (2) $3.5 million related to asset retirements proposed by the depreciation study discussed by Mr. Watson; and (3) $88,617 of test year capitalized compensation pertaining to the retired CEO as a result of the COO-CEO transition.[7]

Q. HOW HAS GENERAL PLANT BEEN FUNCTIONALIZED?

A. Consistent with prior rate cases, general plant assets have been individually reviewed for each location and assigned to functions based on their use.

C. Communications Plant

Q. WHAT IS COMMUNICATIONS PLANT?

A. Communications plant consists primarily of computer network, telephone and radio equipment, personal computers and hardware infrastructure to support personnel communications and software applications between the Company's sites across the Local and Wide Area Networks and internet applications. Communications plant assets have been assigned to FERC Account 397.

[7] *See* WP/II-B-2.

Q. WHAT COMMUNICATIONS PLANT AMOUNTS ARE INCLUDED IN THE TEST YEAR IN THIS FILING?

A. Total communications plant amounts included in the adjusted test year amounts in this filing are $666.5 million, as shown on Schedule II-B-3.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO COMMUNICATIONS PLANT TEST YEAR AMOUNTS?

A. Yes. The Company has removed $3.1 million to reflect asset retirements proposed by the depreciation study results supported by Mr. Watson and $141,863 to remove capitalized compensation pertaining to the retired CEO as a result of the COO-CEO transition.[8]

Q. HOW HAS COMMUNICATION PLANT IN SERVICE BEEN FUNCTIONALIZED?

A. Communication Plant has been assigned to the functions similar to the approach in Docket No. 49421. FERC Account 397.1 for communication equipment and FERC Account 397.2 for computer equipment has been functionalized using employee headcount.

D. Accumulated Depreciation and Amortization

Q. WHAT IS THE AMOUNT OF ACCUMULATED DEPRECIATION AND AMORTIZATION INCLUDED IN THIS FILING?

A. Total accumulated depreciation and amortization for the test year is $4.4 billion, as shown in Schedule II-B-5 by FERC account and by function.

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[8] *See* WP/II-B-3.

Q. WHAT IS INCLUDED IN ACCUMULATED DEPRECIATION AND AMORTIZATION?

A. The balance represents the accumulated depreciation and amortization net of the cost of removal and salvage associated with the retirement of plant assets, and it is included in the rate base calculation.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO THE TEST YEAR FOR ACCUMULATED DEPRECIATION AND AMORTIZATION?

A. Yes. The Company has removed $6.6 million to reflect the depreciation study retirement results supported by Mr. Watson.[9] The ARO adjustment removes $16.1 million for the ARO as noted above, under ASC 410.[10] Lastly, an adjustment has been made to reclass items into the proper asset classes.[11] The adjusted level of accumulated depreciation as a result of these adjustments is $4.4 billion.

Q. HOW HAS ACCUMULATED DEPRECIATION AND AMORTIZATION BEEN FUNCTIONALIZED?

A. Accumulated depreciation and amortization follow the associated assets when functionalized.

E. Construction Work in Progress

Q. WHAT IS CONSTRUCTION WORK IN PROGRESS ("CWIP")?

A. CWIP includes all capital project costs accumulated for assets not yet completed and in service. Capital project costs include directly incurred costs for the construction or acquisition of an asset. In addition, capital costs also include

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[9] *See* WP/II-B-5 for the depreciation study – retirements adjustment.
[10] *See* WP/II-B-5 for the ARO adjustment.
[11] *See* WP/II-B-5 for the asset reclass adjustment.

AFUDC for the financing costs incurred in support of capital construction projects for an asset.

Q. WHAT CWIP AMOUNTS ARE INCLUDED IN THIS RFP?

A. The Company is not requesting recovery of any CWIP in this filing. [12]

F. Electric Plant Held for Future Use

Q. WHAT IS ELECTRIC PLANT HELD FOR FUTURE USE ("PHFU")?

A. PHFU costs are accounted for in the same FERC Accounts as EPIS, but summarized to FERC Account 105, Electric Plant Held for Future Use, and represent the original cost for electric plant owned assets that are held for future use to provide electric service under a definite plan for such use.

Q. WHAT TOTAL AMOUNT OF ASSETS ARE INCLUDED AS PHFU?

A. PHFU assets for the Company totaled $10.5 million for the test year, as recorded in FERC Account 105 and shown on Schedule II-B-6. For each asset, the expected date of use and function of the asset was reviewed and assigned. Of the total assets recorded to FERC Account 105, $6.3 million is expected to be used by the utility in the next 10 years. The remaining assets totaling $4.2 million are not planned to be used and useful in the next 10 years and are not included in the Company's rate base. [13] Company witness Mr. Easton discusses these assets in his testimony.

Q. HOW ARE PHFU ASSETS FUNCTIONALIZED?

A. PHFU is functionalized based on the intended use of the asset.

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[12] 16 TAC § 25.231(c)(2)(D).

[13] *See* WP/II-B-6 for the PHFU adjustment.

G. Accumulated Provisions

Q. WHAT ARE THE COMPONENTS OF ACCUMULATED PROVISIONS IN THIS RFP?

A. The components of accumulated provisions include property self-insurance, auto and general insurance, workers' compensation, and accrued benefit restoration costs. The individual components are described below and can be seen on Schedule II-B-7. In addition, ADIT is a type of accumulated provision included in rate base as seen on Schedule II-B-7 and discussed in section IV.H. below.

1. <u>Insurance Reserves</u>

Q. HAS THE COMPANY INCLUDED PROPERTY, AUTO AND GENERAL, AND WORKERS' COMPENSATION SELF-INSURANCE BALANCES IN ITS RESERVE BALANCES IN THIS FILING?

A. Yes. The Company recorded on its books and records as shown on Schedule II-B-7 the following test year ended reserve balances: (1) property self-insurance in the amount of approximately $42.0 million (which is a deficit reserve balance, and therefore, reflected in FERC Account 1823); (2) auto and general insurance in the amount of $19.3 million reflected in FERC Account 2282; and (3) workers' compensation in the amount of $4.1 million reflected in FERC Account 2282. The property self-insurance reserve consists of accruals and losses resulting from property damage. Auto and general reserve consists of accruals and claims for losses incurred by auto or other means but not yet filed against the Company related to damage of others' property. The Company's workers' compensation reserve is comprised of accruals and claims for losses incurred by injured employees but not yet reported against the Company.

Q. DOES THE COMMISSION ALLOW THE ESTABLISHMENT OF A SELF-INSURANCE RESERVE FOR UNINSURED PROPERTY LOSSES?

A. Yes. In accordance with 16 TAC § 25.231(b)(1)(G), "reserve accounts are to be charged with property and liability losses which occur, and which could not have been reasonably anticipated and included in operating and maintenance expenses".

Q. DID THE COMPANY UTILIZE A SELF-INSURANCE RESERVE FOR UNINSURED PROPERTY LOSSES DURING THE TEST YEAR?

A. Yes. The Company utilized a self-insurance reserve established in Docket No. 49421, in which the Commission agreed that the self-insurance reserve is appropriate and found the Company's property self-insurance reserve account to be in the public interest and a lower-cost alternative than commercial insurance. The Commission set (1) an annual accrual of $3.575 million to provide for average annual expected losses from events where losses are greater than $100,000 and (2) an accrual of $4.11 million annual for three years to achieve a target reserve of $6.55 million from a reserve deficit level of ($5.79 million).[14]

Q. HAS THE ANNUAL AMOUNT SET BY THE COMMISSION IN DOCKET NO. 49421 FOR THE UNINSURED PROPERTY LOSS RESERVE BEEN ADEQUATE TO MEET ACTUAL LOSSES?

A. No. As of the end of the test year, the reserve account is at a deficit balance of $42.0 million, which is approximately $48.6 million less than the target reserve balance of $6.55 million approved in Docket No. 49421.[15] In each year following the final

[14] *Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates,* Docket No. 49421, Final Order at Finding of Facts, 109-112 and Ordering Paragraph 25 (Mar. 9, 2020).
[15] Docket No. 49421, Final Order at Finding of Facts 109-112 and Ordering Paragraph 25 (Mar. 9, 2020).

order in Docket No. 49421, the Company has been unable to meet or exceed its target reserve balance of $6.55 million. The ending balances for each year are shown on Schedule II-B-7.1. Company witness Mr. Greg S. Wilson discusses the accrual required to meet the Company's current needs.

Q. PLEASE DESCRIBE HOW THE COMPANY DETERMINES THE AMOUNT OF EACH LOSS TO CHARGE AGAINST THE PROPERTY SELF-INSURANCE RESERVE.

A. Internal orders for expense and capital items are established to collect the costs of restoration for each property loss event. Costs are then reduced for any insurance proceeds the Company receives. The expense balance, net of insurance proceeds, associated with restoration is then charged to the reserve, unless the Company chooses to seek recovery of costs by different means.

Q. WHAT OTHER MEANS DOES THE COMPANY HAVE TO RECOVER STORM-RELATED PROPERTY LOSSES?

A. In extreme situations, if the loss is large enough, the Company can seek securitization treatment. In 2009, the Texas legislature amended PURA to allow electric utilities to securitize the cost of restoration related to catastrophic storm damage if the utility incurs at least $100.0 million in storm damage during a calendar year.[16] As a result of this amendment, the Company filed an application to securitize its system restoration costs related to damage from Hurricane Ike in Docket No. 37200. However, such a mechanism is not available when storms hit the Company's service territory and result in restoration costs that are less than

[16] PURA § 36.403(j).

$100.0 million. Losses associated with Hurricane Harvey during 2017 are a good example of storm-related costs that are not eligible for securitization but exceed the entire balance of the Company's storm reserve. For this reason, the Company is requesting recovery of other storm-related restoration costs separately, as discussed in Section IV.M. below. Even excluding the impact of hurricanes Harvey, Laura and Nicholas and winter storm URI, however, the Company's historical experience over the past decade has been that its approved uninsured property loss reserve accrual is inadequate. If the aforementioned methods do not adequately permit the Company to recover costs related to uninsured property losses, the Company might find it necessary to file rate cases more frequently.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO THE TEST YEAR FOR PROPERTY, AUTO AND GENERAL, AND WORKERS' COMPENSATION SELF-INSURANCE RESERVES?

A. Yes. Two adjustments were made to the general liability self-insurance reserve.[17] First, an adjustment of $5.5 million was made to reduce the reserve for outstanding insurance.[18] Adjustments were also made to reduce the reserve for insurance claims receivables for $4.0 million and $1.7 million – for a total of $5.7 million – related to hurricane Harvey and winter storm Uri, respectively.[19] Hurricane Harvey and winter storm Uri are discussed further below in Section IV.M. of my testimony. The net adjustment of $11.2 million reduced the general liability self-insurance

[17] *See* WP/II-B-7.
[18] *See* WP/II-B-7 for the claims insurance receivable adjustment.
[19] *See* WP/II-B-7 for the Harvey and Uri reserve adjustment.

reserve balance for the test year from $16.3 million to $5.1 million. No other adjustments have been made to the insurance test year-end reserve balances.

Q. HOW HAVE THE COMPANY'S SELF-INSURANCE RESERVES BEEN FUNCTIONALIZED?

A. The property self-insurance reserve has been functionalized all to distribution, whereas the other insurance reserves are functionalized to more than a single function. Specifically, the auto reserve is functionalized based on total gross plant in service, the general reserve is functionalized based on net plant, and workers' compensation is functionalized based on payroll, excluding administrative and general salaries.

2. <u>Accrued Benefit Restoration Costs</u>

Q. PLEASE DESCRIBE THE ACCRUED BENEFIT RESTORATION LIABILITY THAT THE COMPANY IS DEDUCTING FROM RATE BASE.

A. The difference between the cumulative costs recognized per GAAP and the actual contributions made are either a prepaid or an accrued cost. If the cumulative costs are greater than cumulative contributions, then an accrued benefit liability exists.

Q. WHY IS IT APPROPRIATE TO INCLUDE THE BENEFIT RESTORATION PLAN LIABILITY IN RATE BASE?

A. For the same reasons I discuss in IV.K. for the inclusion of the prepaid pension asset in prepayments, the benefit restoration plan associated with pension should also be included in rate base. In the case of the benefit restoration plan, CNP carries, on behalf of the Company, an accrued liability of $5.3 million at the end of the test year, which is included as a reduction to rate base as shown on Schedule II-B-7.[20]

Q. HOW HAVE THE ACCRUED BENEFIT RESTORATION COSTS BEEN FUNCTIONALIZED?

A. The Accrued Benefit Restoration liability is functionalized using payroll, excluding administrative and general salaries.

H. Accumulated Deferred Income Taxes

Q. WHAT IS THE TEST YEAR ADIT AMOUNT INCLUDED IN THE FILING?

A. The Company's test year ADIT balance is a liability of $1.4 billion. ADIT amounts are recorded in FERC Accounts 2820 and 2830, net of FERC Account 1900, as shown on Schedules II-B-7 and II-E-3.5.1. Based on 16 TAC § 25.231(c)(2)(C)(i), an ADIT liability is deducted from rate base. Company witness Ms. Jennifer K. Story provides a description of ADIT and further details regarding the calculation and treatment of ADIT during the test year.

Q. ARE THERE ANY ADIT-RELATED BALANCES THE COMPANY DID NOT INCLUDE IN THIS FILING?

A. Yes. Please see Ms. Story's direct testimony for information on ADIT-related balances that the Company did not include in this filing.

[20] *See* WP/II-B-7 for the accrued benefit restoration cost adjustment.

Q. WERE ANY ADJUSTMENTS MADE TO THE TEST YEAR ADIT BALANCE?

A. Yes. The ADIT net liability was reduced by $150.3 million as shown on Schedule II-B-7 and is discussed in the direct testimony of Ms. Story. The adjusted test year balance of ADIT is a net liability of $1.3 billion.

Q. HOW HAS ADIT BEEN FUNCTIONALIZED FOR THE TEST YEAR?

A. ADIT is functionalized based on the related assets and liabilities that give rise to the tax timing differences.

I. Materials & Supplies

Q. WHAT HAS THE COMPANY INCLUDED IN THIS FILING FOR MATERIALS & SUPPLIES ("M&S")?

A. Following the RFP General Instructions, the Company has included an M&S balance of $399.1 million for the adjusted test year, which is based upon a thirteen-month average. The balance is recorded in FERC Accounts 1540 and 1630 and is shown on Schedule II-B-8.

Q. WERE THERE ANY ADJUSTMENTS IN THE THIRTEEN-MONTH AVERAGE M&S BALANCE?

A. Yes. The FERC USOA identifies certain assets as EPIS, whether actually in service or held in reserve. Specifically, the FERC USOA states that FERC 368 (line Transformers) and FERC 370 (Meters) include assets in service and those in reserve. The Company's line transformers, previously included in M&S, were reclassed to EPIS in December 2023. The monthly balances of the M&S were, therefore, reduced on Schedule II-B-8 in order to normalize the thirteen-month average of M&S.[21]

Q. WHY HAS FERC ACCOUNT 1540 INCREASED SIGNIFICANTLY SINCE THE COMPANY'S LAST RATE CASE?

A. The Company's FERC Account 1540 M&S balance has increased from $118.3 million at December 2018 to $399.9 million at December 2023. Mr. Tumlinson explains the operational reasons the Company's need for materials and supplies has increased, including the increasing frequency of extreme weather and other events that cause outages on the Company's system. Similarly, Company witness Carla A. Kneipp explains how supply chain constraints and supplier shortages have caused challenges for the Company that it is seeking to avoid by procuring sufficient materials and supplies inventory.

Q. WHAT IS THE COMPANY PROPOSING REGARDING THE MATERIALS AND SUPPLIES IN THIS RATE CASE?

A. As discussed further below in Section IV.M.7. of my testimony, the Company has included a regulatory asset in rate base related to M&S qualifying under PURA § 39.918 as long-lead time facilities ("Qualifying LLTF") in this rate proceeding.

Q. HOW HAS THE COMPANY FUNCTIONALIZED M&S?

A. M&S inventory has been functionalized based upon warehouse and part numbers that specifically identify the function using that inventory.

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[21] *See* WP/II-B-8 for the transformer adjustment.

J. Cash Working Capital

Q. WHAT IS CASH WORKING CAPITAL?

A. Cash working capital ("CWC") is the difference between current assets and current liabilities that the Company requires to finance day-to-day operations. CWC is the average amount of funds necessary to bridge the disparity between the time disbursements are made to provide services and the time revenues are received for those services. Because business operations both generate and expend cash, CWC can be a net inflow or a net outflow to a company. If a utility's average CWC is a net outflow, then that represents a continuing investment that investors must make to provide utility service. If that is the case, the amount of CWC is added to the utility's rate base. If a utility's CWC is a net inflow, then that represents a source of non-investor financing and must be subtracted from rate base.

Q. WHAT HAS THE COMPANY INCLUDED IN THE ADJUSTED TEST YEAR RATE BASE BALANCE FOR CWC?

A. The Company's adjusted test year balance for CWC is a cash outflow of $12.2 million. As required by 16 TAC § 25.231(c)(2)(B)(iii)(IV), the Company's CWC is based on the lead-lag study performed by Company witness Timothy S. Lyons who discusses the study in detail in his direct testimony. The CWC allowance, based on Mr. Lyons' lead-lag study, can be found on Schedule II-B-9.

Q. PLEASE EXPLAIN THE DIFFERENCES IN THE COMPANY'S LEAD-LAG STUDY TEST YEAR COMPARED TO THE RFP TEST YEAR?

A. The Company's lead-lag study was conducted based on the twelve-month period ending as of September 2023, whereas the Company's test year for the rate filing is the twelve-month period ending as of December 2023. The instructions to Schedule II-B-9 allow for a lead-lag study to be conducted for a twelve-month period that differs from the test year. Specifically, the instructions state, "if a new lead-lag study is provided, it may end the quarter prior to the test year end or the most recent calendar year".

Q. IS THE COMPANY'S CWC GREATER THAN ONE-EIGHTH OF TOTAL O&M AS REFERENCED IN 16 TAC § 25.231(c)(2)(B)(iii)(I)?

A. No. Schedule II-B-9 illustrates that CWC does not exceed one-eighth of the Company's total O&M expense, excluding amounts charged to O&M for prepayments and M&S.

Q. HOW HAS THE COMPANY FUNCTIONALIZED CWC?

A. The Company has functionalized CWC based upon total O&M and A&G expenses excluding fuel and purchased power.

K. Prepayments

Q. WHAT ARE THE COMPONENTS OF PREPAYMENTS INCLUDED IN THIS FILING?

A. Prepayments are prepaid expenditures for goods or services paid in advance in one accounting period to be received in a future period. As instructed by the RFP General Instructions, prepayments are included in rate base using a 13-month average balance using each month of the test year and the month immediately preceding the test year. Because the short-term balances in these accounts can vary significantly, a 13-month average is utilized to provide a more accurate representation of the amount invested throughout the year. The adjusted 13-month average prepayment balance reflected in FERC Account 1650 consists of insurance in the amount of $9.4 million; franchise taxes in the amount of $4.6 million; other miscellaneous items in the amount of $3.5 million; and the prepaid pension asset of $53.0 million. As shown on Schedule II-B-10, the total adjusted test year balance for these prepayments is $70.5 million.

Q. HAS THE 13-MONTH AVERAGE BALANCE FOR PREPAYMENTS BEEN ADJUSTED IN THE TEST YEAR?

A. Yes. Several adjustments were made to prepayments. First, prepayment amounts related to executive benefit life insurance policies have been removed. The second adjustment removes an amount which belonged to an affiliate for EEI dues. A final adjustment removes amounts related to Rider TEEEF for Temporary Emergency Electric Energy Facilities ("TEEEF").[22]

Q. PLEASE DESCRIBE THE PREPAID PENSION ASSET THE COMPANY IS REQUESTING TO INCLUDE IN PREPAYMENTS IN RATE BASE.

A. The amount of the prepaid pension asset is provided by the Company's actuary, AON, in its annual reports to the Company, and represents CNP's cumulative cash contributions on behalf of the Company to its pension plan in excess of the cumulative actuarially determined pension expense under ASC 715. The pension expense is also calculated by AON, based upon the census data of CNP's employees, and is recorded on the books and records. Traditionally, the pension expense that results from the pension plan actuarial study is recoverable in rates because the Company incurred the expenses for the pension plans on behalf of

[22] *See* WP/II-B-10 for adjustments to all prepayments.

employees. Due to this expense recovery, the Company is requesting to continue recovery of the costs it incurred to finance the pension plan.

Q. IS IT REASONABLE TO INCLUDE THE PREPAID PENSION ASSET IN RATE BASE?

A. Yes. CNP, on behalf of the Company, has made significant prepayments to the pension plan with funds provided by investors prior to recovery from ratepayers. The prepaid pension asset represents investor capital contributed to the pension plan and, therefore, should be included as a component of rate base. In 2007, the Commission allowed AEP Texas Central Company in Docket No. 33309[23] and Entergy Texas, Inc. in Docket No. 39896[24] to include their prepaid pension assets in rate base. Consistent with traditional ratemaking principles, it is reasonable and appropriate to include the prepaid pension asset in rate base because CNP on behalf of the Company has made cash contributions before it recovers the corresponding expenses through rates. This Commission has consistently allowed utilities to include items in rate base for which a utility makes cash contributions on behalf of customers before it recovers the corresponding expenses through rates.[25] For instance, prepayments and M&S are regularly included in rate base. For these reasons, the prepaid pension asset should be given the same rate base treatment. Therefore, the Company is requesting approval to include the prepaid pension asset in rate base.

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[23] *Application of AEP Texas Central Company for Authority to Change Rates,* Docket No. 33309, Order on Rehearing at Finding of Fact 25 (Mar. 4, 2008).
[24] *Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment,* Docket No. 39896, Order on Rehearing at Finding of Fact 28 (Nov. 2, 2012).
[25] 16 TAC § 25.231(c)(2)(B)(ii).

Q. DOES THE PREPAID PENSION ASSET BALANCE INCLUDE A RETURN ON UNRECOGNIZED LOSSES?

A. No. Unrecognized loss is not impacted when CNP, on behalf of the Company, makes contributions to the pension plan. Unrecognized losses are not immediately reflected in pension expense because they are deferred and amortized into future pension expense over several years. Any unrecognized loss will be the same regardless of the amounts CNP contributes to the pension plan. Thus, the amortization of unrecognized loss in pension expense is not affected by prepayments that are made due to ERISA requirements.

Q. HOW DO ANY EARNINGS THE PLAN ACCUMULATES IMPACT PENSION EXPENSE?

A. Federal law obligates CNP to effectively make an interest-free loan to the pension plan due to the fact that contributions to the plan have exceeded the required pension expense. The earnings the plan accumulates help reduce pension expense that would otherwise have to be collected through rates. Without a corresponding ability to include the prepaid pension asset in rate base, the Company (based on its portion of the CNP pension plan) would inequitably be denied a return on cash paid into the pension plan while giving customers the benefit that results from including the prepaid pension asset in rate base.

Q. WHAT IS THE 13-MONTH AVERAGE PREPAID PENSION ASSET BALANCE REQUESTED IN PREPAYMENTS?

A. The Company first bifurcated the prepaid pension asset into O&M and capital components (or CWIP). The capital or CWIP portion is then allowed a return on investment at the AFUDC rate. The 13-month average of the O&M portion of the prepaid pension asset balance is included in rate base in this proceeding as a Prepayment and is $53.0 million. [26] This treatment is consistent with the Company's prior rate case.[27] As Commission staff confirmed in the Company's prior rate case, this treatment is consistent with the Commission precedent as approved in Docket No. 40443 whereby the prepaid pension asset was included in rate base.[28]

Q. HOW HAS THE COMPANY FUNCTIONALIZED PREPAYMENTS?

A. The Company has functionalized insurance and other miscellaneous prepayments by net plant in service. The prepayment for franchise taxes is functionalized to distribution. Lastly, the Company has functionalized the prepaid pension asset based on payroll, excluding administrative and general salaries.

L. Customer Deposits

Q. ARE THERE ANY CUSTOMER DEPOSITS INCLUDED IN THIS FILING?

A. Yes. The Company collects deposits from customers for Energy Efficiency ("EE") participation, right of way damages, and advances for construction. An adjustment has been made to remove $0.1 million related to EE from customer deposits.[29] Consistent with the prior base rate case, the Company has also removed the advances for construction deposits of $37.0 million. [30] Customer deposit balances

[26] *See* WP/II-B-10 for the prepaid pension assets adjustment.
[27] Docket No. 49421, Final Order at Findings of Fact 99 (Mar. 9, 2020).
[28] *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 40443, Order on Rehearing at Findings of Fact 130 through 137 (Mar. 6, 2014).
[29] *See* WP/II-B-11 for the EECRF adjustment.
[30] *See* WP/II-B-11 for the customer advances for construction adjustment.

for right of way damages of $0.3 million remain as a deduction from rate base as shown on Schedule II-B-11.

Q. HOW HAVE CUSTOMER DEPOSITS BEEN FUNCTIONALIZED?

A. Customer deposits for right of way damages have been directly assigned to transmission.

M. Regulatory Assets and Liabilities

Q. PLEASE DESCRIBE THE COMPANY'S REGULATORY ASSETS AND LIABILITIES INCLUDED IN RATE BASE.

A. ASC 980, *Regulated Operations*, allows utilities with cost-based rates established by a regulator to defer or capitalize certain costs or obligations for future ratemaking treatment. The regulatory assets and liabilities requested as part of the adjusted test year rate base balance are related to costs for the PURA § 36.065 deferred benefits, bad debt, Coronavirus Disease of 2019 ("COVID-19"), Hurricane Harvey, Hurricane Ike, Other Storm Costs, Long Lead Time Facilities ("LLTF"), Expedited Switching, Smart Meter Texas ("SMT"), Load Management, Medicare Part D Subsidy, and Excess Deferred Income Tax ("EDIT"). Except for EDIT and Medicare Subsidy Part D, which are discussed by Ms. Story, these items are described in detail in my testimony.

Q. HAS THE COMMISSION PREVIOUSLY APPROVED THE INCLUSION AND TREATMENT OF THESE TYPES OF REGULATORY ASSETS AND LIABILITIES IN RATE BASE?

A. Yes. I further address each regulatory asset and liability below in this section of my testimony. The following regulatory assets or liabilities were included in the baseline rate base values for the Company's DCRF and Transmission Cost of

Service ("TCOS") proceedings as well as other proceedings before the Commission.[31]

- PURA § 36.065 deferred benefits were included in rate base in the Company's prior base rate cases, Docket Nos. 38339 and 49421.
- The Company included a regulatory asset in rate base for bad debt related to Retail Electric Provider ("REP") defaults in Docket No. 49421. In Docket Nos. 46957 and 53601, the Commission approved Oncor Electric Delivery Company LLC's inclusion of bad debt in rate base as a regulatory asset.
- Pursuant to the Commission's *Order Related to Accrual of Regulatory Assets* issued on March 26, 2020,[32] and as approved by the Commission in Docket No. 53601 for Oncor Electric Delivery Company LLC,[33] the Company included a regulatory asset in rate base for costs associated with the Coronavirus Disease of 2019 ("COVID-19").
- As noted below, deferred hurricane restoration costs were included in the Company's rate base in Docket Nos. 32093 and 49421.
- Expedited Switching costs were included in rate base in the Company's prior base rate cases, Docket Nos. 38339 and 49421.
- In Docket No. 47364, the Commission authorized the Company to defer SMT costs. The Company included this asset in rate base in Docket No. 49421.
- The Medicare Part D subsidy tax accrual and rate base treatment were approved for in Docket No. 38339. The Company included the regulatory asset in rate base in Docket No. 49421.
- 16 TAC § 25.231(c)(2)(C)(i) explains that EDIT, which is a component of ADIT, is a rate base item. The Company included EDIT regulatory assets and liabilities in rate base in Docket No. 49421.

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[31] Docket No. 49421, Final Order at Findings of Fact 97-100, Ordering Para. 21 (Mar. 9, 2020).
[32] Project No. 50664, Public Utility Commission of Texas, Issues Related to the State of Disaster for the Coronavirus Disease 2019.
[33] Docket No. 53601, Order on Rehearing at Findings of Fact 149A-157 (June 30, 2023).

1. PURA § 36.065 Deferred Benefits

Q. PLEASE DESCRIBE THE REGULATORY LIABILITY RELATED TO THE BENEFITS DEFERRAL AUTHORIZED BY PURA.

A. PURA § 36.065 authorizes an electric utility to defer as a regulatory asset or liability the difference between a utility's actual expenses for pension and Other Post-Employment Benefit ("OPEB") costs and the amounts reflected in existing rates. The Company has been recording a surplus deferral for the difference between actual O&M expense for pension and OPEB and the baseline amounts established in Docket No. 49421.[34] These deferred benefits costs were included in the Company's rate base in Docket Nos. 49421 and 38339. The deferred amount at the end of the test year is a net liability of $70.1 million and is being deducted from rate base, as shown on Schedule II-B-11.

Q. IS THE COMPANY PROPOSING ANY CHANGES TO THE CALCULATION OF ITS BASELINE AMOUNTS FOR THE DEFERRED BENEFIT LIABILITIES?

A. Yes. For any employees hired after January 1, 2020, CNP will no longer be providing the qualified defined benefit pension plan. Instead, for these employees, CNP is offering a savings plan, which is a qualified defined contribution plan, with a nonmatching contribution by the Company equal to 3% of an employee's eligible compensation each year, and matching dollar-for-dollar up to 6% of eligible compensation. Please see Ms. Villatoro's direct testimony for a complete

[34] Docket No. 49421, Final Order at Findings of Fact 115 through 116, Ordering Para. 15 (Mar. 9, 2020).

explanation of the benefits approach. The Company proposes including this qualified defined contribution plan in the new deferred benefits baseline.

Q. WHAT ARE THE BASELINE AMOUNTS REQUESTED IN THIS PROCEEDING FOR THE DEFERRED BENEFIT LIABILITIES?

A. The amounts the Company is requesting as the new baseline levels to be used for making deferrals under PURA § 36.065 are shown in the following table:

Table 2 - PURA § 36.065 Baselines

Description	**Benefit Expense - Direct**	**Benefit Expense - Affiliate**	**Total**
Qualified defined benefit pension plan	$ 9,474,480	$ 2,130,813	$ 11,605,293
Other Postemployment Benefits (OPEB)	(1,539,232)	1,044,246	(494,986)
Qualified defined contribution pension plan	11,335,172	1,447,475	12,782,647
Total	**$ 19,270,420**	**$ 4,622,534**	**$ 23,892,954**

The amounts shown in **Table 2** above for qualified defined benefit pension plan and OPEB are the expense amounts requested in the Company's test year as reflected in the RFP workpapers.[35]

Q. HOW HAS THE PURA § 36.065 DEFERRAL REGULATORY LIABILITY IN RATE BASE BEEN FUNCTIONALIZED?

A. The deferred pension and OPEB regulatory liability is functionalized using payroll, excluding administrative and general salaries.

[35] *See* WP/II-D-2 Adj 6 for the direct benefits expense baselines; WP/II-D-3 Adj 2 (confidential) for the direct qualified defined contribution pension plan baseline; WP/V-K-6 Workpaper Pension for the affiliate benefits expense baselines; WP/V-K-6 Workpaper Wage Adj for the affiliate qualified defined contribution pension plan baseline.

2. **Bad Debt**

Q. PLEASE DESCRIBE THE REGULATORY ASSET RELATED TO RETAIL ELECTRIC PROVIDER DEFAULTS AND BAD DEBT EXPENSE.

A. A REP collects the Company's receivables from the distribution of electricity to their own customers. Historically, various adverse economic conditions or financial difficulties have delayed or resulted in a REP defaulting on a payment to the Company. See Company witness John R. Hudson's testimony for further discussion of REP defaults. Under 16 TAC § 25.107(j)(2), the Company is allowed to establish a regulatory asset for bad debt expenses resulting from a REP's default on its obligation to pay delivery charges to the Company net of collateral and bad debt currently included in rates. In addition, the Company is allowed to request amortization of the regulatory asset as a recoverable cost in a rate case proceeding. The Company had established under 16 TAC § 25.107(j)(2) an $8.0 million regulatory asset related to REP defaults as shown on Schedule II-B-12. Please see Schedule II-D-2.2a.1 and II-D-2.2a.2 for additional description of the REP defaults and the recovery amount requested in this case. This regulatory asset includes the remaining balance from Docket No. 49421 plus REP defaults (net of collateral) from 2019 through 2023.

Q. HOW WILL THE COMPANY RECORD POST TEST YEAR BAD DEBT RELATED TO REP DEFAULTS?

A. The Company will continue to record REP defaults net of collateral in a regulatory asset for recovery in a future rate proceeding.

Q. HOW HAS THE REP BAD DEBT DEFERRAL REGULATORY ASSET IN RATE BASE BEEN FUNCTIONALIZED?

A. The deferred REP default regulatory asset is functionalized directly to the transmission/distribution customer service ("TDCS") function.

3. COVID-19

Q. DID THE COMPANY INCUR INCREMENTAL COSTS ASSOCIATED WITH COVID-19?

A. Yes. The Company incurred various incremental costs, directly associated with COVID-19, including personal protective equipment, and others such as cleaning and sanitizing supplies. Mr. Tumlinson and Mr. Mercado discuss these in detail in their direct testimonies. As of the end of the test year, the Company has incurred costs associated with COVID-19 totaling $8.1 million.

Q. HOW WERE THOSE INCREMENTAL COSTS RECORDED ON THE COMPANY'S BOOKS AND RECORDS?

A. The Company established a regulatory asset to defer expenses the Company identified as being specifically related to COVID-19 and would not have been incurred in the absence of COVID-19. The Company utilized cost objects in its accounting system to separately track COVID-19 related costs. Those cost objects are specific to the Company. For COVID-19 costs incurred at the corporate level, costs are either directly assigned or allocated to the Company based on employee headcount.

Q. ON WHAT BASIS WERE THESE INCREMENTAL COSTS DEFERRED?

A. The Company followed the guidance of the Commission in its *Order Related to*

Accrual of Regulatory Assets, issued on March 26, 2020.[36] In that Order, the Commission permitted regulated utility companies to use an accounting mechanism and process to seek future recovery of COVID-19 related expenses. Specifically, the Commission "authorize[d] each electric, water and sewer utility to record as a regulatory asset expense resulting from the effects of COVID-19" and reserved for a future proceeding whether the costs in the regulatory asset is reasonable and necessary. The Commission also reserved, for a future proceeding, the appropriate period of recovery of the regulatory asset and any carrying costs, among other matters.

Q. CAN THE COMPANY SHOW THAT THESE EXPENSES ARE REASONABLE, NECESSARY, AND ACCURATE AND THAT THEY WOULD NOT HAVE BEEN INCURRED DURING THE NORMAL COURSE OF ITS BUSINESS?

A. Yes. The Company has records supporting all costs deferred in the COVID-19 regulatory asset, and the expenses have been analyzed by management to ensure they are incremental and would not have been incurred during the normal course of business.

Q. HAS THE COMPANY INCLUDED THE COVID-19 REGULATORY ASSET IN ITS RATE BASE?

A. Yes. The Company is including the COVID-19 regulatory asset as an addition to rate base, as shown on Schedule II-B-12.

[36] Project No. 50664, Public Utility Commission of Texas, Issues Related to the State of Disaster for the Coronavirus Disease 2019.

Q. HOW HAS THE COVID 19 REGULATORY ASSET IN RATE BASE BEEN FUNCTIONALIZED?

A. The direct COVID-19 regulatory asset costs are functionalized directly to distribution or transmission depending on the originating department. The affiliate or corporate COVID-19 regulatory asset costs are functionalized using payroll, excluding administrative and general salaries.

4. <u>Hurricane Harvey</u>

Q. DOES THE COMPANY HAVE A REGULATORY ASSET FOR HURRICANE HARVEY ON ITS BOOKS AS OF THE END OF THE TEST YEAR?

A. Yes. The Company has included a regulatory asset for the restoration costs associated with Hurricane Harvey during 2017 in this rate filing. In its last rate case, Docket No. 49421, the Company was permitted to amortize costs deferred through December 2018, including carrying costs in the regulatory asset over a five-year period.[37]

Q. WHAT IS THE AMOUNT OF THE REGULATORY ASSET FOR HURRICANE HARVEY INCLUDED IN THIS CASE?

A. Consistent with prior rate cases before the Commission,[38] the Company has included $37.9 million as an addition to rate base as shown on Schedule II-B-12. This amount consists of the remaining balance from Docket No. 49421, as well as additional costs incurred subsequent to December 2018.

[37] Docket No. 49421, Final Order at Findings of Fact 98, Ordering Para. 21 (Mar. 9, 2020).
[38] Deferred hurricane restoration costs were included in rate base in Docket Nos. 32093 and 49421.

Q. DID THE COMPANY ACCRUE CARRYING COSTS RELATED TO HURRICANE HARVEY?

A. Yes. In the Company's last rate case, Commission Staff witness Mr. Ordonez stated that "it is important to assure utilities that the Commission will allow them to recover prudently incurred costs, including carrying costs, associated with hurricane restoration."[39] In addition, the Company's request to include carrying costs is supported by PURA, the Company's past practice with Hurricane Ike, and Commission precedence in other cases.

Q. HOW DOES PURA SUPPORT THE COMPANY'S REQUEST TO RECOVER CARRYING COSTS FOR HURRICANE HARVEY-RELATED STORM RESTORATION COSTS?

A. PURA § 36.405(a) states that:

> An electric utility is entitled to recover system restoration costs consistent with the provisions of this subchapter and is **entitled to seek recovery of amounts not recovered under this subchapter**, including system restoration costs not yet incurred at the time an application is filed under Subsection (b), **in its next base rate proceeding or through any other proceeding authorized by Subchapter C or D**.

(emphasis added). While the heading of the subchapter of PURA that contains this statute includes a reference to securitization, the statutory language itself states that a utility can seek recovery of system restoration costs that are not recovered under the subchapter. In addition, this rate filing is a proceeding authorized by subchapter C of PURA. This means it is appropriate for the Company to request recovery of system restoration cost related to Hurricane Harvey in this filing. In addition, PURA § 36.402(b) states that:

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[39] Docket No. 49421, Direct Testimony of Jorge Ordonez at 39:15 (June 12, 2019).

> **System restoration costs shall include carrying costs** at the electric utility's weighted average cost of capital as last approved by the commission in a general rate proceeding from the date on which the system restoration costs were incurred until the date that transition bonds are issued or **until system restoration costs are otherwise recovered pursuant to the provisions of this subchapter**.

(emphasis added). This statutory language supports the Company's request to include carrying costs related to Hurricane Harvey. In addition, the fact that this language refers to transition bonds, which are issued following a securitization proceeding, or "until system restoration costs are otherwise recovered" confirms that it is appropriate for the Company to be requesting recovery of carrying costs for storm restoration cost in this rate case.

Q. IN ADDITION TO PURA, HOW DOES THE COMPANY'S PRIOR RECOVERY OF HURRICANE IKE COST SUPPORT THE COMPANY'S REQUEST TO RECOVER CARRYING COSTS FOR HURRICANE HARVEY?

A. The Company's recovery of Hurricane Ike storm restoration costs included carrying costs up until the time that proceeds were received. Those costs were securitized, but that distinction does not prohibit the Company's request to include carrying costs for the Hurricane Harvey storm restoration costs up until the time that proceeds were recovered through rates. In addition, the Company's request to return Hurricane Ike residual costs to customers included carrying costs required to be applied based on the Commission's order in Docket No. 36918.[40] The Company's request to recover Hurricane Harvey restoration costs plus carrying costs is

[40] *Application of CenterPoint Energy Houston Electric, LLC for Determination of Hurricane Restoration Costs*, Docket No. 36918, Final Order at Finding of Fact 15, 24 (Aug. 14, 2009).

consistent with the Commission's approval of Hurricane Ike system restoration costs.

Q. IS THERE ANY OTHER SUPPORT FOR THE COMPANY'S REQUEST TO INCLUDE CARRYING COSTS RELATED TO HURRICANE HARVEY?

A. Yes. In addition to Staff's support, in Docket No. 48401, the Commission approved a settlement agreement that permitted Texas-New Mexico Power Company ("TNMP") to recover carrying costs related to Hurricane Harvey.[41]

Q. HOW DID THE COMPANY CALCULATE CARRYING COSTS ON THE HURRICANE HARVEY REGULATORY ASSET?

A. Carrying costs were calculated for costs incurred through December 31, 2018, until rates from Docket No. 49421 went into effect on April 23, 2020. Hurricane Harvey costs incurred after December 31, 2018, will incur carrying costs until rates from this base rate proceeding go into effect. Carrying costs were calculated using the monthly compounding method. The monthly compound interest is necessary to recognize that the Company incurs additional carrying costs each month until it begins to collect the balance of the Hurricane Harvey regulatory asset. The monthly compounding method was used to calculate carrying costs for Hurricane Ike.[42] The monthly compounding method is also reflected in Docket No. 48401 for TNMP's Hurricane Harvey costs.[43] In addition, Staff witness Mr. Jorge Ordonez agreed with

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[41] *Application of Texas-New Mexico Power Company to Change Rates*, Docket 48401, Final Order at Finding of Fact 62 (Dec. 20, 2018).

[42] *Application of CenterPoint Energy Houston Electric, LLC for Determination of Hurricane Restoration Costs*, Docket No. 36918, Final Order at Finding of Fact 18 (Aug. 14, 2009).

[43] Docket No. 48401, Testimony in Support of Stipulation at Exhibit SRW-S-2, page 2 of 12 (Nov. 12, 2018).

the Company's calculation of Hurricane Harvey carrying costs in the Company's last rate case.[44]

Q. **HOW HAS THE HURRICANE HARVEY REGULATORY ASSET IN RATE BASE BEEN FUNCTIONALIZED?**

A. The functionalization of the Hurricane Harvey regulatory asset is consistent with the functionalization used in Docket No. 49421, specifically that amounts were functionalized directly to distribution or transmission depending on the originating department. The additional costs that were incurred subsequent to December 2018 were functionalized on a pro rata basis using that same functionalization.

5. <u>Hurricane Ike</u>

Q. HAS THE COMPANY INCLUDED A REGULATORY LIABILITY RELATED TO HURRICANE IKE IN THIS CASE?

A. Yes. The Company has included a residual regulatory liability for Hurricane Ike related costs in this rate filing. In its last rate case, Docket No. 49421, the Company was permitted to amortize its liability, composed of a sales tax refund netted against trailing legal and outside attorney fees plus carrying costs over a five-year period.[45]

Q. WHAT IS THE AMOUNT OF THE HURRICANE IKE REGULATORY LIABILITY INCLUDED IN THIS CASE?

A. The Company has included $1.7 million as a reduction to rate base as shown on Schedule II-B-11. This amount consists of the remaining balance from Docket No.

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[44] Docket No. 49421, Direct Testimony of Jorge Ordonez at 39:15 (June 12, 2019).

[45] *Application of CenterPoint Energy Houston Electric, LLC for Determination of Hurricane Restoration Costs*, Docket No. 36918, Final Order at Finding of Fact 15 (Aug. 14, 2009).
Docket No. 49421, Final Order at Finding of Fact 98, Ordering Para. 21 (Mar. 9, 2020).

49421, as well as carrying costs recognized after December of 2018 through April 22, 2020.

Q. **HOW HAS THE HURRICANE IKE REGULATORY LIABILITY IN RATE BASE BEEN FUNCTIONALIZED?**

A. The Hurricane Ike regulatory liability is functionalized to distribution.

6. <u>Other Storm Costs</u>

Q. DOES THE COMPANY HAVE DEFERRED COSTS RELATED TO ANY OTHER STORMS IN THIS CASE?

A. Yes. The Company has deferred costs related to three other storms – Hurricane Laura from 2020, Hurricane Nicholas from 2021, and Winter Storm Uri, also from 2021. The Company incurred both capital and O&M expenditures related to restoring service following these storms, above the level included in its reserves. Company witness Mr. Tumlinson discusses the impacts of these storms as it relates to the distribution system in his direct testimony, while Company witness Mr. Mercado discusses the impacts as it relates to the transmission system in his direct testimony.

Q. HOW HAS THE COMPANY ACCOUNTED FOR THE COSTS INCURRED ASSOCIATED WITH THESE STORM RESTORATIONS?

A. The Company established regulatory assets to defer the O&M expenditures incurred for storm restoration. Capital expenditures were recorded to EPIS and are not included in the regulatory asset. The regulatory asset balances at the end of the test year are $50.5 million for Hurricane Nicholas, $17.3 million for Winter Storm Uri, and $45 million for Hurricane Laura as shown on Schedule II-B-12.

Q. HAVE ANY INSURANCE PROCEEDS BEEN APPLIED TO THE COSTS IN THE REGULATORY ASSET OR PLANT IN SERVICE AMOUNTS?

A. No.

Q. IS THE COMPANY PROPOSING TO RECOVER CARRYING COSTS ON THESE STORM COST REGULATORY ASSETS IN THIS CASE?

A. Yes. The Company is requesting recovery of carrying costs on the regulatory asset balances from the time that storm costs were incurred through the implementation of base rates in this proceeding for the same reasons outlined in Section IV.M.4.for Hurricane Harvey. The carrying costs were calculated using the same monthly compounding method being used for Hurricane Harvey. The carrying costs are included in the regulatory asset balances above.

Q. HOW HAVE THE REGULATORY ASSETS IN RATE BASE RELATED TO OTHER STORMS BEEN FUNCTIONALIZED?

A. The Hurricanes Laura and Nicholas, as well as the Winter Storm Uri, regulatory assets are functionalized directly to distribution or transmission depending on the originating department. The affiliate or corporate costs not directly assigned are allocated based on the total direct costs.

7. <u>Long Lead Time Facilities</u>

Q. PLEASE DESCRIBE LLTF AUTHORIZED UNDER PURA § 39.918.

A. PURA § 39.918 authorizes a transmission and distribution utility in Texas to do the following:

- lease and operate facilities that provide temporary emergency electric energy to aid in restoring power to the utility's distribution customers during a significant power outage; and

- procure, own, and operate, or enter into a cooperative agreement with other transmission and distribution utilities to procure, own, and operate jointly, transmission and distribution facilities that have a lead time of at least six months and would aid in restoring power to the utility's distribution customers following a significant power outage.[46]

In addition, the statute requires the Commission to authorize a transmission and distribution utility to do the following with respect to cost recovery:

- recover the reasonable and necessary costs of procuring, owning, and operating the facilities, using the rate of return on investment established in the commission's final order in the utility's most recent base rate proceeding; and
- defer for recovery in a future ratemaking proceeding the incremental operations and maintenance expenses and the return, not otherwise recovered in a rate proceeding, associated with the leasing or procurement, ownership, and operation of the facilities. [47]

The statute permits a utility to request cost recovery as follows:

> A transmission and distribution utility may request recovery of the reasonable and necessary costs of leasing or procuring, owning, and operating facilities under this section, including any deferred expenses, through a proceeding under Section 36.210 or in another ratemaking proceeding. A lease under Subsection (b)(1) must be treated as a capital lease or financing lease for ratemaking purposes.[48]

The statute became effective on September 1, 2021, and a subsequent revision of the statute was effective on September 1, 2023.

Q. PLEASE DESCRIBE THE LLTF THAT THE COMPANY OWNS.

A. In general, the LLTF owned by the Company consist of materials and supplies inventory that would both aid in restoring power following a significant power outage and have a lead time of at least six months. The process used to evaluate

[46] PURA § 39.918 (b) (1) and (2).
[47] PURA § 39.918 (h) and (i).
[48] PURA § 39.918 (j).

eligibility and identify facilities qualifying as LLTF is described in more detail in the direct testimony of Company witness Ms. Kneipp.

Q. WHAT LLTF COSTS HAS THE COMPANY DEFERRED PURSUANT TO PURA § 39.918?

A. To date, the Company has deferred to a regulatory asset the incremental ad valorem (or property) taxes on its LLTF and the return, not otherwise recovered in a rate proceeding, associated with the LLTF. The return was calculated using the Company's authorized rate of return of 6.51% from its last comprehensive base rate case proceeding, Docket No. 49421. It is important to note that the regulatory asset does not include deferral of the costs of the underlying LLTF items. As I discuss below, the accounting treatment for the underlying costs of the LLTF items has been maintained and continues to take place.

Q. WHAT IS THE ACCOUNTING TREATMENT FOR THE LLTF THAT THE COMPANY CURRENTLY OWNS?

A. Under the FERC USOA, the LLTF that the Company currently owns reside in FERC Account 1540 – Plant Materials and Operating Supplies. This account includes the cost of materials and supplies purchased for use in the utility business for construction, operation, and maintenance purposes. As items recorded to FERC Account 1540 are used, those materials and supplies are charged to the appropriate construction, operating expense, or other account. In the case of LLTF, the costs of those materials when used would be charged to capital, FERC Account 1070 – Construction Work In-Progress.

Q. HAS THE COMPANY'S INVENTORY OF MATERIALS AND SUPPLIES INCREASED IN RECENT YEARS?

A. Yes. For a discussion of the increase in the materials and supplies balance, please see Section IV. I. Materials & Supplies.

Q. WHAT IS THE REGULATORY ASSET BALANCE RELATED TO LLTF BEING REQUESTED IN THIS PROCEEDING?

A. The total regulatory asset balance for LLTF of $7.6 million is included as an addition to rate base as shown on Schedule II-B-12.

Q. HOW WERE THE DEFERRED RETURN AMOUNTS CALCULATED THAT COMPRISE THE LLTF REGULATORY ASSET BALANCE?

A. As I previously discussed, the return was calculated using the Company's authorized rate of return of 6.51% from its last comprehensive rate case proceeding, Docket No. 49421. This rate of return was applied to LLTF average monthly balances plus the ending balance of the regulatory asset for the prior month. The regulatory asset balance requested in this case includes return amounts attributable to LLTF balances from September 2021 – the effective date of PURA § 39.918 – through December 2023. Average monthly balances were used to recognize that the balance in existence at the end of any given month was not present for the entirety of that same given month.

Before deferring a return for any given monthly LLTF balance, an analysis is undertaken to compare the total balance of all materials and supplies for that month with the amount of materials and supplies included in the Company's baseline rate base balance as determined by the final order in Docket No. 49421 and set forth in Exhibit 1 to the Settlement Agreement in that docket. The difference between these two figures represents the amount of materials and supplies for which return is not otherwise recovered in rates (e.g., the materials and supplies above the Docket No. 49421 baseline or the "Above Baseline Balance"). The Above Baseline Balance for the month is then compared with the respective average monthly balance of LLTF, as described by Company witness Ms. Kneipp. For each of the months of September 2021 through December 2023, the Above Baseline Balance was higher than the LLTF average monthly balance and a corresponding return was recorded. There were no months during that time period when the average monthly LLTF balances were higher than the Above Baseline Balance.

Q. ARE THESE COSTS CURRENTLY RECOVERED THROUGH ANY OTHER EXISTING RATE MECHANISM OR RIDER?

A. No. In accordance with PURA § 39.918, specifically subsection (j) of the statute, the Company has deferred only the return not otherwise recovered in a rate proceeding. Materials and Supplies is not a FERC account that is adjusted through any other type of interim rate mechanism.

Q. WILL THE COMPANY CONTINUE TO DEFER LLTF CARRYING COSTS BEYOND THE TEST YEAR?

A. Yes. LLTF carrying costs incurred from the end of the test year to the implementation date of new rates in this proceeding will be deferred for future base rate recovery. In addition, a new baseline will be established in this rate proceeding, the LLTF Balance in Rates. To the extent there is a Qualifying LLTF Balance greater than the LLTF Balance in Rates, then the Company would continue to record carrying costs on the difference. Company witness Ms. Kneipp discusses the Qualifying LLTF Balance as of December 31, 2023.

Q. HOW HAS THE LLTF REGULATORY ASSET IN RATE BASE BEEN FUNCTIONALIZED?

A. The LLTF regulatory asset is functionalized using the balance of materials and supplies at the end of the test year.

8. <u>Expedited Switches</u>

Q. PLEASE DESCRIBE THE REGULATORY ASSET RELATED TO EXPEDITED SWITCHING COSTS.

A. In an effort to facilitate a quicker response among Retail Electric Providers ("REPs") when electric customers switch REPs, the Commission, in Project No. 36536, Rulemaking to Expedite Customer Switch Timelines, required utilities to reduce the time for processing customers who request to switch REPs from 45 calendar days to 7 business days or less. The related rules are reflected in 16 TAC §§ 25.214 and 25.474. According to 16 TAC § 25.474(o), TDUs are allowed to recover the increased costs, including carrying charges, resulting from the shorter switching timelines through a regulatory asset or AMS surcharge. The Company has utilized a regulatory asset to defer and track the costs associated with performing meter reads for purposes of switching a customer's REP. In Docket No. 38339, the Company was authorized to recover expedited switching costs incurred through December 31, 2009, over a three-year period and to earn a return on the asset.[49]

Expedited switching charges incurred after December 31, 2009, through the implementation of base rates in Docket No. 38339, were also deferred to a regulatory asset. The Company requested the balance of that unamortized regulatory asset for expedited switches in its last base rate case, Docket No. 49421.

Q. IS THE COMPANY PROPOSING TO RECOVER AMOUNTS PREVIOUSLY REQUESTED IN A REGULATORY ASSET ASSOCIATED WITH EXPEDITED SWITCHES?

A. Yes. The Company is seeking approval to recover the remaining unamortized balance related to expediting switching costs that were reviewed in Docket No. 49421. The Company was permitted to amortize its balance over a five-year period.

Q. HAS THE COMPANY INCLUDED THE EXPEDITED SWITCHING ASSET IN THIS FILING?

A. Yes. The balance of $303,943 as of the end of the test year has been included as an addition to rate base as shown on Schedule II-B-12 consistent with treatment in Docket Nos. 38339 and 49421.

Q. HOW WILL THE COMPANY RECORD POST TEST-YEAR EXPEDITED SWITCHING COSTS?

A. The Company does not anticipate having any additional expedited switching costs to a defer.

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[49] Docket No. 38339, Order on Rehearing at Findings of Fact 65 and 66 (Jun. 23, 2011).

Q. HOW HAS THE EXPEDITED SWITCHING REGULATORY ASSET IN RATE BASE BEEN FUNCTIONALIZED?

A. The Expedited Switching regulatory asset is functionalized to metering.

9. Smart Meter Texas

Q. WHAT IS SMART METER TEXAS?

A. Advanced Metering Systems ("AMS") are capable of providing data about the electricity system and usage among end-use customers, REPs, the utility, and ERCOT. Smart meters (also known as digital electric meters) enable a two-way communication between the utility company and the electric meter, which provides information on energy usage in 15-minute intervals. SMT is the website endorsed by the Commission that stores daily, monthly, and 15-minute interval energy data recorded by digital electric meters. This data is available through secure access to customers and authorized market participants to track electricity usage. SMT is a result of a team of utilities that collaborate to support, maintain, and provide electric data for the SMT website. For more information on SMT, please see Company witness Mr. Hudson's direct testimony.

Q. PLEASE DESCRIBE THE SMT REGULATORY ASSET.

A. The Company had recovered its SMT costs as a part of its AMS deployment costs since Project No. 34610 through its AMS surcharge. The Company concluded its AMS deployment and filed its final reconciliation of AMS cost recovery through February 2017 in Docket No. 47364.[50] In Docket No. 47364, the Commission found that it was appropriate for the Company to defer its reasonable and necessary

[50] Docket No. 47364, Final Order at Finding of Fact 13(b) (Dec. 14, 2017).

O&M costs associated with SMT after February 2017 until the costs could be recovered in the Company's next base rate proceeding.[51] The Company incurred SMT related O&M expenses as a result of complying with 16 TAC § 25.130(d), (g) and (j). The Company was permitted in its last rate case, Docket No. 49421, to amortize this SMT regulatory asset over a five-year period.

Q. DID THE COMPANY CONTINUE TO DEFER SMT EXPENSES BEYOND THE TEST YEAR IN THE LAST CASE?

A. Yes. As noted in the final order in Docket No. 47364, the Company is authorized to defer any SMT costs incurred prior to the implementation of new base rates for recovery in a future base rate proceeding.[52] SMT costs incurred from the end of the test year in the last rate case, Docket No. 49421, to the implementation date of new rates established in that case were deferred for future base rate recovery in this base rate case filing.

Q. WHAT IS THE AMOUNT OF THE REGULATORY ASSET FOR SMT INCLUDED IN THIS CASE?

A. The Company has included $7.2 million as an addition to rate base as shown on Schedule II-B-12. This amount consists of the remaining balance from Docket No. 49421, as well as additional costs incurred subsequent to December 2018.

Q. HOW HAS THE SMT REGULATORY ASSET BEEN FUNCTIONALIZED?

A. The SMT regulatory asset is functionalized to metering.

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[51] *Id.* at Finding of Fact 13(c).
[52] Docket No. 47364, Final Order at Finding of Fact 13(e) (Dec. 14, 2017).

10. Load Management

Q. PLEASE DESCRIBE THE LOAD MANAGEMENT REGULATORY ASSET.

A. In 2021, the Company filed a joint application with AEP Texas Inc. and Texas-New Mexico Power Company ("TNMP") to request approval for an interim load management program for non-residential customers and for deferred accounting treatment for the costs of the program. The request was approved on January 12, 2022, for the deferral of interim load management program costs incurred from December 16, 2021, through February 28, 2022.[53] Company witness Mr. Greenley discusses the program further in his direct testimony.

Q. HAS THE COMPANY INCLUDED THE LOAD MANAGEMENT REGULATORY ASSET IN THIS FILING?

A. Yes. The balance of approximately $3.0 million as of the end of the test year has been included as an addition to rate base as shown on Schedule II-B-12 and is consistent with PURA § 36.058 and Commission rules.

11. Medicare Part D Subsidy

Q. PLEASE DESCRIBE THE MEDICARE PART D SUBSIDY POST RETIREMENT REGULATORY ASSET.

A. The enactment of the Patient Protection and Affordable Care Act in March 2010 (also known as the "Affordable Care Act"), eliminated the tax deductibility of the Medicare Part D Subsidy after 2012. In Docket No. 38339, the Company was

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[53] *Expedited Petition for Approval of Interim Load Management Programs for Nonresidential Customers and For an Accounting Order*, Docket 52689, Order (Jan. 12, 2022).

authorized to establish a regulatory asset to be addressed in its next base rate proceeding that captured the difference between the Medicare Part D subsidy tax expense in rates and the amounts the Company is required to pay.[54] As of the end of the test year, the Company has a regulatory asset in relation to the Medicare Part D Subsidy of $11.0 million as shown on Schedule II-B-12. This amount consists of the remaining balance from Docket No. 49421, as well as additional costs incurred subsequent to December 2018. Ms. Story provides additional detail on the Medicare Part D Subsidy in her testimony.

Q. HOW HAS THE MEDICARE PART D SUBSIDY REGULATORY ASSET BEEN FUNCTIONALIZED?

A. Medicare Part D Subsidy costs are functionalized using payroll, excluding administrative and general salaries.

12. <u>Excess Deferred Income Tax</u>

Q. DESCRIBE THE COMPANY'S PROPOSAL RELATED TO EDIT.

A. The Company is including the net protected EDIT regulatory liability of $657.0 million in rate base.[55] In addition, the Company is including a net regulatory asset of $8.1 million, for unprotected EDIT, representing an amount over-refunded to customers through the Rider UEDIT which was approved in the Company's last base rate proceeding.[56] Please see Ms. Story's direct testimony for additional discussion of both the protected and unprotected EDIT amounts.

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[54] Docket No. 38339, Order on Rehearing at Finding of Fact 159(a) (Jun. 23, 2011).

[55] Includes the TCJA net regulatory liability of $656,164,476 on Schedule II-B-11; the pre-TCJA regulatory liability of $42,975,936 on Schedule II-B-12; and the pre-TCJA regulatory asset of $42,182,030 on Schedule II-B-12.

[56] Net of regulatory asset in the amount of $46,696,774 on Schedule II-B-12 and regulatory liability of $38,586,966 on Schedule II-B-11.

Q. WHY IS IT APPROPRIATE TO INCLUDE EDIT IN RATE BASE?

A. As discussed in Ms. Story's direct testimony, EDIT was derived from federal ADIT that was previously funded by customers. Per 16 TAC § 25.231(c)(2)(C)(i), EDIT, which is a component of ADIT, is a rate base item. Therefore, both the regulatory asset for the unprotected EDIT and the regulatory liability for protected EDIT should be included in rate base.

N. Construction Costs

Q. PLEASE DESCRIBE THE COMPONENTS OF CAPITALIZED CONSTRUCTION COSTS.

A. As I briefly discussed earlier in my testimony, the RFP now includes Schedules II-B-15A and II-B-15B whereby the Company provides a complete statement of the methods, procedures and calculations followed in capitalizing AFUDC and COH. I discuss each of those below as they relate to the Company. Schedules II-B-15A and 15B include capitalization rates for the five calendar years ending with the test year and the amounts generated and transferred to plant in service in each of those years.

Q. WHAT IS AFUDC?

A. AFUDC is a component of construction cost representing the net cost of borrowed funds and a reasonable rate on equity funds used during the period of construction. AFUDC is properly capitalized when qualified plant assets are being constructed.[57]

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[57] Code of Federal Regulations 18 – Conservation of Power and Water Resources, Subchapter C – Accounts, Federal Power Act, Part 101 – Uniform System of Accounts, Electric Plant Instructions, 3.A.(17) *Allowance for funds used during construction.*

Q. WHAT IS COH?

A. COH are overhead costs incurred during construction that cannot be more accurately charged directly to a capital order. Those costs are properly includible in plant accounts per FERC guidance.[58]

Q. HOW ARE AFUDC AND COH AMOUNTS FOR CENTERPOINT HOUSTON DETERMINED?

A. The AFUDC and Capitalized Interest Policy and the Construction Overhead Policy document the requirements for capitalizing AFUDC and COH costs when funding and constructing capital projects. Copies of these policies are included as Exhibit KLC-12 and Exhibit KLC-13.

O. Other Rate Base Items

Q. ARE THERE ANY OTHER TAX RELATED ADDITIONS OR DEDUCTIONS FROM RATE BASE THAT HAVE BEEN INCLUDED IN THE FILING?

A. No other tax related additions or deductions from rate base have been included.

Q. ARE THERE ANY REGULATORY ASSETS AND LIABILITIES ON THE COMPANY'S BOOKS AND RECORDS THAT HAVE NOT BEEN INCLUDED IN THE COMPANY'S REQUESTED RATE BASE IN THIS FILING?

A. Yes. There are several regulatory assets and liabilities that are not in the Company's requested rate base in this filing for various reasons. For example, the

[58] Code of Federal Regulations 18 – Conservation of Power and Water Resources, Subchapter C – Accounts, Federal Power Act, Part 101 – Uniform System of Accounts, Electric Plant Instructions, 4. Overhead Construction Costs.

Company has excluded regulatory assets and liabilities that either currently are or being proposed to be recovered through another docket or tariff, such as those balances pertaining to Rider TEEEF and the Company's proposed deferred rate case expense Rider. Another notable exception is regulatory assets and liabilities that do not provide a rate base return, such as the interest rate hedging regulatory asset discussed below. Lastly, certain regulatory assets or liabilities are recorded specifically for GAAP purposes and are not recognized for regulatory ratemaking purposes and are therefore not included.

P. Rate of Return

Q. WHAT COST OF EQUITY DID THE COMPANY USE TO CALCULATE THE RATE OF RETURN COMPONENT OF THE COST OF SERVICE?

A. Relying on Ms. Bulkley's and Ms. Richert's testimonies for the proposed cost of equity of 10.4%, the resulting overall required rate of return is 7.03%. The required rate of return is applied to the adjusted rate base to derive the Company's rate of return component of the cost of service. This calculation of the overall rate of return is shown on Schedule II-C-2.1 and Exhibit KLC-05.

Q. WHAT IS THE COMPANY'S COST OF DEBT?

A. The Company's proposed cost of debt, as a weighted average of all outstanding debt issuances, is 4.29% as explained by Ms. Richert. The calculation is shown on Schedule II-C-2.4a.

Q. WERE THERE ANY ADJUSTMENTS MADE TO DETERMINE THE COST OF DEBT?

A. Yes. The Company included the interest rate hedge regulatory asset in the cost of debt calculation, as shown on Schedules II-C-2.4 and II-C-2.4a.

Q. PLEASE DESCRIBE THE ACCOUNTING FOR THE COMPANY'S INTEREST RATE HEDGING REGULATORY ASSET.

A. Accounting treatment for interest rate hedging is dependent on the hedge's "effectiveness." Hedge effectiveness is a reference to when the fair value or cash flow of the instrument offsets the changes in the fair value or cash flow of the hedged item. Hedge "ineffectiveness" is when the fair value of the instrument does not offset the hedged item. The Company's accounting treatment under GAAP and FERC for an effective interest rate hedge is to defer the gains/losses and amortize the gains/losses through interest expense over the life of the corresponding debt. Conversely, the Company's accounting treatment under GAAP for ineffective hedge interest is to expense the entire amount when incurred. However, consistent with the final order in the Company's last base rate proceeding, Docket No. 49421, the Company has deferred hedge gains/losses to a regulatory asset and included the those amounts in the weighted cost of capital. Specifically, the interest rate hedge is included in the calculation of the weighted average cost of long-term debt on Schedules II-C-2.4 and II-C-2.4.a

Q. ARE THERE ANY ADJUSTMENTS RELATED TO THE EQUITY COMPONENT OF THE RATE OF RETURN CALCULATION?

A. No.

Q. Return on Rate Base

Q. WHAT IS THE COMPANY'S REQUESTED RATE BASE?

A. As shown on Schedule II-B of the RFP, the Company's adjusted net plant in service is $13.4 billion at end of the test-year. Further, as shown on Schedule II-B of the RFP, CenterPoint Houston's total adjusted rate base is $12.1 billion at the end of the test year, reflecting a five-year growth of approximately 94% over the December 31, 2018, adjusted rate base of $6.2 billion in the Company's last base rate case, Docket No. 49421. The direct testimonies of the Company's witnesses support the reasonableness of these investments, along with the capitalization structure and costs of equity and long-term debt.

Q. WHAT IS THE COMPANY'S REQUESTED RETURN ON RATE BASE FOR THE TEST YEAR?

A. Applying the Company's requested rate of return to the net rate base produces a reasonable required return of $850.8 million as shown on Schedule II-B of the RFP and Exhibit KLC-03.

V. OVERALL COST OF SERVICE

Q. HOW IS THIS SECTION OF YOUR TESTIMONY ORGANIZED?

A. The major components of the Company's overall cost of service are: (A) O&M expenses and A&G expenses; (B) depreciation and amortization; (C) other expenses; (D) federal income taxes; (E) taxes other than federal income taxes; (F) non-electric revenues; and (G) return on rate base. While I discussed the return on rate base above, this portion of my testimony addresses the remaining components. In the O&M/A&G section, I address adjustments to test year amounts which are presented in the workpapers supporting the Company's RFP schedules.

A. Operations and Maintenance/Administrative and General Expenses

Q. WHAT COSTS ARE INCLUDED IN THE COMPANY'S TEST YEAR O&M EXPENSES?

A. O&M expenses are costs recorded on the books and records of the Company in FERC Accounts 5600 through 9160. As defined in 16 TAC § 25.231(b)(1)(A), O&M expenses are costs "incurred in furnishing normal electric utility service and in maintaining electric utility plant used by and useful to the electric utility in providing such service to the public."

The Company adjusted its test-year data for non-recurring expenses, non-allowable charges, adjustments required by 16 TAC § 25.231, known and measurable changes and normalizing certain amounts. The adjustments are each shown in Exhibit KLC-06a and are discussed in this section of my testimony. Explanations are provided on Exhibit KLC-06b. The adjusted test year O&M costs total $1.7 billion and are presented on Schedule II-D-1.

Q. WHAT COSTS ARE INCLUDED IN THE COMPANY'S TEST YEAR A&G EXPENSES?

A. A&G expenses are reflected on the books and records of the Company in FERC Accounts 9200 through 9350 and include, but are not limited to, salaries and wages, office supplies, outside services, regulatory commission expenses, rents and general maintenance.

The Company adjusted its test year data for non-recurring expenses, non-allowable charges, adjustments required by 16 TAC § 25.231, known and measurable changes and normalizing certain amounts. The adjustments are each shown in Exhibit KLC-06a and are discussed in this section of my testimony. Explanations are provided on Exhibit KLC-06b. The adjusted test year A&G costs totaling $241.3 million are presented on Schedule II-D-2.

1. Energy Efficiency

Q. DID THE COMPANY MAKE ANY ADJUSTMENTS FOR EE COSTS?

A. Yes. As required by 16 TAC § 25.181(f)(2), EE costs are recovered through a separate EECRF tariff, and as such, are removed from the Company's test year cost of service in the EECRF adjustments.[59] The Company's adjustment to remove costs and benefits associated with the EECRF tariff is consistent with its last base rate case.

2. Transmission of Electricity by Others

Q. WHAT IS THE TOTAL TEST YEAR AMOUNT FOR FERC ACCOUNT 5650 TRANSMISSION OF ELECTRICITY BY OTHERS?

A. The total adjusted test year amount of transmission of electricity by others is $1.4 billion as shown on Schedule II-D-1.

Q. WHAT WAS THE TOTAL TEST YEAR AMOUNT FOR FERC ACCOUNT 5650 TRANSMISSION OF ELECTRICITY BY OTHERS, IN DOCKET NO. 49421, THE COMPANY'S LAST BASE RATE PROCEEDING?

A. The total test year amount of transmission of electricity by others was $930.0 million as determined by the final order in Docket No. 49421 and set forth in the Settlement Agreement in that docket.

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[59] *See* WP/II-D-1 and WP/II-D-2 for the EECRF adjustments.

Q. PLEASE DESCRIBE THE ADJUSTMENT TO FERC ACCOUNT 5650, TRANSMISSION OF ELECTRICITY BY OTHERS.

A. According to the FERC USOA, FERC Account 5650, "includes amounts payable to others for the transmission of the utility's electricity over transmission facilities owned by others."[60] On December 21, 2023, Commission Staff filed its Petition to Set 2024 Wholesale Transmission Service Charges for ERCOT.[61] While this petition is pending a final outcome, the Company has utilized the Commission's proposed transmission charge matrix to make an adjustment to FERC Account 5650 in order to reflect the known and measurable change in the current year's four coincident peak demand and increase in costs to the distribution service provider ("DSP") for wholesale TCOS under 16 TAC § 25.192(c).[62]

Q. HOW HAS FERC ACCOUNT 5650, TRANSMISSION OF ELECTRICITY BY OTHERS, BEEN FUNCTIONALIZED?

A. Retail revenues are collected to recover the costs for transmission of electricity from others (or, FERC Account 5650) and are adjusted twice per calendar year for changes in these costs through the Transmission Cost Recovery Factor ("TCRF") tariff. FERC Account 5650 has therefore been functionalized to distribution O&M expenses to properly match these retail O&M expenses to the retail TCRF revenues that the Company collects from REPs. Company witness Mr. Durland further discusses how costs in FERC Account 5650 are reflected in the TCRF tariff.

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[60] Code of Federal Regulations 18 – Conservation of Power and Water Resources, Subchapter C – Accounts, Federal Power Act, Part 101 – Uniform System of Accounts.
[61] *Commission Staff's Petition to Set 2024 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas*, Docket No. 56050.
[62] *See* WP/II-D-1 for the TCOS adjustment.

3. Transportation Depreciation

Q. HAS O&M BEEN ADJUSTED FOR TRANSPORTATION DEPRECIATION IN THE COMPANY'S TEST YEAR COSTS?

A. Yes. The Company performed a depreciation study for this filing. Although Company witness Mr. Watson supports adjustments to the Company's depreciation rates based on the depreciation study he sponsors, the Company proposes to continue to use current depreciation rates, as approved in Docket No. 49421. The change in depreciation rates supported by the depreciation study alone for all asset classes would be an increase of $35.0 million [63] as compared with the Company's currently existing rates, and therefore the Company makes the proposal to maintain the lower depreciation rates as approved in Docket No. 49421 in an effort to reduce the overall revenue request in this case. An adjustment is made to annualize depreciation expense based on adjusted test year end plant values. The impact of this adjustment to transportation depreciation is an increase of $0.7 million. [64]

4. Bad Debt Expense

Q. IS BAD DEBT EXPENSE INCLUDED IN THE COMPANY'S ADJUSTED TEST YEAR COSTS?

A. Yes. While the test year did not have any bad debt expense recorded during the year, it is accounted for in FERC Account 9040 and the Company's request in this case is comprised of an adjustment for amortization of a regulatory asset for bad debt related to REP defaults.

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[63] *See* Workpaper KLC-02 Depreciation Study Analysis.
[64] *See* WP-II-D-1 Adj. 2.

Q. PLEASE DESCRIBE THE COMPANY'S REGULATORY ASSET RELATED TO REP DEFAULTS AND BAD DEBT EXPENSE.

A. As I previously discussed above in Section IV.M.2., the Company is allowed to establish a regulatory asset for bad debt expenses under 16 TAC § 25.107(j)(2) resulting from a REP's default.

Q. WHAT AMORTIZATION PERIOD IS THE COMPANY REQUESTING FOR RECOVERY OF THE BAD DEBT RELATED REGULATORY ASSET?

A. The Company is requesting a five-year amortization period to recover its bad debt related regulatory asset, similar to amortization periods the Company is requesting for other regulatory assets and liabilities in this rate case. The resulting adjustment to test year costs in FERC Account 9040 is $1.6 million. This adjustment to amortize the bad debt related regulatory asset is consistent with the Company's prior base rate case. Please see the bad debt adjustment calculation for additional description of the REP defaults and the recovery amount requested in this case.[65]

Q. HOW WILL THE COMPANY RECORD POST TEST YEAR BAD DEBT RELATED TO REP DEFAULTS?

A. The Company will continue to record REP defaults net of collateral in a regulatory asset for recovery in a future rate proceeding.

[65] *See* WP/II-D-1 for the bad debt adjustment.

Q. HOW HAS THE COMPANY'S BAD DEBT EXPENSE BEEN FUNCTIONALIZED?

A. Bad debt expense has been functionalized to the TDCS function, consistent with the Company's prior base rate case.

5. **<u>Workers' Compensation Expense</u>**

Q. WHY WAS WORKERS' COMPENSATION EXPENSE IN FERC ACCOUNT 9250 ADJUSTED?

A. The Company adjusted its test year workers' compensation expense to reflect the most current actuarial study performed by Milliman, Inc., attached as Exhibit KLC-08. The actuarial study assesses the Company's obligation for funding projections and unpaid claim estimates for workers' compensation benefits. Consistent with the Company's prior base rate case, the workers' compensation adjustment decrease of $2.1 million is included in the adjusted test year costs and has been functionalized using payroll, excluding administrative and general salaries.[66] This adjustment to and the functionalization of worker's compensation are consistent with the Company's prior base rate case.

6. **<u>Auto and General Claim Expense</u>**

Q. WHAT IS THE BASIS FOR THE ADJUSTMENT TO THE AUTO AND GENERAL CLAIM EXPENSE IN FERC ACCOUNT 9250?

A. Similar to the Workers' Compensation expense adjustment described above, the Company adjusted its test year annual auto and general claim expense to align with

[66] *See* WP II-D-2 for the workers' compensation adjustment.

most current actuarial study performed by Milliman, Inc., attached as Exhibit KLC-09. This study supports the casualty funding projections and unpaid claim estimates as they relate to auto and general liability claims. Consistent with the Company's prior base rate case, the auto and general claim adjustment increase of $2.8 million is included in the adjusted test year costs and has been functionalized using payroll, excluding administrative and general salaries.[67]

7. Direct and Affiliate Salaries and Wages

Q. PLEASE DESCRIBE THE ADJUSTMENT TO AFFILIATE SALARIES AND WAGES FOR THE TEST YEAR.

A. The Company is proposing to adjust salary and short-term incentive ("STI") pay for affiliate billings to the Company similar to the adjustment discussed below for direct labor. This calculation is discussed in detail in the direct testimony of Company witness Mr. Storey. The affiliate wage adjustment, including savings, is an increase of $111,158 to test year FERC O&M accounts, as shown on WP/II-D-1, and a decrease of $10.4 million to test year FERC A&G accounts, as shown on WP/II-D-2. The A&G decrease includes a $12.2 million reduction to the Company for the salary and incentive compensation of the former CEO of CNP. As discussed above and consistent with the currently existing organization that does not include both a CEO and COO, all compensation costs incurred during the test year associated with the former CEO have been removed from the Company's requested cost of service as part of the affiliate wage adjustment. Both are functionalized following the original affiliate payroll billings in the test year.

[67] *See* WP/II-D-2 for the auto and general claim adjustment.

Q. PLEASE DESCRIBE THE ADJUSTMENTS TO DIRECT SALARIES AND WAGES FOR THE TEST YEAR.

A. The Company's test year level of salaries and wages consists of base pay, a competitive pay adjustment, and incentive compensation in the form of STI and long-term incentive ("LTI") pay. The test year level of salaries and wages is not representative of labor costs that are expected to exist when new rates will become effective. The Company has adjusted its test year direct labor expenses to annualize test year-end salaries and include a three and one-half (3.5%) percent increase to the cost of service for the competitive pay adjustment ("CPA") that will be effective on April 1, 2024, for non-union employees and a competitive pay adjustment of four (4%) percent that will be effective on May 26, 2024, for union employees. Please refer to Company witness Ms. Villatoro's testimony for further discussions on the CPA. The direct wage adjustment workpaper shows the calculation for current employees by position at the end of the test year.[68] The Company is also proposing an increase to union wages for the step movement within the Apprentice Training Program as described in the most recently negotiated IBEW Local 66 union contract. The direct wage adjustment also includes adjusted STI for non-union employees using the adjusted salary (base and CPA) multiplied by the STI percentage per position multiplied by the average achievement from the last four years, consistent with the methodology in Docket No. 49421. For union employees, an adjustment was made to remove any test year STI, as there is no STI for union employees based upon the most recently negotiated contracts. The total

[68] *See* WP/II-D-3 Adj 2 for the direct wage adjustment.

adjusted salary and STI is then used to calculate the adjusted applicable savings match and employment taxes for the Company. The adjusted wages, STI, employment taxes and company savings match were then compared to test year levels to calculate adjustments to decrease STI by $1.5 million and increase wages, savings match, and employment taxes by $11.2 million, $0.7 million, and $0.4 million, respectively.[69] [70]

These adjusted amounts are then functionalized following the original functionalization of employee payroll costs.

Q. ARE EMPLOYEE COMPENSATION COSTS REASONABLE?

A. Yes. PURA § 36.067 states the following:

> When establishing an electric utility's rates, the regulatory authority shall presume that employee compensation and benefits expenses are reasonable and necessary if the expenses are consistent with market compensation studies issued not earlier than three years before the initiation of the proceeding to establish the rates.[71]

It is important to note that the presumption in PURA § 36.067 applies not only to compensation, but also to benefits as well. Company witness Ms. Villatoro addresses the reasonableness of CNP's and CenterPoint Houston's employee labor market salaries and benefit plans.

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[69] *See* WP-II-D-3 Adj. 2

[70] Employment taxes is also discussed in the Taxes Other than Federal Income Tax section. See Section V. Overall Cost of Service. E. Taxes Other than Federal Income Tax.

[71] PURA § 36.067. Consideration of Compensation and Benefits Expenses, part (b).

Q. ARE THE UNION EMPLOYEE DIRECT AND AFFILIATE ADJUSTMENTS REASONABLE?

A. Yes, the adjustments for union employees are reasonable and similar to amounts for non-union employees. As a stipulation of the IBEW Local 66 union contract, the Company's union employees are scheduled to receive a wage increase in May 2024. Union contracts for Service Company employees[72] incorporate a wage increase in January 2024. Both calculations for the direct and affiliate union wage adjustments reflect the contracted percentage wage increase. Of the total direct wage adjustment, $9.7[73] million is for union employees, including employment taxes. For the affiliate wage adjustment, the union employee portion is a decrease of $7,156[74] is for union employees. In addition, the direct and affiliate union adjustments should be approved based on PURA § 14.006, which states:

> The commission may not interfere with employee wages and benefits, working conditions, or other terms or conditions of employment that are the product of a collective bargaining agreement recognized under federal law. An employee wage rate or benefit that is the product of the collective bargaining is presumed to be reasonable.

Q. ARE THE DIRECT AND AFFILIATE BILLING WAGE ADJUSTMENTS CONSISTENT WITH THE COMPANY'S PRIOR BASE RATE PROCEEDING?

A. Yes. The Company's method to adjust direct and affiliate wages is consistent with its prior base rate proceedings.

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[72] Represented by the Office & Professional Employees International Union Local No. 12 AFL-CIO
[73] *See* WP-II-D-3 Adj. 2.
[74] Refer to Workpaper *V-K-6 Workpaper Wage Adj.* sponsored by Mr. Storey

8. Direct and Affiliate Employee Benefits

Q. WHAT EMPLOYEE BENEFIT EXPENSES ARE INCLUDED IN TEST YEAR EXPENSES?

A. Employee benefit expenses include the cost for retirement plan (or pension), post-retirement and post-employment benefits, employee health and welfare plan, savings plan and other benefit program costs recorded to FERC Account 9260. These expenses are presented on Schedule II-D-2. Ms. Villatoro addresses the reasonableness of CNP's employee benefit programs.

Q. HAS THE COMPANY ADJUSTED ITS EMPLOYEE BENEFIT EXPENSE?

A. Yes. Consistent with the Company's prior base rate cases, proposed adjustments were made to update its test-year expenses for pension and other post-employment benefit ("OPEB") expense to reflect actual annual expenses as determined by the 2023 actuarial studies included as attachments to Schedule II-D-3.8.1. This Benefits adjustment results in a decrease of $11.3 million [75] and a decrease of $4.3 million [76] for direct and affiliate expense, respectively. Pension and OPEB expenses are functionalized following employee payroll. The Company also included an adjustment to benefit expense related to savings match discussed previously in my testimony. [77]

9. Other Employee Expenses

Q. WHAT STEPS DOES THE COMPANY TAKE TO APPROVE EMPLOYEE BUSINESS EXPENSES?

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[75] *See* WP-II-D-2 Adj. 6.
[76] *See* WP-II-D-1 Adj. 4.
[77] *See* Section V.A.7, Direct and Affiliate Salaries and Wages.

A. The Company's General Expense and Reimbursement Policy ("GE&R") provides uniform guidelines related to travel and general expenses incurred by employees on behalf of CNP and its subsidiaries, travel and general expenses paid using CNP authorized methods, and the procurement of goods and services using the OnePay Card. CNP maintains the OnePay program to minimize out-of-pocket costs incurred by employees, to reduce the number of transactions, and to provide employees a method to pay for general business and travel expenses associated with business.[78]

The GE&R policy states that business expenses will only be approved if they are reasonable, appropriately documented, properly authorized, and comply with the policy. Certain expenses, such as auto repairs for personal vehicles, political contributions, and souvenirs are explicitly not allowed. In addition, business expenses must be substantiated with correct expense types, business purpose, properly itemized receipts, list of attendees and locations, and mileage calculations, among other requirements. Timely submission of expense reimbursements is also required.

Q. WHAT APPROVALS ARE REQUIRED FOR EMPLOYEE EXPENSES?

A. The GE&R policy requires direct management approval. Management approval consists of business purpose, proper accounting coding, accurate and detailed description of goods and services, and timeliness.

Q. WHAT OTHER PROCESSES ARE IN PLACE TO REVIEW EMPLOYEE EXPENSES FOR APPROPRIATE BUSINESS PURPOSES?

[78] *See* Exhibit KLC-11 General Expense and Reimbursement Policy.

A. The accounts payable department reviews OnePay transactions for corporate credit card policy violations, patterns of misuse, and potentially fraudulent activity. In addition, aspects of the GE&R policy are monitored for violations.

Q. WHAT STEPS WERE TAKEN TO ENSURE EMPLOYEE EXPENSES WERE APPROPRIATE FOR INCLUSION IN THE TEST YEAR?

A. Employee expenses were reviewed and analyzed in accordance with 16 TAC § 25.231(b)(1) for allowable expenses and subsection (b)(2) for non-allowable expenses. The Company is making an adjustment to remove certain employee-related travel, meals, and lodging costs and other employee expenses that are not being requested for recovery. Adjustments were made for employee expenses that contained alcohol purchases or reflected other costs that were deemed non-recoverable. The employee expense adjustment to O&M and A&G is a decrease of $155,530 and $8,224, respectively. The affiliate employee expense adjustment is a decrease to O&M and A&G of $74,108 and $1.2 million, respectively.[79]

10. <u>Prior Period Adjustments</u>

Q. WERE ANY ADJUSTMENTS MADE TO O&M OR A&G TEST YEAR COSTS RELATED TO PRIOR PERIODS?

A. Yes. In April of 2023, the Texas Comptroller of Public Accounts formally issued its Notification of Audit Results for claim periods from January of 2017 through June of 2020. Based upon that audit, CenterPoint Houston recorded a decrease to miscellaneous A&G in FERC 9302 of $6.6 million. In the RFP, on Schedule

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[79] *See* WP/II-D-1 and WP/II-D-2 for the employee expenses adjustments.