

1 A. Based on my understanding from our IRM Team and our broker, CenterPoint
2 Houston can obtain property insurance, subject to varying deductibles, to cover
3 its substations, but property insurance to cover weather-related losses to wires,
4 poles and towers is not available on reasonable terms, if at all. During the annual
5 property insurance renewal process, the IRM team requests a market update on
6 the availability of T&D asset coverage from its broker. Each year, the broker
7 reports that, because of prior industry losses from hurricanes, wildfires, etc.,
8 insurers are willing to offer insurance on the T&D assets other than substations
9 only if CenterPoint Houston is willing to pay extremely high premiums for the
10 insurance, if available. Company witness Mr. Wilson supports the Company's
11 decision to use a self-insurance reserve to cover property losses.

12 **Q. HAS THE COMPANY RECEIVED ANY PROPERTY INSURANCE**
13 **PROCEEDS RELATED TO WINTER STORM URI, HURRICANE**
14 **NICHOLAS, OR OTHER SEVERE WEATHER EVENTS?**

15 A. No. The Company did not receive any property insurance proceeds related to any
16 of these events.

17 **B. Legal Costs and Cost Assignments**

18 **Q. PLEASE DESCRIBE THE COSTS ASSIGNED TO CENTERPOINT**
19 **HOUSTON FOR LEGAL SERVICES AND THE METHODOLOGY USED**
20 **TO ASSIGN THOSE COSTS.**

21 A. The costs assigned to CenterPoint Houston for the test year ended December 31,
22 2023 for Legal can be found in the direct testimony of Company witness Darren
23 Storey. Costs for Company-specific work are directly assigned to the Company.

1 For example, the Legal Department provides legal services directly to CenterPoint
2 Houston using both inside and outside attorneys. The costs of these services are
3 directly billed whenever possible. Legal services provided to other affiliates are
4 tracked separately so that costs attributable to other affiliates are not charged to
5 CenterPoint Houston.

6 Certain corporate services and projects that benefit all CNP business units
7 are allocated to the Company and are billed at the same rate to all affiliates,
8 including CenterPoint Houston. These rates are designed to cover only the costs of
9 providing such services. The manner by which costs are allocated for all activities
10 and expenses related to services that Legal provided directly to the Company is
11 discussed in Mr. Storey's testimony. Mr. Storey explains that these cost allocation
12 methodologies ensure that CenterPoint Houston is charged for Legal services at
13 rates that are no higher than those charged to other CNP business units for the same
14 services. Thus, CenterPoint Houston's legal costs should be recovered in full
15 through rates.

16 **Q. HOW DOES THE LEGAL DEPARTMENT MONITOR EXPENSES TO**
17 **ENSURE THAT THE COSTS IT INCURS ARE REASONABLE AND**
18 **NECESSARY AND THAT COSTS ARE PROPERLY ASSIGNED?**

19 A. The Legal Department ensures that incurred costs are reasonable and necessary in
20 a number of ways, including budgeting, the use of matter management software,
21 and comparing and controlling labor costs.

22 **Budgeting and Cost Control.** The Legal Department's budget is
23 established annually as part of CNP's budget process. Each year, in consultation

1 with the various business units that Legal supports, the department identifies legal
2 resources that are needed to support the strategic objectives of the business. The
3 Legal Department compares its budgeted amounts to actual expenditures
4 throughout the year and strives to improve efficiency and effectiveness. The Legal
5 Department forecasts legal fees for the remainder of the year on a monthly basis by
6 sub-function and rolls them up to business units. Responsible lawyers as well as
7 business unit owners review these forecasts. In addition, the Legal Department
8 tracks legal expenses on a quarter-by-quarter and year-over-year basis to spot trends
9 and opportunities for savings. The Legal Department's budgeting process coupled
10 with the monitoring process ensures that costs incurred by the Legal Department
11 and thus billed to CenterPoint Houston are controlled, reasonable, and necessary.
12 The Service Company's annual budget process is described further in Mr. Storey's
13 testimony.

14 **Matter Management Software.** In addition to budgeting, the Legal
15 Department uses a matter management system called Passport to track cases, files,
16 and associated expenses. In Passport, attorneys can access various information
17 about particular matters and invoices, view approved timekeepers and rates for a
18 matter, verify that billing rates charged by outside counsel have previously been
19 approved, assess compliance with our policies and guidelines and other
20 expectations, and approve or reject invoices. Outside counsel must obtain approval
21 before adding new timekeepers to a matter, and any such changes are reflected in
22 the system. The system also facilitates review of legal invoices by flagging billing
23 entries that may be duplicative or incorrect.

1 **Labor Costs.** As discussed in the direct testimony of Company witness
2 Bertha R. Villatoro, the Compensation Section of the Human Resources
3 Department regularly evaluates salary levels for employees including those in the
4 Legal Department based on published indices and benchmarking studies to ensure
5 that these costs remain reasonable and necessary.

6 **Q. HOW DOES THE LEGAL DEPARTMENT MANAGE OUTSIDE**
7 **COUNSEL TO ENSURE THAT THEIR CHARGES FOR LEGAL**
8 **SERVICES ARE REASONABLE AND NECESSARY?**

9 A. The Legal Department determines that the charges by outside counsel are
10 reasonable and necessarily incurred through a variety of practices, policies, and
11 procedures. First, the Legal Department has established processes to help manage
12 legal costs and expenses. Effective management of outside counsel and overall
13 expenses is a key part of our overall Legal Department strategy. Accordingly, the
14 Legal Department has an expense management team that advises on and monitors
15 expense issues and also has appropriate policies and guidelines to drive legal
16 efficiencies with our business clients and otherwise assists with expenditure
17 management. Finally, the Legal Department has worked to have outside counsel
18 provide the most cost-effective service, consolidating work with firms where
19 appropriate in order to leverage our spending (e.g., obtaining discounts), manage
20 the firms more effectively, and have outside counsel become more familiar with the
21 Company and thus enhance efficiencies; pushing appropriate work to lower cost
22 firms; and periodically conducting requests for proposals to ensure that rates remain
23 competitive, all as appropriate to the particular matter or types of matters.

1 Second, our in-house lawyers manage their matters and outside lawyers
2 directly and effectively to ensure our strategy and expectations are being met and
3 that work and costs are reasonable. Many attorneys in the Legal Department were
4 in private practice before joining the Legal Department, or held similar in-house
5 counsel roles at other organizations, and are familiar with the type of legal work for
6 which they now select outside counsel and review bills. This fact, combined with
7 our matter management system (Passport), ensures that invoices are properly
8 reviewed and that the charges are reasonable. All fee statements from outside
9 counsel are sent to the General Counsel or the General Counsel's designee and are
10 reviewed by attorneys within the Legal Department, such as myself, who monitor
11 the work of outside counsel in the particular matter for which the bill is rendered.
12 In reviewing bills, the attorneys within the Legal Department analyze not only the
13 amount of time and the fees charged, but also the nature of the services and the
14 quality of the work provided. This review assures that payments are made only for
15 services that were needed, that the fees charged are reasonable, and that costs for
16 which reimbursement is sought were incurred in conjunction with the legal services
17 rendered and were necessary.

18 Third, the Legal Department requires outside counsel to comply with CNP's
19 requirements related to billing, staffing of matters, impermissible charges, etc., and
20 monitors compliance with them. Moreover, the Legal Department does not allow
21 law firms to raise rates on an annual basis, as many firms do, without first obtaining
22 approval from our General Counsel.

1 In addition to these internal controls and processes, the Legal Department
2 also periodically issues Requests for Proposal on various dockets, particular
3 matters, or specific projects to ensure competitive rates and bidding. Alternative
4 Fee Arrangements are also used to drive efficiencies and align incentives, and we
5 periodically review the effectiveness of such arrangements. Finally, the Legal
6 Department periodically conducts benchmarking exercises through outside
7 organizations to ensure our legal spend is reasonable and commensurate with other
8 companies.

9 **Q. BASED ON YOUR EXPERIENCE IN PRIVATE PRACTICE AND AS**
10 **IN-HOUSE COUNSEL, ARE THE LEGAL DEPARTMENT'S PROCESSES**
11 **TO MONITOR EXPENSES CONSISTENT WITH GENERALLY**
12 **STANDARD PROCESSES USED BY CORPORATE LEGAL**
13 **DEPARTMENTS TO MONITOR EXPENSES?**

14 A. Yes.

15 **Q. DOES CENTERPOINT HOUSTON PAY HIGHER RATES FOR LEGAL**
16 **SERVICES THAN OTHER BUSINESS UNITS OR AFFILIATES?**

17 A. No.

18 **Q. DO THE OTHER SUBGROUPS OF THE LEGAL DEPARTMENT ALSO**
19 **TAKE STEPS TO ENSURE THAT THEIR CHARGES FOR THE**
20 **SERVICES THEY PROVIDE AND MANAGE ARE REASONABLE AND**
21 **NECESSARY?**

22 Yes. Similar to how the lawyers on the legal team manage outside counsel
23 expenses, the other subgroups that report into the Legal Department – Enterprise

1 Risk Management, Claims, Data Privacy, Integrated Records & Information
2 Management, Insurance Risk Management, Environmental and Corporate
3 Sustainability, and Strategy – are accountable for monitoring and controlling costs
4 and expenses. They follow the same budgeting process described above and engage
5 in similar vendor management practices and monitoring processes, including
6 competitive bidding, to ensure that costs incurred by their respective subgroups and
7 thus billed to CenterPoint Houston are controlled, reasonable, and necessary.

8 **Q. WAS IT REASONABLE AND NECESSARY FOR CENTERPOINT**
9 **HOUSTON TO USE LEGAL CORPORATE SERVICES DURING THE**
10 **TEST YEAR?**

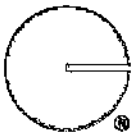
11 A. Yes. Legal corporate services are reasonable and necessary to the Company's
12 operation. As Mr. Storey explains in his direct testimony, CenterPoint Houston
13 received the benefit of sharing staff that could perform legal services without
14 having to hire a full-time staff.

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

16 A. Yes, it does.

From: Vacek, James M
Sent: Thursday, January 4, 2024 3:33 PM
To: Worsham, Krystin M; Jackson, Robert; Sorum, Peggy J; Leahy, Patrick; Fibbe, George; Kimzey, Michael S
Cc: Peters III, Patrick H
Subject: RE: [External Email] Availability of T&D Coverage

All,
Please find a revised version cleaning up some formatting issues from my prior email.
Regards,



Jim Vacek

Director Insurance Risk Management

CenterPoint Energy | Legal Department
713.207.5108 w | 832.291.9024 c
CenterPointEnergy.com

From: Vacek, James M
Sent: Thursday, January 4, 2024 1:47 PM
To: Worsham, Krystin M <krystin.worsham@centerpointenergy.com>; Jackson, Robert <robert.jackson@centerpointenergy.com>; Sorum, Peggy J <peggy.sorum@centerpointenergy.com>; Leahy, Patrick <patrick.leahy@bakerbotts.com>; Fibbe, George <george.fibbe@bakerbotts.com>
Cc: Peters III, Patrick H <patrick.peters@centerpointenergy.com>
Subject: FW: [External Email] Availability of T&D Coverage

I've added commentary in red to the various options presented by McGriff.
At this time, none would be considered a viable alternative.
Regards,



Jim Vacek

Director Insurance Risk Management

CenterPoint Energy | Legal Department
713.207.5108 w | 832.291.9024 c
CenterPointEnergy.com

EXTERNAL EMAIL

CAUTION: This message originated from outside CenterPoint Energy. Do not click on links, open attachments, or enter data unless you recognize the sender, were expecting the content and know it to be safe.

Jim,

We are able to provide comments on the availability of T&D in both the London/European market and the US.

From a London / European market approach:

1) Commercial Insurance Market

- There continues to be a primary market for T&D coverage – with rates being charged of circa 33% rate on line.
- A Primary \$20M policy would have a premium cost of approximately \$6.6M (100%) – with the policy limit being an annual aggregate.
 - For CenterPoint – due to their operating area, we do not believe that there would be more than \$50M (annual aggregate) of capacity available – with the rate online for the capacity all being in the range of 33%.

Rates are not economically feasible for relatively low limits of liability.

2) Parametric Product

- The Parametric markets have matured over the last several years and can now offer programs that are more attractive than they historically were – with an Insured being able to purchase coverage for certain groups of designated assets, rather than their entire schedule of assets.
- The Parametric coverage will also be charged on a rate on line, with the rate charged being highly dependent on the group of assets and the excess point for coverage to be triggered.
- The potential lowest rate on line for Parametric coverage could be 5%, but in order to achieve this level of rating, CenterPoint's attachment point for the coverage will need to be a significant and would result in a very large loss being incurred by CenterPoint before any potential amount would be recoverable under a Parametric coverage.
- Limits for these types of products are in the \$100M to \$200M range.

Rates are not economically feasible and require a high self insured retention.

Low severity on prior losses does not support the high premium

Proceeds from recovery aren't always parallel with actual losses

Alternative recovery / restoration bonds remain a viable option to support losses

3) Captive Reinsurance

- An Insured could elect to Insure their T&D system via a Captive.
- Reinsurance solutions exist to protect the Captive that will be similar to 1) and 2) – except that the T&D exposures could be packaged with other lines of Insurance to make the high rate on line more acceptable and this could potentially result in tax efficiencies.

CNP does not currently have a captive insurance company. Capitalization requirements for a captive insurance company for T&D exposure could exceed \$100m

US Market Approach:

Limited domestic market appetite. Available market would be offering the coverage on a named (scheduled) line basis at extremely small limits as it would be net capacity. The rate on line would be similar to London in the 30% range.

Rates are not economically feasible for relatively low limits of liability.

Please let us know if you need any additional information.



Sheryl Winslett, CIC
Executive Vice President

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Any information, analyses, opinions and/or recommendations contained herein relating to the impact or the potential impact of coronavirus/COVID-19 on insurance coverage or any insurance policy is not a legal opinion, warranty or guarantee, and should not be relied upon as such. As insurance agents, we do not have the authority to render legal advice or to make coverage decisions, and you should submit all claims to your insurance carrier for evaluation as they will make the final determination. Given the on-going and constantly changing situation with respect to the coronavirus/COVID-19 pandemic, this communication does not necessarily reflect the latest information regarding recently-enacted, pending or proposed legislation or guidance that could override, alter or otherwise affect existing insurance coverage. At your discretion, please consult with an attorney at your own expense for specific advice in this regard.

PUC DOCKET NO. 56211

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

DIRECT TESTIMONY

OF

BRAD TUTUNJIAN

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

MARCH 2024

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	REGULATORY AFFAIRS DEPARTMENT	3
III.	MUNICIPAL FRANCHISE FEES.....	12

LIST OF EXHIBITS

Exhibit BAT-1	List of cities and date of passage for the Renewal Franchise Ordinances
---------------	--

EXECUTIVE SUMMARY - REGULATORY**(BRAD TUTUNJIAN)**

The affiliate services that the Regulatory Services and Government Affairs Department provides to CenterPoint Energy Houston Electric, LLC (“CenterPoint Houston” or the “Company”) are critical to CenterPoint Houston’s provision of safe and reliable electric service and compliance with federal and state regulatory requirements. In this regard, my testimony:

- describes the organization, function, and responsibilities of the Regulatory Services and Government Affairs Department;
- describes how the Regulatory Services and Government Affairs Department costs are controlled and monitored through the budgeting process and other strategies;
- addresses how the costs of the Regulatory Services and Government Affairs Department are assigned; and
- supports the reasonableness of the Regulatory Services and Government Affairs Department affiliate services incurred by CenterPoint Houston during the test year.

My testimony demonstrates that the affiliate costs for the Regulatory Services and Government Affairs Department, as set out in the direct testimony of Company witness L. Darren Storey, are reasonable and necessary and are not priced higher to CenterPoint Houston than the prices charged for the same services to other affiliates. Thus, CenterPoint Houston’s costs should be recovered in full through rates.

DIRECT TESTIMONY OF BRAD TUTUNJIAN

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND CURRENT POSITION.

A. My name is Brad Tutunjian. I am the Vice President, Regulatory Policy for CenterPoint Energy, Inc. ("CNP").

Q. PLEASE SUMMARIZE YOUR BACKGROUND AND CURRENT RESPONSIBILITIES.

A. I graduated from Texas Tech University in 1997 with a Bachelor of Science degree in Mechanical Engineering. I am a licensed Professional Engineer by the State of Mississippi. From my 1997 graduation to the present, I have been employed by CNP or one of its affiliates. My positions with CNP have included Graduate Engineer, Distribution Designer, Distribution Operations Manager, District Manager, Service Area Director, Electric Distribution Operations, Division Vice President – Natural Gas Regional Operations (Mississippi/Louisiana), Division Vice President – Regional Operations (Minnesota), Vice President of Distribution Operations and Service Delivery (Texas Electric), and Vice President, Regulatory Policy. I was named to my present position in 2023, at which time I assumed responsibility for supporting regulatory initiatives on behalf of CNP before various regulatory bodies on matters of policy affecting CNP's regulated business units.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the organization and affiliate services provided by the Regulatory Services and Government Affairs Department. My testimony demonstrates that the Regulatory Services and Government Affairs Department efficiently and effectively provides regulatory services to CenterPoint

1 Houston and that the Regulatory Services and Government Affairs Department
2 maintains proper controls to ensure that the costs for each of these services are
3 reasonable and necessary. My testimony further establishes that the Regulatory
4 Services and Government Affairs Department affiliate costs incurred by
5 CenterPoint Houston during the test year are properly assigned to the Company,
6 are reasonable and necessary, and, as explained by Company witness Mr. Storey,
7 are not priced higher to CenterPoint Houston than the prices charged for the same
8 services to other affiliates.

9 **Q. DO YOU SPONSOR ANY EXHIBITS OR SCHEDULES INCLUDED IN**
10 **THE RATE FILING PACKAGE?**

11 A. Yes. I co-sponsor the reasonableness and necessity of various costs included in
12 Schedules V-K-7 and V-K-12 sponsored by Company witness L. Darren Storey,
13 insofar as they are related to the Regulatory Services and Government Affairs
14 Department. I also sponsor Exhibit BAT-1, which includes a list of cities and the
15 date of passage for each of the renewal franchise ordinances.

16 **Q. HOW DOES YOUR TESTIMONY RELATE TO THAT OF OTHER**
17 **WITNESSES IN THIS PROCEEDING?**

18 A. I serve as CenterPoint Houston's witness supporting the recovery of reasonable and
19 necessary test year costs for the Regulatory Services and Government Affairs
20 Department. These are all affiliate costs that CenterPoint Houston seeks to recover
21 as part of its cost of service. Mr. Storey provides direct testimony that supports
22 CenterPoint Houston's recovery of its affiliate costs, including affiliate billings and
23 methodologies, budgeting, cost controls, and the use of Service Level Agreements.

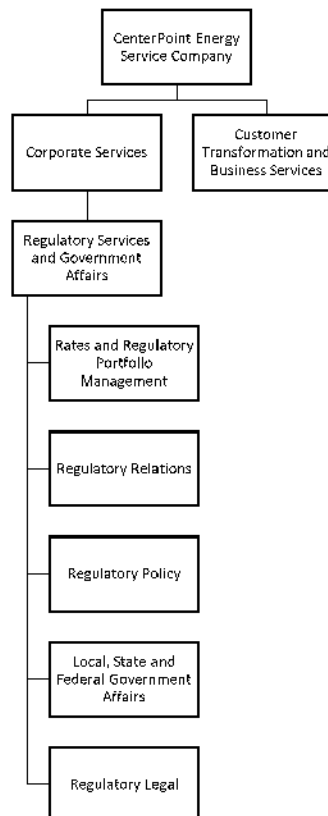
1 Additionally, I provide testimony in support of the recovery of the test year
 2 franchise fee expense by CenterPoint Houston under its municipal franchise
 3 ordinances adjusted for known and measurable changes.

4 **II. REGULATORY AFFAIRS DEPARTMENT**

5 **Q. WHERE DOES THE REGULATORY SERVICES AND GOVERNMENT**
 6 **AFFAIRS DEPARTMENT FALL WITHIN THE SERVICE COMPANY**
 7 **ORGANIZATION?**

8 A. As shown in the figure below, the Regulatory Services and Government Affairs
 9 Department falls within Corporate Services:

10 **Figure 1**



1 **Q. WHAT ARE THE \ PRIMARY FUNCTIONS OF THE RATES AND**
2 **REGULATORY PORTFOLIO MANAGEMENT, REGULATORY**
3 **RELATIONS AND REGULATORY POLICY GROUPS?**

4 A. The Rates and Regulatory Portfolio Management, Regulatory Relations, and
5 Regulatory Policy Groups provide regulatory services for all of CNP's
6 regulated electric and gas operations. Services provided to CenterPoint Houston
7 include:

- 8 • developing regulatory policy and strategy;
- 9 • overseeing rules and procedures to ensure regulatory compliance;
- 10 • representing the Company's interests in interactions with national and
11 regional trade, industry, and professional organizations;
- 12 • providing litigation support in regulatory proceedings including any related
13 appeals in the courts; and
- 14 • preparing and managing regulatory filings, including tariff filings, annual
15 affiliate reports, and other regulatory documentation, such as the earnings
16 monitoring report filed with the Public Utility Commission of Texas
17 ("Commission");
- 18 • preparing and overseeing all aspects of the rate case process, including the
19 preparation of the rate filing package, responding to discovery, and
20 providing hearing support; and
- 21 • promoting and maintaining collaborative working relationships with
22 regulators and third parties and representing the Company's position in
23 regulatory matters before the Commission as well as in matters being

1 considered in the Electric Reliability Council of Texas (ERCOT)
2 stakeholder process, and acting as the Company's primary liaison in these
3 matters.

4 **Q. WHAT ARE THE PRIMARY FUNCTIONS OF THE LOCAL, STATE, AND**
5 **FEDERAL GOVERNMENT AFFAIRS GROUP?**

6 A. The Local, State, and Federal Government Affairs Group supports CNP's state and
7 federal legislative activities and interacts with local governments on behalf of
8 CNP's electric and gas utilities.

9 **Q. WHAT ARE THE PRIMARY FUNCTIONS OF THE REGULATORY**
10 **LEGAL GROUP?**

11 A. The Regulatory Legal group is responsible for representing the Company in
12 proceedings subject to the jurisdiction of the Commission and municipalities that
13 retain original jurisdiction over CenterPoint Houston's rates, operations, and
14 services under the Public Utility Regulatory Act ("PURA") and in other matters
15 that involve regulatory or administrative law, including for other affiliates in other
16 jurisdictions and/or before other regulatory agencies¹. The Regulatory Legal team
17 is also responsible for (i) implementing the Commission's Code of Conduct and
18 setting up procedures to help ensure compliance; (ii) assisting management in the
19 development and implementation of regulatory strategies, including regulatory
20 compliance programs; and (iii) directly supporting CNP's and its affiliates' state

¹ The regulatory and government affairs matters that may be legal in nature or have legal components to them and are managed by the Regulatory Affairs and Government Services team are the subject of my testimony; the testimony or witness Shane Kinzey covers the legal matters handled and supervised by the Legal Department.

1 and federal legislative activities. This team is also responsible for negotiating
2 municipal franchise agreements on behalf of CNP's electric and gas utilities.

3 **Q. PLEASE DESCRIBE THE COSTS ASSIGNED TO CENTERPOINT**
4 **HOUSTON FOR REGULATORY SERVICES AND GOVERNMENT**
5 **AFFAIRS AND THE METHODOLOGY USED TO ASSIGN THOSE**
6 **COSTS.**

7 A. The costs assigned to CenterPoint Houston for the test year ended December 31,
8 2023 for the Regulatory Services and Government Affairs Department are
9 explained in the direct testimony of Company witness L. Darren Storey. Thus,
10 CenterPoint Houston's regulatory costs should be recovered in full through rates.
11 Costs for CenterPoint Houston-specific work are directly assigned to CenterPoint
12 Houston. Regulatory Services and Government Affairs Department employees
13 directly bill the cost associated with the time spent on CenterPoint Houston
14 regulatory services and government affairs work to CenterPoint Houston.
15 Regulatory services provided to other affiliates are tracked separately so that costs
16 attributable to other affiliates are not charged to CenterPoint Houston.
17 Certain corporate services and projects that benefit all CNP business units are
18 allocated in part to the Company and are billed at the same rate to all affiliates,
19 including CenterPoint Houston. These rates are designed to cover only the costs of
20 providing such services. Mr. Storey discusses how costs are allocated for all
21 activities and expenses related to services that the Regulatory Services and
22 Government Affairs Department provides directly to CenterPoint Houston. Mr.
23 Storey explains that these cost allocation methodologies ensure that CenterPoint

1 Houston is charged for regulatory services and government affairs at rates that are
2 no higher than those charged to other CNP business units for the same services.

3 **Q. HOW DOES THE REGULATORY SERVICES AND GOVERNMENT**
4 **AFFAIRS DEPARTMENT MONITOR EXPENSES TO ENSURE THAT**
5 **THE COSTS IT INCURS ARE REASONABLE AND NECESSARY AND**
6 **THAT COSTS ARE PROPERLY ASSIGNED?**

7 A. The Regulatory Services and Government Affairs Department ensures that incurred
8 costs are reasonable and necessary in a number of ways, including budgeting, and
9 comparing and controlling labor costs. The Regulatory Services and Government
10 Affairs Department uses CNP's annual budget process, described in the testimony
11 of Mr. Storey, to determine expected expenditures for the coming year. As part of
12 this process, CNP management reviews and approves the annual budget. Actual
13 expenditures throughout the year are compared to the budgeted amounts, and
14 efforts are made to improve efficiency and effectiveness. Department leadership
15 reviews and approves invoices and monitors actual expenditures against the budget
16 each month. Monthly forecasts of regulatory costs are reviewed and compared to
17 actuals by responsible employees as well as business unit owners. In addition,
18 expenses are tracked on a quarter-by-quarter and year-over-year basis to spot trends
19 and opportunities for savings. The Regulatory Services and Government Affairs
20 Department's budgeting process coupled with the monitoring process ensures that
21 costs incurred by the department and thus billed to CenterPoint Houston are
22 controlled, reasonable, and necessary.

1 The Regulatory Services and Government Affairs' budget is established
2 annually as part of CNP's budget process. Each year, in consultation with the
3 various business units that Regulatory Services and Government Affairs supports,
4 the department identifies regulatory and government affairs resources that are
5 needed to support the strategic objectives of the business. Actual expenditures
6 throughout the year are compared to the budgeted amounts, and efforts are made to
7 improve efficiency and effectiveness. Monthly forecasts of regulatory fees by sub-
8 function are performed and rolled up to business units. These forecasts are
9 reviewed by responsible employees as well as business unit owners. In addition,
10 regulatory expenses are tracked on a quarter-by-quarter and year-over-year basis to
11 spot trends and opportunities for savings. The Regulatory Services and
12 Government Affairs Department's budgeting process, coupled with the monitoring
13 process, ensures that costs incurred by the Regulatory Services and Government
14 Affairs Department and thus billed to CenterPoint Houston are controlled,
15 reasonable, and necessary.

16 **Matter Management Software.** In addition to budgeting, the
17 Regulatory-Legal uses a matter management system, Passport (formerly
18 TeamConnect), to track cases and files and associated expenses. Using these
19 systems, attorneys can access various information about particular matters and
20 invoices, view billing guidelines and view approved timekeepers and rates for a
21 matter, verify that billing rates charged by outside counsel have previously been
22 approved, assess compliance with our Outside Counsel Guidelines and other
23 expectations, and approve or reject invoices. Outside counsel must obtain approval

1 before adding new timekeepers to a matter, and any such changes are reflected in
2 the system. The system also facilitates review of legal invoices by flagging billing
3 entries that may be duplicative or incorrect.

4 Additionally, as discussed in the direct testimony of Company witness
5 Bertha Villatoro, the Compensation Section of the Human Resources Department
6 regularly evaluates salary levels for employees, including Regulatory Services and
7 Government Affairs employees, based on published indices and benchmarking
8 studies in order to ensure that these costs remain reasonable and necessary.

9 **Q. DOES THE REGULATORY LEGAL GROUP RETAIN AND MANAGE**
10 **OUTSIDE COUNSEL?**

11 A. Yes.

12 **Q. HOW DOES THE REGULATORY LEGAL GROUP MANAGE OUTSIDE**
13 **COUNSEL TO ENSURE THAT THEIR CHARGES FOR LEGAL**
14 **SERVICES ARE REASONABLE AND NECESSARY?**

15 A. Similar to the Legal Department, the in-house attorneys within the Regulatory
16 Legal group in the Regulatory Services and Government Affairs Department
17 review outside counsel costs for compliance with a variety of practices, policies,
18 and procedures. First, the in-house attorneys require that outside counsel provide
19 the most cost-effective service by reducing the number of outside law firms retained
20 to perform legal work in order to leverage our spend and more effectively manage
21 our firms, pushing work to lower costs firms, or spreading work among firms to
22 ensure competition and appropriate expertise, as appropriate to the particular matter
23 or types of matters. The in-house attorneys in the Regulatory Legal group have

1 experience and are familiar with the type of legal work for which they select outside
2 counsel and review bills.

3 Second, the in-house lawyers within the Regulatory Legal group of the
4 Regulatory Services and Government Affairs Department are expected to manage
5 their matters and outside lawyers directly and effectively to ensure the execution of
6 the Company's strategy, that expectations are being met, and that work and costs
7 are reasonable. The in-house lawyers in Regulatory Legal group use the same
8 matter management system (Passport) described by Company witness M. Shane
9 Kimzey to ensure that invoices are properly reviewed and that charges are
10 reasonable. All fee statements from outside counsel are reviewed by the in-house
11 lawyers. In reviewing bills, in-house lawyers analyze not only the amount of time
12 and the fees charged, but also the nature of the services and the quality of the work
13 provided. This review assures that payments are made only for services that were
14 needed, that the fees charged were reasonable, and that costs for which
15 reimbursement is sought were incurred in conjunction with the legal services
16 rendered and were necessary.

17 Third, the in-house lawyers within the Regulatory Legal group in the
18 Regulatory Services and Government Affairs Department monitor outside counsel
19 to ensure that outside counsel comply with the CNP Legal Department's policies
20 related to billing, staffing of matters, non-permitted charges, etc. Moreover, like
21 the CNP Legal Department, the Regulatory Services and Government Affairs
22 Department does not allow law firms to raise rates on an annual basis, as many
23 firms do, without first obtaining approval.

1 **Q. WHAT PROCESSES ARE IN PLACE TO ENSURE THAT THE COSTS**
2 **INCURRED BY THE REGULATORY SERVICES AND GOVERNMENT**
3 **AFFAIRS DEPARTMENT ARE REASONABLE AND NECESSARY?**

4 A. The Regulatory Services and Government Affairs Department prepares an annual
5 budget and compares actual expenditures throughout the year to budgeted amounts.
6 As set out in the testimony of Bertha Villatoro, the Human Resources Department
7 evaluates salary levels for these employees based on published indices and
8 benchmarking studies in order to ensure that these costs remain reasonable and
9 necessary.

10 **Q. DOES CENTERPOINT HOUSTON PAY HIGHER RATES FOR**
11 **REGULATORY SERVICES AND GOVERNMENT AFFAIRS SERVICES**
12 **THAN OTHER BUSINESS UNITS OR AFFILIATES?**

13 A. No.

14 **Q. WAS IT REASONABLE AND NECESSARY FOR CENTERPOINT**
15 **HOUSTON TO USE REGULATORY SERVICES AND GOVERNMENT**
16 **AFFAIRS CORPORATE SERVICES DURING THE TEST YEAR?**

17 A. Yes. The services provided by the Regulatory Services and Government Affairs
18 Department are reasonable and necessary to the Company's operation. CenterPoint
19 Houston received the benefit of sharing staff that could perform regulatory work
20 without having to hire a full-time staff.

III. MUNICIPAL FRANCHISE FEES

Q. WHAT ARE MUNICIPAL FRANCHISE ORDINANCES AND FRANCHISE FEES?

A. A municipal franchise ordinance is an agreed ordinance between the Company and a city whereby the Company pays a negotiated franchise fee in exchange for certain rights from the city, such as the right to use the city's public rights-of-way to install, use, and maintain utility poles, transmission and distribution lines, and other equipment necessary to conduct its electric delivery business. The agreement is called an "ordinance" because it is actually passed into law by the various city governments in the Company's service area.

Q. HOW MANY FRANCHISE ORDINANCES DOES THE COMPANY HAVE TODAY?

A. The Company has franchise ordinances with 93 cities in its service area.

Q. PLEASE BRIEFLY DESCRIBE THE FRANCHISE FEES PAID BY CENTERPOINT HOUSTON UNDER THESE FRANCHISE ORDINANCES.

A. As provided for under PURA § 33.008(f), upon the expiration of any franchise agreement that existed on September 1, 1999, CenterPoint Houston has negotiated with the cities in its service territory to reach a new franchise agreement that provides for an agreed upon level of compensation to the municipality in return for the rights granted the Company. As of December 31, 2023, 80 cities have passed renewal franchise ordinances approving agreed-to franchise fee amounts as a result of these negotiations. A list of those cities and the date of passage for each of the renewal franchise ordinances is included in my testimony as Exhibit BAT-1.

1 Thirteen cities have franchise agreements that remain as they existed on September
2 1, 1999,² which have not been renewed. The Company's annual municipal
3 franchise fee for these 13 cities is determined by applying the formula set out in
4 PURA § 33.008(b). CenterPoint Houston has franchise agreements with four cities
5 that were incorporated after September 1, 1999.³ For these cities, the Company's
6 annual municipal franchise fee is determined by applying the formula set out in
7 PURA § 33.008(g).

8 **Q. HAS THE COMMISSION PREVIOUSLY CONSIDERED WHETHER**
9 **CENTERPOINT HOUSTON MAY NEGOTIATE AND RECOVER**
10 **THROUGH RATES FRANCHISE FEE PAYMENTS THAT DIFFER FROM**
11 **THE FORMULA SET FORTH IN PURA § 33.008(b)?**

12 A. Yes. In its Order on Rehearing in Docket No. 38339, the Commission concluded
13 that upon the expiration of any franchise fee agreement existing on September 1,
14 1999, CenterPoint Houston could negotiate agreed-upon franchise fees with its
15 cities and that such agreed-to amounts are reasonable and necessary operating
16 expenses of the utility under PURA § 33.008(c) and (f).⁴

² The Cities of Alvin, Arcola, Dickinson, El Lago, League City, La Marque, Manvel, Oakridge North, Pattison, Pearland, Prairie View, Shoreacres, and Taylor Lake Village.

³ The Cities of Brazos Country, East Bernard, Sandy Point, and Weston Lakes.

⁴ *Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates*, Docket No. 38339, Order on Rehearing at 11-12, Finding of Fact No. 167A (June 23, 2011).

1 **Q. ARE MUNICIPAL FRANCHISE PAYMENTS A REASONABLE AND**
2 **NECESSARY EXPENSE ASSOCIATED WITH THE PROVISION OF**
3 **ELECTRIC SERVICE?**

4 A. Yes. PURA § 33.008(c) states that municipal franchise fees shall be considered a
5 reasonable and necessary operating expense of an electric utility. My testimony
6 establishes that the municipal franchise fees paid by CenterPoint Houston comply
7 with the requirements of PURA § 33.008(b), (f), and (g) and therefore, should be
8 recovered in the Company's rates. My testimony further supports the franchise fees
9 requested in the Company's rate filing, which is presented on Schedule II-E-2
10 (Taxes Other than Federal Income Taxes) in the Rate Filing Package.

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

12 A. Yes, it does.

No.	City	Date of Renewal
1	Bayou Vista	Sept.1,2006
2	Baytown	Sept.1,2006
3	Beach City	Aug.1,2006
4	Beasley	July 1,2006
5	Bellaire	July 1,2006
6	Bonney Village	July 1,2006
7	Brazos Country	Sept.1,2006
8	Brookshire	Aug. 1,2006
9	Brookside Village	December 1,2006
10	Bunker Hill Village	Aug. 19, 2008
11	Clear Lake Shores	May 1,2007
12	Clute	July 1,2006
13	Cove	July 1,2006
14	Danbury	July 1,2006
15	Deer Park	December 1,2006
16	East Bernard	Sept.28,2008
17	Fairchilds	July 1,2006
18	Freeport	July 1,2006
19	Friendswood	February 1,2020
20	Fulshear	July 1,2006
21	Galena Park	July 1,2006
22	Galveston	August 1,2006
23	Hedwig Village	July 1,2006
24	Hilcrest Village	July 1,2006
25	Hilshire Village	June 1, 2008
26	Hitchcock	December 1,2007
27	Houston	July 1,2006
28	Humble	July 1,2006
29	Hunter Creek	January 20, 2009
30	Iowa Colony	January 28,2023
31	Jacinto City	July 1,2006
32	Jamaica Beach	July 1,2006
33	Jersey Village	January 1,2009
34	Jones Creek	July 1,2006
35	Katy	July 1,2006
36	Kemah	July 1,2006

No.	City	Date of Renewal
37	Kendleton	July 1,2006
38	Lake Jackson	Aug.1,2006
39	Laporte	Oct.1, 2006
40	Liverpool	July 1,2006
41	Magnolia	July 1,2006
42	Meadows Place	July 1,2006
43	Missouri City	February 1,2022
44	Mont Belvieu	July 1,2006
45	Morgan's Point	July 1,2006
46	Nassau Bay	December 1,2006
47	Needville	July 1,2006
48	Old River Winfree	July 1,2006
49	Orchard	July 1,2006
50	Oyster Creek	July 1,2006
51	Pasadena	Oct.1, 2006
52	Pine Island	July 1,2006
53	Piney Point Village	Oct.1, 2006
54	Pleak	July 1,2006
55	Quintana	July 1,2006
56	Richmond	July 1,2006
57	Richwood	July 1,2006
58	Rosenberg	July 15,2008
59	San Felipe	July 1,2006
60	Sandy Point	July 1,2006
61	Santa Fe	May 1,2007
62	Seabrook	Jan. 1, 2007
63	Sealy	Sept.1,2006
64	Simonton	July 1,2006
65	South Houston	July 1,2006
66	Southside Place	July 1,2006
67	Spring Valley	May 1, 2008
68	Stafford	April 1,2009
69	Stagecoach	December 1,2006
70	Sugar Land	March 1, 2010
71	Surfside Beach	July 1,2006
72	Thompsons	July 1,2006

No.	City	Date of Renewal
73	Tiki Island	July 1,2008
74	Tomball	Sept.2,2008
75	Waller	July 1,2008
76	Wallis	July 1,2008
77	Webster	July 1,2008
78	West University Place	February 1,2008
79	Weston Lakes	January 1,2009
80	Wharton	January 1,2007