PUBLIC UTILITY COMMISSION OF TEXAS

Filing Receipt

Filing Date - 2024-06-19 02:58:17 PM

Control Number - 56211

Item Number - 353

PUC DOCKET NO. 56211
SOAH DOCKET NO. 473-24-13232

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

DIRECT TESTIMONY

OF

BREANDAN T. MAC MATHUNA

ON BEHALF OF THE

HOUSTON COALITION OF CITIES

June 19, 2024

DIRECT TESTIMONY OF BREANDAN T. MAC MATHUNA

Table of Contents

EXHIBITS

I. INTRODUCTION AND BACKGROUND

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Breandan T. Mac Mathuna, and my business address is GDS Associates, Inc. ("GDS"), 1850 Parkway Place, Suite 800, Marietta, Georgia 30067. I am employed as a Principal with GDS. In my role as one of the company's Principals, I regularly provide, for and on behalf of GDS's clients, analyses and expert testimony regarding the cost of capital for regulated utilities.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the Houston Coalition of Cities ("HCC").

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL WORK EXPERIENCE.

A. I received a Bachelor of Commerce degree with a major in Finance from University College Dublin, Ireland, in 2007, and a Master of Business Studies in Strategic Management and Planning, also from University College Dublin, in 2008. I worked for EirGrid, the transmission and market operator in Ireland and Northern Ireland, from 2008 until 2013. My work for EirGrid included detailed analyses of regulatory compliance with the company's transmission system operator license, developing EirGrid's company dividend payment framework, revenue control planning, and preparing EirGrid's revenue requirements submissions to the industry regulator.

In 2014, I joined GDS Associates, Inc., where I have advised electric cooperative and municipal utilities on many aspects of power supply planning and procurement, including wholesale power cost forecasting, budgeting, and related financial matters. In recent years, I have supported clients in the review and development of wholesale transmission and production cost-of-service rates and provided expert witness services in regulatory proceedings regarding the cost of capital. I have testified as an expert witness in regulatory proceedings before the Texas Railroad Commission, Federal Energy Regulatory Commission, and Florida Public Service Commission on capital costs, including ROE, and capital structure issues. A summary of my education and professional experience is appended as Exhibit BTM-1.

Q. PLEASE DESCRIBE GDS ASSOCIATES, INC.

A. GDS is an engineering and consulting firm with offices in Marietta, Georgia; Austin, Texas; Auburn, Alabama; Orlando, Florida; Manchester, New Hampshire; Kirkland, Washington; Portland, Oregon; and Madison, Wisconsin. GDS has over 185 employees with backgrounds in engineering, accounting, management, economics, finance, and statistics. GDS provides rate and regulatory consulting services in the electric, natural gas, water, and telephone utility industries. GDS also provides a variety of other services in the electric utility industry including power supply planning, generation support services, financial analysis, load forecasting, and statistical services. Our clients are primarily publicly owned utilities, cooperatives, municipalities, customers of privately owned utilities, groups or associations of customers, and government agencies.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS ("COMMISSION")?

A. No. I have not.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN PROCEEDINGS BEFORE UTILITY REGULATORY AUTHORITIES?

A. Yes. I have testified as an expert witness in regulatory proceedings before the Federal Energy Regulatory Commission, the Florida Public Service Commission and the Railroad Commission of Texas, on the cost of capital. A listing of my testimonies before regulatory authorities is included in my Exhibit BTM-1.

II. SCOPE OF TESTIMONY AND SUMMARY OF RECOMMENDATIONS

Q. PLEASE BRIEFLY DESCRIBE THE BACKGROUND OF THE PROCEEDING.

A. CenterPoint Energy Houston Electric, LLC ("CEHE" or "Company"), filed with the Commission for a change in its rates. CEHE estimates that total annual revenue requirement will increase by approximately $56 million if its rate request is accepted as filed.[1] CEHE has requested a rate change effective date of April 10, 2024.[2] As part of its Application, CEHE is requesting a capital structure of appropriately 45% equity ratio and 55% long-term debt ratio together with an ROE of 10.40%.[3]

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

[1] *See* Errata 3 Filing at Page 8.

[2] Statement of Intent and Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates, Docket No. 56211 at Page 13.

[3] *See i.d.*, at Page 5.

A. The HCC has asked me to prepare this direct testimony in order to provide my independent analysis and conclusions regarding the appropriate ratemaking capital structure and cost of debt for use in determining rates for CEHE in this case.

Q. PLEASE DESCRIBE CEHE AND ITS CORPORATE STRUCTURE.

A. CEHE, an indirect, wholly owned subsidiary of CenterPoint Energy, Inc. ("CNP") is a transmission and distribution electric utility company. It provides electric transmission service to ERCOT transmission customers and distribution service to retail electric providers in the Texas Gulf Coast regional area. According to the 2023 Form 10-K, CEHE does not make any direct retail or wholesale sales of electric energy and it does not own any generation facilities.[4]

Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A. The following summarizes my findings and recommendations:

1. Based on my evaluation, I recommend that a ratemaking equity ratio of 42.50% is granted for CEHE for use as part of the authorized rate of return.

2. The requested 44.9% equity ratio exceeds the 44.0% central tendency of industry norms, as demonstrated in the proxy group comparative analysis, and is considerably greater than the equity ratio of its parent, CNP (35.5% in 2023).

[4] Apart from power generation recognized as Temporary Emergency Electric Energy Facilities ("TEEEF") that it may own or lease. See the 2023 Form 10-K at page 10, available at www.sec.gov.

3. The currently authorized 42.5% equity ratio is consistent with the Commission's most recent decision for a transmission and distribution utility (i.e., Oncor). CEHE has similar business and regulatory risks to Oncor.

4. The 42.5% equity ratio recommendation is expected to provide sufficient support to maintain CEHE current Baa1 Moody's rating. The analysis undertaken further indicates that a lower than requested ROE together with the recommended equity ratio would sustain metrics consistent with CEHE's current rating.

5. I find CEHE's request for a cost of debt rate of 4.29% acceptable.

III. EVALUATION OVERVIEW

Q. WHAT IS THE ROLE OF THE CAPITAL STRUCTURE IN THE RATE-MAKING CONSTRUCT FOR REGULATED UTILITIES?

A. The capital structure reflects the proportion of investor-supplied funds provided by common equity and debt used to finance the utility's rate base. The cost rates for common equity and debt are weighted by the respective component's weighting in the capital structure and are summed to develop the overall rate of return.

Q. PLEASE DESCRIBE THE CAPITAL STRUCTURE REQUESTED BY CEHE.

A. CEHE is requesting that a capital structure with an equity ratio of 44.90% and a long-term debt ratio of 55.10% be used for determining the rate of return. CEHE states that this capital structure represents the Company's actual capital structure.[5]

[5] Ms. Richert, Direct Testimony, page ES-1, lines 4-6.

Q. ON WHAT BASIS DOES CEHE SEEK TO SUPPORT ITS REQUESTED CAPITAL STRUCTURE?

A. Company witness, Ms. Richert, argues that the request is reasonable based on the following grounds:[6]

1. It reflects the business and regulatory risk of the Company.
2. It supports a single-A bond credit rating.
3. The requested equity ratio is within the range of operating companies of Ms. Bulkley's proxy group members' ratios.

Additionally, as mentioned above, in support of the Company's request, Ms. Bulkley compares the requested capital structure to the capital structure of the operating companies of her proxy group members and discusses certain utility sector risk factors espoused by rating agencies.[7]

Q. WHAT ARE THE FACTORS ON WHICH THE COMMISSION PLACES WEIGHT WHEN DETERMINING IF A PROPOSED CAPITAL STRUCTURE IS JUST AND REASONABLE?

A. Based on Commission precedent, the Commission's practice has been to place significant weight on the utility's business and regulatory risks and whether the authorized capital structure is sufficient for the utility to attract capital.[8] Additionally, in one instance, the

[6] Ms. Richert, Direct Testimony, page ES-1, lines 12-19.

[7] Ms. Bulkley, Direct Testimony, pages 61, line 5 through page 64, line 13.

[8] *See, e.g.*, CenterPoint Energy Houston Electric, Docket No. 38339; Entergy Texas Inc. Docket No. 39896; Southwestern Electric Power Company, Docket No. 40443; Southwestern Public Service Company, Docket No. 43695; Southwestern Electric Power Company, Docket No. 46449; Southwestern Electric Power Company, Docket No. 51415; Oncor Electric Delivery Company LLC, Docket No. 53601.

Commission determined that the authorized capital structure would be sufficient to maintain the utility's credit ratings.[9]

Q. IN YOUR VIEW, SHOULD A REGULATORY AUTHORITY SIMPLY ADOPT A CAPITAL STRUCTURE CHOSEN BY THE SUBJECT UTILITY'S MANAGEMENT?

A. No. It is appropriate for a regulatory authority to assess the reasonableness of the requested capital structure that is to be used for ratemaking purposes together with all other components of a utility's rate case (*e.g.*, return on equity, operations and maintenance expenses, etc.). The standards used to measure an appropriate rate of return are set forth in the landmark Supreme Court decisions of *Bluefield*[10] *and Hope*.[11] These standards recognize that ratemaking involves a balancing of investor and consumer interests, such that the return to the equity owner is comparable to return on investments with a similar risk profile and that consumers are protected from exploitation at the hands of the utility, among other considerations.

Q. DESCRIBE HOW YOU STRUCTURED YOUR EVALUATION OF CEHE'S PROPOSED CAPITAL STRUCTURE.

A. I have sought to evaluate the requested capital structure within the Commission's framework together with other facets that I believe are important to consider as part of a determination of a just and reasonable capital structure to be used for ratemaking purposes. In particular, I examine:

[9] Oncor Electric Delivery Company LLC, Docket No. 53601, Order, April 6, 2023 at P 189.

[10] Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) ("*Bluefield*").

[11] Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944) ("*Hope*").

1. How the requested capital structure compares to industry norms;
2. Commission precedent and how its relates to CEHE; and
3. Rating agency views and financial wherewithal.

IV. INDUSTRY NORM COMPARATIVE ANALYSIS

Q. HAVE YOU EXAMINED HOW CEHE'S REQUESTED EQUITY RATIO OF 44.90% COMPARES TO INDUSTRY NORMS?

A. Yes. I assessed how CEHE's requested equity ratio of 44.90% compares to the ratio of the proxy group relied upon by Mr. Randall Woolridge, the ROE witness testifying on behalf of Texas Coalition of Cities and the proxy group relied upon by Ms. Bulkley, CEHE's cost of capital witness. For the purposes of my analysis, I relied upon the capital structure data of the publicly traded corporate parent / utility holding company entities found in the proxy groups and sourced data from Value Line.

Q. PLEASE EXPLAIN THE BASIS FOR RELYING ON THE CAPITAL STRUCTURE DATA OF THE PARENT / HOLDING COMPANY LEVEL?

A. I believe it is important that the comparative industry capital structure data is based directly on the data of the publicly traded corporate parent / utility holding company entities found in a proxy group and not the capital structure data for the proxy group members' respective operating companies. This approach is warranted because the parent capital structures are market driven, therefore, it mitigates the perverse incentives that may be inherent in the regulatory framework and the resulting operating company capital structures and it ensures greater internal consistency between the ROE analysis and the assessment of the requested capital structure. I note that when FERC performs a proxy group comparative analysis it turns to the capital structure data of the corporate parent and not their respective operating company data.[12]

Q. DESCRIBE THE PERVERSE INCENTIVES THAT MAY BE INHERENT IN THE REGULATORY FRAMEWORK

A. A perverse incentive may exist in respect of the relationship between a regulated operating company and its parent company in so far as there may be an incentive to increase the level of equity held at the operating company in order to boost returns. In particular, one should be mindful of the cautionary acknowledgement expressed by another regulatory authority that "its ratemaking policies can create an incentive for the corporate parent of a regulated utility to maintain an equity-rich capital structure in the subsidiary."[13]

Q. WHAT EQUITY RATIOS ARE SEEN IN MR. WOOLRIDGE'S PROXY GROUP?

A. As shown in Figure 1 below, the equity ratio ranges from 28.7% to 61.5% in 2023, the median equity ratio is 44.4% and average is 44.0%. Thus, CEHE's request is for an equity ratio that exceeds the central tendency of the industry norm, as represented by Ms. Mr. Woolridge's electric utility proxy group.

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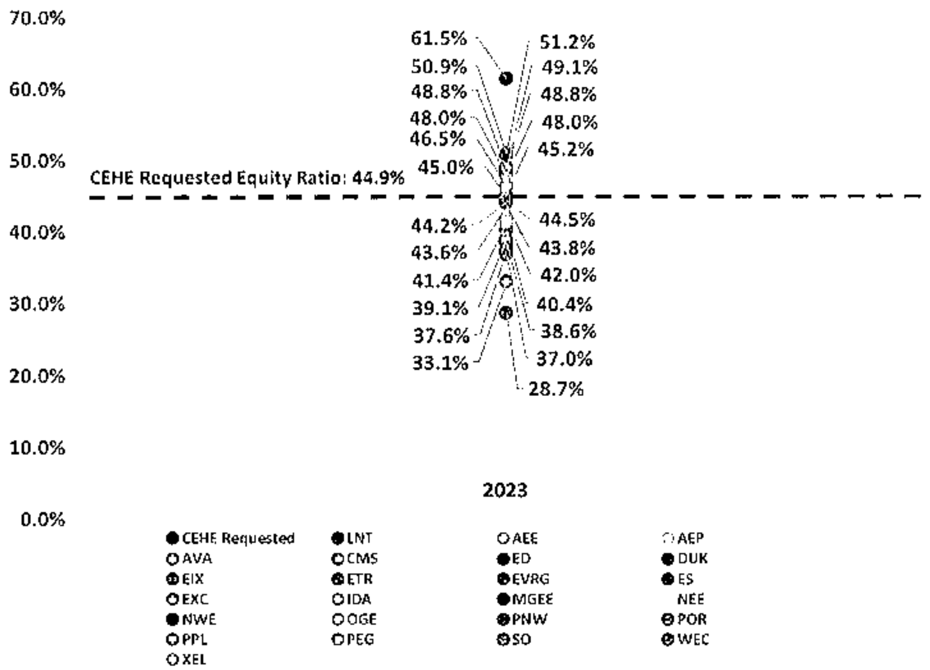
[12] *See, e.g., BP Pipelines (Alaska) Inc., et al.*, Federal Energy Regulatory Commission, Docket Nos. IS05-82-002 et al., Opinion No. 502, 123 FERC ¶ 61,287 at P 174 (2008). *See*, also, *Constellation Mystic Power*, Federal Energy Regulatory Commission, Docket No. ER18-1639-000, Order, 165 FERC ¶ 61,267 (2018) at P 50.

[13] *See*, e.g., *Transcontinental Gas Pipe Line Corp.*, Federal Energy Regulatory Commission, Opinion No. 414-A, 84 FERC ¶ 61,084, at 61,412 (1998).

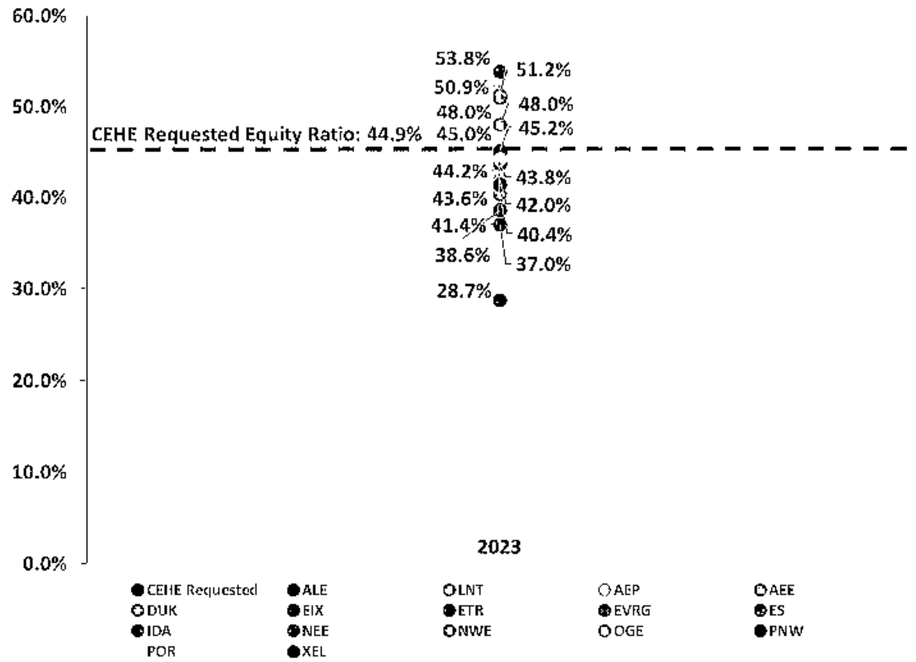
Figure 1: Mr. Woolridge Proxy Group: Equity Ratios



Q. TURNING TO MS. BULKLEY'S PROXY GROUP, PLEASE DESCRIBE THE EQUITY RATIOS SEEN IN THAT GROUP AND HOW CEHE'S REQUEST COMPARES TO THOSE EQUITY RATIOS?

A. As shown in Figure 2 below, the equity ratio ranges from 28.7% to 53.8% in 2023, the median equity ratio is 44.0% and the average is 43.9%. Again, CEHE's request is for an equity ratio that is above the central tendency of the industry norm, as represented by Ms. Bulkley's electric utility proxy group.

Figure 2: Ms. Bulkley Proxy Group: Equity Ratios



Q. IS CEHE'S REQUESTED RATIO THE SAME AS ITS CORPORATE PARENT, CNP?

A. No. CNP's equity ratio was 37.1% in 2022, 35.5% in 2023 and is projected by Value Line to be 37.0% in 2024, 38.0% in 2025 and 40% for the 2026-2028 period.[14] These are considerably lower than CEHE's request and shows a broad disconnect between how the CNP parent and CEHE are capitalized. This is a factor that should be considered when assessing the reasonableness of CEHE request.

Q. PLEASE BRIEFLY DESCRIBE THE COMPARATIVE EQUITY RATIO ANALYSIS THAT MS. BULKLEY PERFORMED.

A. Ms. Bulkley examined how CEHE's requested capital structure with an equity ratio of 44.90% compared to the actual equity ratios of the operating companies of her proxy group

[14] CenterPoint Energy, Value Line report dated March 8, 2024.

corporate parent members. Ms. Bulkley's analysis produced an equity ratio range of 41.04% to 61.15%, with a mean of 52.42%. Ms. Bulkley concludes, in part, that the requested capital structure is reasonable as the "…approximately 740 basis points below the average equity ratio of the operating utilities of the proxy companies...".[15] This stands in contrast to the results obtained using parent / utility holding company level capital structure data and which indicated that CEHE's request is greater than the central tendency of industry norms.

Q. DOES MS. BULKLEY'S ANALYSIS SUPPORT THE APPROPRIATENESS OF CEHE'S REQUESTED CAPITAL STRUCTURE?

A. No. As discussed above, it is problematic to judge the reasonableness of an equity ratio by examining other operating companies, as Ms. Bulkley has done, rather than the ratios of the parent companies included in the proxy group that reflect market pressures. Thus, I find the comparative analysis to be unreliable and unpersuasive.

Q. WHAT CONCLUSIONS DO YOU DRAW FROM YOUR COMPARATIVE FINANCIAL EQUITY RATIO ANALYSIS?

A. The industry norm comparative analysis I prepared provides market-driven data regarding the proportional level of debt and equity held by utilities to finance and manage their operations and provides insight as to what capital structure is sufficient to attract capital together with managing utility business risks. Thus, generally speaking, the central tendency result represents a solid basis for determining what capital structure is sufficient for a utility to efficiently operate. This framework is consistent with how a regulatory authority may determine the ROE for a utility in so far as, for a utility of average risk

[15] Ms. Bulkley, Direct Testimony, page 62, lines 16-17.

relative to a proxy group, the regulator turns to a central measure of ROE as being representative of the return required by investors.

Based on the comparative financial equity ratio analysis discussed herein, I find that CEHE's requested equity ratio to be greater than the approximate 44.0% central tendency of the industry norms represented by the proxy groups relied upon by Mr. Woolridge and Ms. Bulkley, when relying on the corporate parent capital structure data. Further, there is a significant difference between how the CNP parent is capitalized as compared to the CEHE operating entity and its requested capital structure. Additionally, I find Ms. Bulkley's comparative analysis to be unpersuasive as it relies on the data of operating companies, as opposed to the market tested corporate parent capital structures.

Q. IN THIS PROCEEDING ARE YOU RECOMMENDING THAT THE RATEMAKING EQUITY RATIO BE SET AT THE CENTRAL TENDENCY OF THE PROXY GROUPS?

A. No. While it could be appropriate to set the financial equity ratio at the average of the proxy group, for the specific purpose of this analysis, and based on the factors discussed in my testimony, a lower equity ratio of 42.5% is warranted.

V. COMMISSION PRECEDENT

Q. WHAT HAVE BEEN THE AUTHORIZED EQUITY RATIOS FOR CEHE SINCE 2010?

A. In 2011, following a hearing on the merits, the Commission issued a final order that set out a 45.0% authorized equity ratio for CEHE. Subsequently, in February 2020, the Commission accepted a settlement that included an authorized equity ratio of 42.50%.

These authorized equity ratios have provided CEHE, with the means, in part, to maintain an investment grade standing with rating agencies and to attract capital.

Q. IN RECENT YEARS, WHAT HAS CEHE'S ACTUAL EQUITY RATIO BEEN?

A. Over the past five years, CEHE's actual equity ratio has generally varied between approximately 42.5% and 45.0%. In particular, the year-end actual CEHE equity ratio has been; 2019, 45.4%; 2020, 42.6%; 2021 42.6%; 2022, 45.0% and 2023, 44.9%.[16] Thus, over this time period, CEHE has operated at, or above, the most recently authorized equity ratio.

Q. YOU PREVIOUSLY MENTIONED THAT THE COMMISSION APPEARS TO PUT CERTAIN WEIGHT ON THE SUBJECT UTILITY'S BUSINESS AND REGULATORY RISK WHEN DETERMINING AN APPROPRIATE RATEMAKING EQUITY RATIO. DOES THE COMMISSION MAKE A DISTINCTION BETWEEN TRANSMISSION AND DISTRIBUTION UTILTIES AS COMPARED TO VERTICALLY INTEGRATED UTILITIES?

A. Yes, the final orders resulting from fully litigated proceedings issued since 2010 indicate a discrepancy between the equity ratios for transmission and distribution utilities as compared to vertically integrated utilities, with the former having lower authorized equity ratios. Table 1 lists the authorized equity ratio decided by the Commission since 2010. There were two fully litigated rate case proceedings involving transmission and distribution utilities and the authorized equity ratios were 42.50% and 45.0%. The five fully litigated rate case proceedings involving vertically integrated utilities resulted in authorized equity ratios of approximately 48.50% to 51.00%. All else being equal, this signifies that the

[16] See WP BTM-3_CEHE Actual Equity Ratios.

Commission views transmission and distribution utilities under its jurisdiction as being less risky than vertically integrated utilities and correspondingly can support a lower equity ratio.

Table 1: Commission Decisions: Authorized Equity Ratios Since 2010[17]

Utility	Docket No.	Case Type	Equity Ratio
CEHE	D-38339	Transmission & Distribution	45.00%
Entergy Texas Inc.	D-39896	Vertically Integrated	49.92%
Southwestern Electric Power Co	D-40443	Vertically Integrated	49.10%
Southwestern Public Svc Co	D-43695	Vertically Integrated	51.00%
Southwestern Electric Power Co	D-46449	Vertically Integrated	48.46%
Southwestern Electric Power Co	D-51415	Vertically Integrated	49.37%
Oncor Electric Delivery Co.	D-53601	Transmission & Distribution	42.50%

Q. IN THE 2023 ORDER FOR ONCOR ELECTRIC DELIVERY CO. ("ONCOR"), THE COMMISSION FOUND A 42.50% EQUITY RATIO WAS REASONABLE IN LIGHT OF ITS BUSINESS AND REGULATORY RISKS. IS THERE EVIDENCE THAT CEHE SHARES SIMILAR RISKS TO ONCOR?

A. Yes, both are transmission and distribution utilities, that operate in the state of Texas under the regulatory jurisdiction of the Commission. As discussed above, it is apparent that the Commission finds *wires-only* utilities to be lower risk as compared to vertically integrated

[17] The information was sourced from the S&P Capital IQ platform on May 21, 2024.

utilities. Additionally, both share similar, company-specific, credit ratings from S&P and Moody's as outlined below.

Credit ratings reflect an agency's comprehensive review of all the risks a company faces including both business and financial risk, and are intended to provide an objective and independent measure of a utility's risk. Both CEHE and Oncor share the same Moody's long-term issuer rating of Baa1.[18] CEHE's S&P issuer credit rating of BBB+ is two notches lower than Oncor's S&P issuer credit rating of A, which, at face value, indicates Oncor is of lower risk.[19] However, in many instances, S&P assigns the same rating to the parent company and subsidiaries. CNP, CEHE's parent, shares the same BBB+ rating as CEHE.[20] Of significant note, S&P also provides individual stand-alone ratings for companies it evaluates. Indeed, CEHE and Oncor share the same stand-alone rating of "a".[21] This suggests that S&P views the CNP holding company, as a whole, as riskier than CEHE, and on a company specific level, S&P appears to view CEHE and Oncor as having a similar level of risk. Moreover, Moody's ratings are more company-specific and the agency has

[18] See Exhibit JRichert-6(CONF), Moody's Investors Service, CenterPoint Energy Houston Electric, Update to credit analysis (January 11, 2024) and see the response to HCC RFP02-04 and the confidential file entitled "HCC RFP02-04_79_Moodys Credit_Opinion-Oncor-Electric-Delivery-02May2023-CONF" which provides Moody's Investors Service, CenterPoint Energy Houston Electric, Update to credit analysis (January 11, 2024)

[19] See S&P Global Ratings, Issuer Ranking: North American Electric, Gas, And Water Regulated Utilities, Strongest to Weakest, May 15, 2024.

[20] Additionally, following the issuance of S&P's Group Rating Methodology criteria on July 1, 2019, the rating agency assessed whether a notch separation between CNP and CEHE was warranted. S&P concluded it was not warranted. See the S&P reported entitled "CenterPoint Energy Houston Electric LLC 'BBB+' Ratings Affirmed And Removed From UCO", issued on September 13, 2019.

[21] See S&P Global Ratings, Issuer Ranking: North American Electric, Gas, And Water Regulated Utilities, Strongest to Weakest, May 15, 2024.

issued a long-term issuer rating of Baa2 for CNP,[22] a notch lower than its rating for CEHE of Baa1. Again, this reinforces the view that CNP is of greater risk than CEHE.

Q. YOU NOTED EARLIER, THAT THE COMMISSION ALSO APPEARS TO PUT WEIGHT ON WHETHER THE AUTHORIZED CAPITAL STRUCTURE DECISION WOULD BE SUFFICIENT FOR THE UTILITY TO ATTRACT CAPITAL. HAVE YOU ASSESSED CEHE'S REQUEST IN THIS REGARD?

A. Yes. Please refer to Section VI Rating Agency Views and Financial Integrity Analysis below.

Q. WHAT CONCLUSIONS DO YOU DRAW FROM YOUR REVIEW OF COMMISSION PRECEDENT?

A. Following a review of Commission precedent and the business and regulatory risks of CEHE, as discussed above, there are several takeaways that merit particular attention:

1. In recent years, CEHE has had a capital structure that was at, or above, the most recent authorized equity ratio of 42.5%.
2. It is apparent that the Commission finds wires-only utilities to be lower risk as compared to vertically integrated utilities.

[22] See the response to HCC RFP02-04 and the confidential file entitled "HCC-RFP02-01 Moodys 10132023 (confidential)" which provides Moody's Investors Service, CenterPoint Energy, Inc., Update to credit analysis (October 13, 2023)

3. In respect of Oncor, the Commission determined that a 42.5% equity ratio was suitable for its business and regulatory risks. CEHE has similar business and regulatory risks to Oncor.

VI. RATING AGENCY VIEWS AND FINANCIAL INTEGRITY ANALYSIS

Q. HOW DOES THE CONCEPT OF FINANCIAL INTEGRITY ENTER INTO THE REGULATORY DECISIONS THAT THE COMMISSION MUST MAKE IN THIS CASE?

A. As discussed earlier, the U.S. Supreme Court has set out core principles and standards to assess the rate of return for a regulated utility. As part of the requirement to balance investor and consumer interests, the rate of return needs to be sufficient to assure confidence in the financial integrity of the utility and to maintain the company's credit and allow it to attract capital. Therefore, the concept of financial integrity is an integral part of the Commission's deliberations in this proceeding and, as noted earlier, the Commission places significant weight on whether its authorized capital structure decision will be sufficient for the utility to attract capital.

Q. WHAT DOES A UTILITY'S LONG-TERM DEBT RATING BY ESTABLISHED RATING AGENCIES SUCH AS STANDARD & POOR'S, OR MOODY'S TELL A REGULATORY AUTHORITY, OR THE FINANCIAL MARKETS IN GENERAL, ABOUT A UTILITY'S FINANCIAL INTEGRITY?

A. As noted above, credit ratings reflect an agency's comprehensive review of all the risks a company faces including both business and financial risk, and are intended to provide an objective and independent measure of a utility's risk. Therefore, a utility's rating provides a robust assessment of the financial integrity of the company.

Q. CAN A UTILITY WITH A BOND RATING THAT INDICATES SATISFACTORY FINANCIAL INTEGRITY BORROW MONEY AT INTEREST RATES THAT ARE COMPETITIVE RELATIVE TO THOSE PAID BY BORROWERS WITH SIMILAR BOND OR DEBT RATINGS?

A. Yes.

Q. IS THERE A RANGE OF BOND RATINGS WITHIN WHICH IT CAN BE SAID THAT THE RATED UTILITY HAS FINANCIAL INTEGRITY AS USED IN THIS CONTEXT?

A. Yes. Each rating agency has its own rating scale and divides those ratings into two broad categories of (a) investment grade ratings and (b) non-investment grade ratings. Companies that have non-investment grade ratings are viewed by the rating agencies as speculative and subject to significant credit risk. Therefore, it is reasonable to infer that regulated utilities' financial integrity is compromised if they have a non-investment grade rating. Correspondingly, regulated utilities with investment grade ratings can be viewed as having financial integrity.

Q. WHAT ARE CEHE'S CURRENT CREDIT RATINGS?

A. As noted above, CEHE has investment grade ratings of a BBB+ issuer credit rating from S&P and Baa1 long-term issuer from Moody's. Additionally, Fitch's long-term issuer default rating for CEHE is BBB+.

Q. MS. RICHERT CONTENDS THAT THE REQUESTED ROE OF 10.4% AND 44.90% RATEMAKING EQUITY RATIO WOULD HELP SUPPORT AN A3 ISSUER CREDIT RATING FROM MOODY'S AND THAT THIS IS AN APPROPRIATE GOAL. IS THERE AN OBLIGATION ON A REGULATOR TO TARGET A CREDIT RATING UPGRADE WHEN DETERMINING THE RATE OF RETURN AND OTHER FACETS OF A RATE CASE?

A. No. There is no such obligation. Rather, as discussed above, the *Bluefield* and *Hope* standards underpinning an appropriate rate of return describes the need to maintain the utility's credit and allow it to attract capital. The Texas Administrative Code follows these same principles.[23] Generally speaking, an upgraded rating may not necessarily be needed to achieve these regulatory objectives.

Q. WHAT SUPPORT DOES MS. RICHERT PRESENT TO CONTEND THAT AN UPGRADE TO ITS CREDIT RATINGS MAY BE ACHIEVED IF ITS REQUESTED RATE OF RETURN IS GRANTED?

A. Ms. Richert provides modelled analytical results for Moody's Cash Flow from Operations before Changes in Working Capital ("CFO pre W/C") to debt metric, if the requested rate of return was to be adopted by the Commission. As discussed by Ms. Richert, Moody's January 11, 2024 report (confidential) indicates that a CFO pre W/C to debt ratio above 17% could contribute to a rating upgrade and her modelled results produced ratios at or above 17%.[24] The figure below reproduces Ms. Richert's Table JRichert-9 for reference.

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[23] Texas Administrative Code, Title 16, Part 2, Chapter 25, Subchapter J, Division 1, Rule §25.231(c).

[24] Ms. Richert, Direct Testimony, page 24:12 through page 25:3.

Ms. Richert's analysis uses the term FFO, which stands for Funds from Operations, to also describe the CFO pre W/C metric. Please note, these terms are similar in concept but different rating agencies may assign specific meaning to each of the terms.

Figure 3: Table JRichert-9

Table JRichert-9: Calculated FFO/Debt based on Capital Structure and ROE Recommendation[13]

($ in Billions)	2025E	2026E	2027E	2028E
FFO (at 55%/45% structure at 10.4% ROE)	$1.5	$1.7	$1.9	$2.0
Total Debt	$9.0	$9.9	$10.9	$11.8
FFO / Total Debt	**17.0%**	**17.3%**	**17.3%**	**17.3%**

Q. PLEASE DESCRIBE THE CFO PRE W/C TO DEBT PARAMETERS STATED BY MOODY'S THAT WOULD CONTINUE TO SUPPORT CEHE'S CURRENT RATING AND ALSO DESCRIBE WHAT METRIC RESULT MAY CONTRIBUTE TO A DOWNGRADE.

A. Moody's January 11, 2024 report (confidential) explains that its stable outlook for CEHE is based, in part, on the expectation that its CFO pre W/C to debt outcomes will remain in the 15-17% range.[redacted]

Q. WOULD REDUCED EARNINGS, AS COMPARED TO THOSE THAT WOULD RESULT FROM CEHE'S REQUESTED RATE INCREASES IN THIS CASE, IMPACT FINANCIAL CREDIT METRICS?

A. Yes. Clearly, and unremarkably, the awarding of a lower revenue requirement than that requested by CEHE will result in lower financial credit metrics. But that fact, would not result necessarily in any credit downgrade or increase in CEHE's costs of capital. The mere fact that numeric credit metrics would change, should not prevent the Commission from determining that a lower ROE and financial equity ratio than that proposed by CEHE appropriately balances the interests of customers and investors. Indeed, another regulatory authority has commented in this regard on the ROE when dismissing intervenor concerns – "[b]y the logic of certain parties, virtually any rate reduction would be unjust and unreasonable simply because it reduces the ROE and thus harms financial metrics for the affected utilities."[25]

Moreover, regarding the broader question of whether a regulated utility's bond rating will be downgraded due to the lower revenue requirement, the authors Bruce Louiselle and Jean Heilman characterizes the situation well:

> It is often alleged that the use of a capital structure containing more debt than actually exists could cause a derating in the company's bonds and result in its credit not being maintained. In response, it must be noted that it is generally recognized that there are various grades of bonds, all of which are considered investment grade. For example, Moody's rates bonds in four categories ranging from "AAA" to "Baa," all of which are characterized as investment grade. Very few utilities enjoy the luxury of a "AAA" bond rating. The bonds of most utilities are rated "Baa" or "A." One of two conclusions follows: Either there is a constitutionally guaranteed right to possess a bond rating above "A" or the rates of most utilities' bonds are set in violation of the mandates of Hope. Utilities obviously do not have a constitutionally guaranteed right to a "AA" or "AAA" bond rating. Consequently, whether a capital structure could cause a decline in a company's bond rating is not determinative so long as the bonds remain of investment grade.[26]

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[25] See Association of Business Advocating Tariff Equity et al, vs. Midcontinent Independent System Operator, Inc. et al., Federal Energy Regulatory Commission, Docket No. EL14-12-004, Opinion No. 569-A, 171 FERC ¶ 61,154 at P 44.

[26] Louiselle, Bruce M. and Heilman, Jean E. (1982) "The Case for the Use of an Appropriate Capital Structure in Utility Ratemaking: The General Rule Versus Minnesota," William Mitchell Law Review: Vol. 8: Iss. 2, Article 8.

In other words, a change in a regulated utility's credit rating should not, in of itself, be seen as a violation of the landmark standards set out in *Hope* and *Bluefield*.

Q. ARE THERE CIRCUMSTANCES WHERE A REGULATORY AUTHORITY SHOULD REFUSE TO MAKE A DECISION THAT WOULD RESULT IN A UTILITY'S DEBT RATING BEING REDUCED?

A. Under certain circumstances not applicable to CEHE in this case, it might be in the best interests of customers for the regulatory authority not to make a decision that could result in a lower bond rating. The worst-case scenario where a regulatory authority should avoid a decision that could result in a lower bond rating would be where the utility was already at the lowest end of investment grade ratings, clearly not a relevant concern regarding CEHE. As always, the relevant consideration is whether the regulator's decisions provide fair treatment for the utility in recovering its reasonable and prudent costs, including a fair and reasonable return on its capital investments, while enabling the utility to make needed investments and provide safe and reliable service.

Q. HAVE YOU EXAMINED HOW A DIFFERENT RATE OF RETURN THAN THAT REQUESTED BY CEHE MIGHT IMPACT THE MOODY'S CFO PRE W/C TO DEBT METRIC PROJECTIONS?

A. Yes. I have reviewed a March 2024 presentation (confidential) made by CNP to rating agencies together with the analytical spreadsheet supporting the analysis presented to the rating agencies.[27] [redacted]

[27] See the response to HCC RFP02-02 and the PDF file entitled "HCC-RFP02-02 2024 RA presentation (confidential)" and the Excel spreadsheet file entitled "HCC-RFP02-02 2024-2026 CNP Financial Plan_Moodys (confidential)"

[redacted]

[redacted]

($ in Billions)	2024E	2025E	2026E
FFO (at 57.5%/42.5% structure at 9.7% ROE)	$1,312	$1,509	$1,637
Total Debt	$8,038	$9,377	$10,352
FFO / Total Debt	16.3%	16.1%	15.8%

Q. HAVE YOU ALSO EXAMINED WHAT THE RESULTING CFO PRE W/C TO DEBT METRIC PROJECTIONS WOULD BE IF THE CURRENTLY AUTHORIZED 9.4% ROE AND 42.5% EQUITY RATIO WERE TO REMAIN IN PLACE.

A. Yes. I modified Ms. Richert's illustrative analysis used to derive the CFO pre W/C to debt ratio results summarized in Table JRichert-9 to determine the projected metric outcome if the ROE was set at 9.4% and an equity ratio of 42.5% were authorized for ratemaking purposes.[28] This analysis covers the 2025-2028 period. The projected CFO pre W/C to debt ratio results are set out in Figure 5 below. Notwithstanding, the lower rate of return and

[28] Similar to Ms. Richert's analysis, this analysis made a number of simplifying assumptions and it only sought to measure the impact from changing the ROE and equity ratio. It is not comprehensive for other witness recommendations. Moreover, the analysis is somewhat similar to CNP's scenario analysis presented at slide 12 of its March 2024 presentation to rating agencies and the accompanying spreadsheet, provided in response to HCC-RFP02-02 and HCC-RFP05-02, respectively.

higher debt, the projected CFO pre/WC to debt remains within the 15%-17% band that supports Moody's stable outlook.

[redacted]

($ in Billions)	2025E	2026E	2027E	2028E
FFO [redacted]	[redacted]			
Total Debt	[redacted]			
FFO / Total Debt	[redacted]%			

The modifications involved reducing the pre-tax return for the difference between the requested the rate of return of 7.03% and rate of return of 6.46% [29] times the rate base, together with decreasing the tax expense as result of the lower income. Additionally, keeping the total capitalization constant, the proportion of debt and equity was adjusted to be consistent with the assumed ratemaking capital structure.[30] The analysis includes increased interest expense in line with additional debt in the capital structure.

Q. WHAT ARE THE PROJECTED CFO PRE W/C TO DEBT METRIC RESULTS IF MR. WOOLRIDGE'S ROE RECOMMENDATION OF 9.50% AND AN EQUITY RATIO 42.5%WERE UTILIZED?

A. The increase in the ROE from 9.4%, as used in the example above, to 9.5% slightly increases the projected CFO pre W/C to debt ratio results and correspondingly remains in

[29] The 6.46% rate of return is based on a 9.4% ROE, 42.5% equity ratio and 4.29% cost of debt.

[30] While, generally speaking, a regulatory authorities' ratemaking capital structure decision does not dictate or bind the actual capital structure a utility to chooses to utilize, for the purposes of this analysis, the modeled actual capital structure was altered to match the ratemaking capital structure.

the 15%-17% band that supports Moody's stable outlook. Figure 6 summarizes the results when using an ROE of 9.50% and equity ratio of 42.5%.

[redacted]

($ in Billions)	2025E	2026E	2027E	2028E
FFO [redacted]	[redacted]			
Total Debt				
FFO / Total Debt	[redacted]			

Q. MOODY'S PUBLISHES A RATING METHODOLOGY GUIDE. WHAT IS THE CFO PRE W/C TO DEBT RATIO AND EQUITY RATIO RANGE PROVIDED BY MOODY'S THAT SUBSTANTIATES AN BAA-RATING?

A. According to the Moody's Regulated Electric and Gas Utilities guide[31], which is used to rate CEHE, for a low business risk utility, to contribute to a Baa-rating, the CFO pre-WC to debt needs to be within the range of 11-19% and the debt to capitalization ratio for a low business risk utility needs to be within the range of 50-59%.[32] This equates to an equity ratio of 41-50%. CEHE confirmed that Moody's assesses the company pursuant to the low business risk grid.[33]

The CFO pre-WC to be debt metrics set out by Moody's in its January 11, 2024 report (confidential) for its upgrade/stable/downgrade views focus on a narrower range within the more general range for Baa utilities. This may be explained by CEHE being

[31] Exhibit JRichert-2, Moody's Investors Service, Regulated Electric and Gas Utilities; Rating Methodology (Jun 23, 2017).

[32] See Exhibit JRichert-2 at page 22.

[33] See response to HCC RFI03-01.

rated Baa1, the top notch of three within the Baa band. I note that the current authorized equity ratio of 42.5% is within the general range for Baa rated utilities.

Q. IN SUPPORT OF THE GOAL OF AN A3 CREDIT RATING, MS. RICHERT ALSO PRESENTS AN ANALYSIS INDICATING THAT RATEPAYERS WOULD BENEFIT FROM A PROJECTED $92 MILLION CUMULATIVE REDUCTION IN INTEREST EXPENSE OVER THE 2024-2028 PERIOD IF CEHE'S CREDIT RATING(S) WERE IMPROVED. DOES THIS ANALYSIS PROVIDE A COMPLETE PICTURE OF THE IMPACT TO RATEPAYERS?

A. No. Ms. Richert's analysis is premised, in part, on the lower interest rate spread between A-rated and BBB-rated corporate index interest yields. For the twelve month period through November 2023, the BBB-rated corporate index yield was on average 46bps greater than the yield for A-rate corporate index yield.[34] However, if one were to turn to Moody's Public Utility Index, the spread between A-rated and BBB-rated utilities was 30bps over the same twelve-month period. Using this lower spread reduces the interest cost savings in respect of incremental capital expenditure over the 2024-2028 period from the $92 million identified by Ms. Richert[35] down to $60 million. Additionally, utility yield spreads have continued to decline with the spread measured over the twelve-month through April 2024 being 28bps, and the six-month average through April 2024 being 24bps.

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[34] See Ms. Richert, Direct Testimony, page 14, Table JRichert-5 and the supporting Excel file entitled "WP JRichert-2 (Table JRichert-5 and JRichert-6 Corp A vs BBB)".

[35] See Ms. Richert, Direct Testimony, page 14, Table JRichert-6 and the supporting Excel file entitled "WP JRichert-2 (Table JRichert-5 and JRichert-6 Corp A vs BBB)".

Furthermore, Ms. Richert's illustrative analysis overlooks the additional burden placed on ratepayers to provide additional funding, through the increased ROE and equity ratio that CEHE is requesting, that could contribute to a credit rating upgrade. It bears noting that while Ms. Richert's analysis is focused on the interest cost savings in respect of the incremental capital expenditure, the increased ROE and equity ratio is applied to both the existing rate base together with the incremental capital expenditure. Thus, an incomplete picture is provided of the impact to ratepayers if additional revenue was secured, in the form of an increased ROE and equity ratio, for meeting the Company's objective of obtaining a rating upgrade.[36]

Q. HAVE YOU PREPARED AN ANALYSIS THAT INCORPORATES THOSE ADDITIONAL FACTORS THAT YOU'VE NOTED?

A. Yes. I have prepared an illustrative analysis that uses simplified assumptions, much like Ms. Richert's analysis, to gauge the overall impact to ratepayers from the lower cost of debt that may achieved with an improved rating together with the increased ROE and equity ratio that could provide the additional funds to help achieve that improved rating. Importantly, in this analysis the incremental increase to the requested ROE of 100bps (from the current 9.4% ROE to the requested 10.4% ROE) and requested equity ratio is applied to the existing rate base together with the incremental capital investment.[37] This illustrative

[36] Please note, at page 22 of Ms. Richert's direct testimony, an illustrative analysis is presented to measures the change in return if an increased equity ratio was authorized (e.g., see Table JRichert-8: Illustrative Change of Equity Content). However, this analysis is only focused on the incremental capital expenditure investment and does not account for the fact that the increased equity ratio would also increase the return earned on the existing rate base. Therefore, this analysis is similarly incomplete.

[37] Please note, in an effort to maintain consistency with the approach taken by Ms. Richert, this analysis does not strictly capture the incremental increase in return from the change in the equity ratio from the current 42.5% ratio to

analysis suggests that the net impact to ratepayers over the 2024-2028 period is an increased charge of $333 million. Thus, the increased return, applied to the full rate base, is of considerably greater impact to ratepayers than the savings achieved through the reduced cost of debt. The results are summarized in the figure below.

Figure 7: Illustrative Ratepayer Impact

(in Millions)		2024	2025	2026	2027	2028
Capex estimates**	$	1,895	2,598	2,663	2,822	2,816
Cumulative		1,895	4,493	7,156	9,978	12,794
Debt funded at 55%		1,042	2,471	3,936	5,488	7,037
Incremental interest expense (-0.30%)	$	(3)	$ (7)	$ (12)	$ (16)	$ (21)
Total 5 year incremental interest expense	$	(60)				
Company Total: Requested Rate Base	$	12,092				
Incremental Capex			2,598	2,663	2,822	2,816
Cumulative Rate Base	$	12,092	$ 14,690	$ 17,353	$ 20,175	$ 22,991
Equity Funded at 45%	$	5,441	$ 6,610	$ 7,809	$ 9,079	$ 10,346
Incremental ROE (+100bps)	$	54	$ 66	$ 78	$ 91	$ 103
Total 5 year incremental ROE/Equtiy Return	$	393				
Total 5 year net increase to ratepayers	**$**	**333**				

Q. WHAT CONCLUSIONS DO YOU DRAW FROM YOUR REVIEW OF RATING AGENCY VIEWS AND FINANCIAL INTEGRITY ANALYSIS?

A. Following a review of rating agency views and financial integrity analysis, as discussed above, there are several takeaways that merit particular attention:

1. Based on the financial integrity analysis presented, it is expected that a lower than requested ROE and equity ratio would provide sufficient support to sustain credit

the requested 44.90% ratio. Rather, it assumes that the requested capital structure is already in place and then measures the incremental change from the reduced cost of debt and increased ROE return.

metrics in line with Moody's stable outlook for CEHE (*e.g.*, an ROE of 9.50% and equity ratio of 42.50%).

[redacted]

3. The currently authorized 9.4% ROE and 42.5% equity ratio are projected to produce CFO pre-W/C to debt results of [redacted], in line with the Moody's 15-17% band needed to support its stable outlook for CEHE.

4. Additionally, the currently authorized 42.5% equity ratio is within Moody's general range for Baa rated utilities.

5. The purported interest cost savings achieved from an improved credit rating are considerably less than the increased burden placed on ratepayers to provide additional funds through an increased ROE and equity ratio.

VII. RATEMAKING EQUITY RATIO RECOMMENDATION

Q. WHAT EQUITY RATIO DO YOU RECOMMEND FOR USE IN DETERMINING THE RATE OF RETURN FOR CEHE?

A. Based on the foregoing evaluation, I recommend that a ratemaking equity ratio of 42.5% be granted for CEHE. This reflects a balance of a number of factors, more thoroughly discussed above; but several factors are highlighted below:

1. The requested 44.9% equity ratio exceeds the 44.0% central tendency of industry norms, as demonstrated in the proxy group comparative analysis, and is considerably greater than the equity ratio of its parent, CNP (35.5% in 2023).

2. The currently authorized 42.5% equity ratio is consistent with the Commission's most recent decision for a transmission and distribution utility (i.e., Oncor). CEHE has similar business and regulatory risks to Oncor.

3. The 42.5% equity ratio recommendation is expected to provide sufficient support to maintain CEHE current Baa1 Moody's rating. The analysis undertaken further indicates that a lower than requested ROE together with the recommended equity ratio would sustain metrics consistent with CEHE's current rating.

VIII. COST OF DEBT

Q. WHAT IS THE COST OF DEBT RATE PROPOSED BY CEHE?

A. It is 4.29%.

Q. DO YOU FIND THIS RATE TO BE ACCEPTABLE FOR USE IN DETERMINING THE RATE OF RETURN?

A. Yes, I do.

IX. RATE CASE EXPENSES

Q. WHAT IS THE AMOUNT OF RATE CASE EXPENSE ASSOCIATED WITH GDS ASSOCIATES, INC. ("GDS") IN THIS PROCEEDING THROUGH MAY 2024?

A. Please refer to the direct testimony of witness Steven Hunt who provides an overview of the GDS professional fees incurred through May 2024. Mr. Hunt provides Exhibit SDH-

10 which sets out a schedule of the bills for hours billed in respect of my work, and that of my supporting technical team, together with the hours billed for Mr. Hunt's work. The remainder of the rate case expenses discussed herein relate to my efforts and that of my supporting technical team who worked under my direct supervision. The professional fees through May 2024 related to my work was $26,704. I billed at a rate of $250.00 per hour and other GDS staff working under my supervision billed at a rate of $225.00 or $250.00 per hour, depending on the individual involved and their level of technical expertise and experience.

Q. DO YOU ANTICIPATE CHARGING ADDITIONAL FEES TO COMPLETE THIS CASE?

A. Yes. In June 2024, my staff and I have spent time reviewing and conducting research, reviewing responses to discovery, and drafting testimony and exhibits. I anticipate additional work to complete this project will be predominately performed by myself and my technical team. We would expect the additional work to include review and analysis of other intervenors and Staff testimony, review and analysis of CEHE rebuttal testimony, participation in settlement conferences, preparation for and attendance at hearings (if necessary) and other activities required to assist legal counsel. I estimate this additional work to cost $20,000.

Q. ARE GDS BILLING RATES AND TIME SPENT ON TASKS IN THIS CASE REASONABLE?

A. Yes. The GDS billing rates are reasonable and reflect a discount on what GDS charges for services provided to similar clients. My rate is in the range of rates charged by other consultants with similar experience and is reasonable for consultants providing these similar regulatory and expert witness services in Texas. My hourly billing rate is particularly reasonable given my qualifications and experience as discussed above and in my resume in Exhibit BTM-1.

Q. DO THE GDS CHARGES INCLUDE ANY OF THE TYPES OF CHARGES THAT MAY BE EXCLUDABLE?

A. No. GDS has not included any out-of-pocket expenses at this time. The GDS charges are entirely for professional fees.

Q. WAS THERE ANY DUPLICATION OF SERVICES OR TESTIMONY?

A. No. I coordinated with the other city groups participating in this proceeding, so there has been no duplication of services or testimony.

Q. DO THE ISSUES RAISED IN YOUR TESTIMONY HAVE A REASONABLE BASIS IN LAW, POLICY, AND FACT?

A. Yes. The issues raised in my testimony are reasonably based in law, policy, and fact. Additionally, the issues raised in my testimony are factually accurate and consistent with sound regulatory law and policy.

Q. WHAT IS YOUR CONCLUSION REGARDING GDSS ACTUAL CHARGES?

A. In my opinion, the GDS fees incurred through May 2024, are reasonable and necessary and are not disproportionate, excessive, or unwarranted in relation to the nature and scope of the filing. Furthermore, to the best of my knowledge, I have fully performed all the tasks as described earlier in this testimony and as identified in my invoices to date.

Q. WHAT IS YOUR CONCLUSION REGARDING GDS'S ESTIMATED CHARGES?

A. In my opinion, the GDS estimated fees of $20,000 to complete this case are reasonable and necessary and are not disproportionate, excessive, or unwarranted in relation to the nature and scope of the filing. These fees will include compiling and analyzing information and data, conducting research, participating in a settlement conference, participating in and preparing questions for the utilities' witness deposition, preparing testimony, schedules, attachments, workpapers, reviewing the applicants' rebuttal testimonies when filed, developing and reviewing discovery related to rebuttal testimony, preparing for trial and testifying at trial, if necessary, and providing assistance with any post-hearing briefs if needed.

X. CONCLUSION

Q. DOES YOUR TESTIMONY ADDRESS EVERY POTENTIAL ISSUE IN THE CASE?

A. No. My testimony addresses a very limited scope of issues. My silence on other issues in the case should not be interpreted as my agreement on those issues.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes, it does.

Exhibit BTM-1

BREANDAN MAC MATHUNA

PRINCIPAL

CONTACT

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Marietta GA 30067

EDUCATION

Master of Business Studies in Strategic Management and Planning, University College Dublin, 2008

Bachelor of Commerce, Finance, University College Dublin, 2007

PROFILE

Mr. Mac Mathuna has more than 14 years of experience in the electric utility industry, both domestically and internationally. At GDS, he has performed a wide variety of financial consulting services with a focus on the rate of return for wholesale transmission and production rates, transmission/production cost-of-service and rate design, ancillary service charges and strategic power supply advice. Mr. Mac Mathuna has been an expert witness and provided testimony in many regulatory proceedings before the Federal Energy Regulatory Commission ("FERC"). He has also assisted legal counsel in developing rate of return positions in contested rate proceedings and throughout settlement negotiations.

PROFESSIONAL EXPERIENCE

GDS Associates, Inc., Atlanta, GA,

Principal, 2021-Present

Senior Project Manager, 2019-2020 | *Project Manager,* 2016-2019 | *Project Consultant,* 2014-2016

Mr. Mac Mathuna has advised electric cooperative, municipality and state agency clients on utility cost of capital, wholesale transmission and production cost-of-service and aspects of their strategic power supply needs. His work has included:

- Cost of capital analysis and expert witness testimony.
- Review of wholesale transmission and production cost-of-service formula rates.
- Determination of annual transmission revenue requirements on behalf of utilities.
- Economic feasibility analysis of purchase power contracts and/or ownership of renewable generation units (e.g., wind & solar).
- Managed detailed financial forecast models and analytical reviews of wholesale power costs.

EirGrid, Dublin, Ireland

Senior Energy Regulatory Analyst, 2010-2013

Pricing Specialist, 2009-2010 | *Strategic Analyst,* 2008-2009

As a Senior Energy Regulatory Analyst at EirGrid, the transmission and market operator in Ireland and Northern Ireland, Mr. Mac Mathuna advised senior management on matters relating to both regulatory revenue and regulatory compliance. For example:

- Development of revenue requirement submission to industry regulator regarding the electricity interconnector link project between Ireland and Great Britain electricity interconnector link project.
- Supported key elements of EirGrid's regulatory 5-year revenue control project. For example, position development on the Return on Equity.
- Developed company dividend payment framework. Involved financial modeling and scenario planning.
- Detailed analysis of regulatory compliance levels of transmission system operator license and made recommendations to senior management on best practice.
- Designed core elements of a new generator electricity network tariff.

PROJECTS COMPLETED ON BEHALF OF:

- *Cloverland Electric Cooperative*
- *American Municipal Power Transmission*
- *Six Cities*
- *Fair Trading Commission, Barbados*
- *Basin Electric Cooperative*
- *Old Dominion Electric Cooperative*
- *North Carolina Electric Membership Corporation*
- *North Carolina Eastern Municipal Power Agency Central Virginia Electric Coop*
- *Wabash Power Valley Alliance*

Exhibit BTM-1

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COST OF CAPITAL – EXPERT WITNESS TESTIMONY

- *CenterPoint Resource Corp.*, Railroad Commission of Texas, Docket. No. OS-23-00015513, Direct Testimony filed March 12, 2024.
- *Florida Power & Light Company*, Federal Energy Regulatory Commission, Docket No. ER24-268-000, Direct Testimony filed November 21, 2023.
- *Florida Power & Light Company*, Florida Public Service Commission, Docket No. 20210015-EI, Direct Testimony, filed June 21, 2021, Supplemental Direct Testimony, filed September 13, 2021 and participated in Hearing proceedings on September 20, 2021.
- *Pacific Gas & Electric Company*, Federal Energy Regulatory Commission, Docket No. ER16-2320-002, Direct Testimony, filed December 14, 2020 and Answering Testimony, filed February 12, 2021.
- *Keystone Appalachian Transmission Company*, Federal Energy Regulatory Commission, Docket No. ER21-265-000, Affidavit, filed November 20, 2020.
- *South FirstEnergy Operating Companies*, Federal Energy Regulatory Commission, Docket No. ER21-253-000, Affidavit, filed November 19, 2020.
- *Wabash Valley Power Association, Inc.*, Federal Energy Regulatory Commission, Docket No. ER20-1041-003, Prepared Direct Testimony, Exhibit No. WV-027, filed November 9, 2020, Rebuttal Testimony, April 28, 2021 and Hearing Examination on June 1-2, 2021.
- *North Carolina Electric Membership Cooperative v. Duke Energy Progress, LLC*, Federal Energy Regulatory Commission, Docket No. EL21-9-000, Direct Testimony, filed October 16, 2020 and Answering Testimony, filed December 7, 2020.
- *Cloverland Electric Cooperative v. Wisconsin Electric Power Company*, Federal Energy Regulatory Commission, Docket No. EL20-57-000, Affidavit filed July 1, 2020, Second Affidavit, filed September 9, 2020 and Third Affidavit, filed October 28, 2020.
- *PP&L Industrial Customer Alliance v. PPL Electric Utilities Corporation*, Federal Energy Regulatory Commission, Docket No. EL20-48-000, Affidavit, filed June 10, 2020 and Second Affidavit, filed July 27, 2020.
- *The Dayton Power & Light Company*, Federal Energy Regulatory Commission, Docket No. ER20-1150-000, Affidavit of Breandan T. Mac Mathuna filed March 24, 2020.
- *North Carolina Eastern Municipal Power Agency v. Duke Energy Progress, LLC*, Federal Energy Regulatory Commission, Docket No. EL20-4-000, Affidavit and Exhibits filed October 10, 2019; Second Affidavit and Exhibits filed December 6, 2019; Third Affidavit filed on February 4, 2020 and Fourth Affidavit of Breandan T. Mac Mathuna (July 9, 2020).
- *Florida Power & Light Company*, Federal Energy Regulatory Commission, Docket No. ER19-2585-000, Affidavit and Exhibits filed September 20, 2019.
- *Inquiry Regarding the Commission's Policy for Determining Return on Equity*, Federal Energy Regulatory Commission, Docket No. PL19-4-000, Affidavit and Exhibits submitted on behalf of the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California, filed June 26, 2019, and Reply Affidavit filed July 25, 2019.
- *Alabama Municipal Elec. Authority and Cooperative Energy v. Alabama Power Company*, Federal Energy Regulatory Commission, Docket No. EL18-147-000, Direct Testimony and Exhibits filed May 10, 2018.