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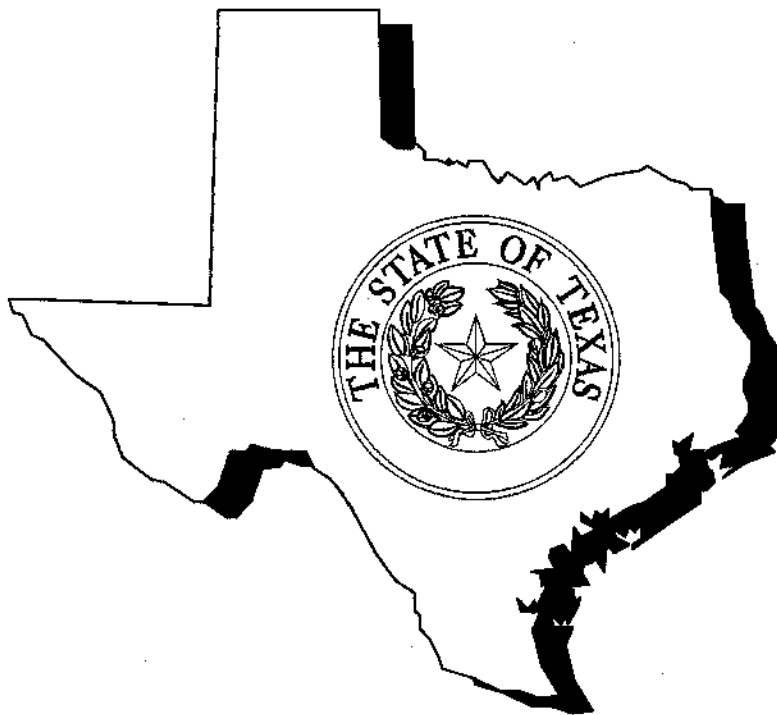
Item Number - 398

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

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

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**BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS**



**REVENUE REQUIREMENT DIRECT TESTIMONY OF
ADRIAN NARVAEZ
RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS**

June 26, 2024

Table of Contents

| | | |
|-------------|---|-----------|
| I. | PROFESSIONAL QUALIFICATIONS | 3 |
| II. | PURPOSE AND SCOPE OF TESTIMONY | 4 |
| III. | SUMMARY OF RECOMMENDATIONS..... | 5 |
| IV. | EXPORT REVENUES | 5 |
| V. | FUNCTIONALIZATION..... | 9 |
| VI. | TRANSMISSION COST OF SERVICE..... | 9 |
| VII. | CONCLUSION | 10 |

ATTACHMENTS:

| | |
|---------------------------|---|
| Attachment AN-RR-1 | Regulatory Résumé of Adrian Narvaez |
| Attachment AN-RR-2 | Functional Cost of Service Summary |
| Attachment AN-RR-3 | Transmission Cost of Service Summary |

I. PROFESSIONAL QUALIFICATIONS

Q. Please state your name and business address.

A. Adrian Narvaez, Public Utility Commission of Texas (Commission), 1701 N. Congress Avenue, Austin, TX 78711-3326.

Q. By whom are you employed and in what capacity?

A. I am employed by the Commission as a Rate Analyst in the Tariff and Rate Analysis Section of the Rate Regulation Division.

Q. What are your responsibilities as a Rate Analyst for the Commission?

A. My principal responsibility is analyzing utility filings on matters relating to rate design and cost allocation. My responsibilities include analyzing electric industry regulatory policy, reviewing tariffs to determine compliance with Commission requirements, and preparing and presenting testimony as an expert witness on cost allocation and rate design issues in contested proceedings before the Commission and the State Office of Administrative Hearings (SOAH).

Q. Please state your educational background and professional experience.

A. Attachment AN-RR-1 contains a summary of my regulatory experience and educational background.

Q. Have you previously filed testimony before the Commission?

A. Yes. Attachment AN-RR-1 contains a list of direct testimonies I have filed recently at the Commission.

II. PURPOSE AND SCOPE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. My Revenue Requirement Direct Testimony regarding the application of CenterPoint Energy Houston Electric, LLC (CEHE) addresses CEHE's functional cost of service model and the calculation of CEHE's wholesale transmission service (WTS) revenue requirement and rates, as well as export rates and export revenues. My testimony addresses, in whole or in part, the following issues from the Commission's Preliminary Order issued on November 3, 2023:

5. What is CenterPoint Houston's reasonable and necessary cost of providing service calculated in accordance with PURA and Commission rules?

48. What are the appropriate allocations of CenterPoint Houston's revenue requirement to functions and rate classes?

Q. Please describe your role in this proceeding.

A. In my Revenue Requirement Direct Testimony, I incorporate Staff's proposed total company cost of service as adjusted by Commission Staff witnesses Ruth Stark, James Euton, John Poole, and Mark Filarowicz into the functional cost of service model to produce CEHE's Staff-adjusted retail revenue requirement and transmission cost of service (TCOS), including my own adjustments to CEHE's proposed transmission export revenues. I also calculate Staff's recommended Wholesale Transmission Service (WTS) revenue requirement, rate, and associated export rates based on the results of my transmission cost of service model.

III. SUMMARY OF RECOMMENDATIONS

Q. What is your recommendation?

A. I recommend that:

- Consistent with Commission precedent, a known and measurable adjustment be applied to CEHE's offsetting export revenues to ensure the amounts are consistent with the test year amount of energy exports and the wholesale transmission rates established, to be updated based on the final decisions in this proceeding.
- CEHE's WTS rate should be set using the Commission-approved 2023 4CP value of 83,685,241.4 kW.
- CEHE's rate for the delivery of power to be exported from the ERCOT region (export rate) be set at \$0.000893 per kWh.
- The Commission approve the Staff-adjusted CEHE TCOS, WTS rate, and export rates as seen in Attachment AN-3.

Q. What material did you use to prepare your testimony?

A. In preparation for my testimony, I reviewed the application submitted by CEHE to the Commission, the testimony of CEHE witnesses, previous Commission orders, and testimony filed by other Staff witnesses in this case.

IV. EXPORT REVENUES

Q. Did CEHE in its application appropriately reflect transmission revenues related to the delivery of power to be exported out of the ERCOT region over DC Ties?

A. Yes, in part. CEHE did include offsetting transmission revenues related to the delivery of power to be exported out of the ERCOT region over DC Ties (export revenues).

1 **Q. Are transmission service providers required to charge exporting entities for the use**
2 **of the ERCOT transmission system in exporting power from ERCOT?**

3 A. Yes. Transmission service providers (TSP) are required to charge exporting entities for the
4 use of the ERCOT transmission system in exporting power from ERCOT, as stated in 16
5 Texas Administrative Code (TAC) § 25.192(e):

6 (e) **Transmission rates for exports from ERCOT.** Transmission
7 service charges for exports of power from ERCOT must be
8 assessed to transmission service customers for transmission
9 service within the boundaries of the ERCOT region, in
10 accordance with this section and the ERCOT protocols.

11 (1) A transmission service customer must be assessed a
12 transmission service charge for the use of the ERCOT
13 transmission system in exporting power from ERCOT based
14 on scheduled exports and the rates established under
15 subsections (c) and (d) of this section. The intervals must
16 consist of one hour.¹

17 **Q. Are TSPs required to credit all transmission service customers for export revenues**
18 **collected under the provisions of 16 TAC § 25.192(e)?**

19 A. Yes. TSPs are explicitly required to credit to transmission service customers the revenues
20 relating to the delivery of power to be exported from ERCOT, as stated in 16 TAC §
21 25.192(f):

22 (f) **Transmission revenue.** Revenue from the transmission of
23 electric energy out of the ERCOT region over the DC ties that is
24 recovered under subsection (e) of this section shall be credited
25 to all transmission service customers as a reduction in the
26 transmission cost of service for TSPs that receive the revenue.²

¹ 16 TAC § 25.192(c) (emphasis added).

² 16 TAC § 25.192(f) (emphasis added).

This subsection, along with 16 TAC § 25.192(e), implements PURA³ § 35.004(c), which requires that:

When an electric utility, electric cooperative, or transmission and distribution utility provides wholesale transmission service within ERCOT at the request of a third party, the commission shall ensure that the utility recovers the utility's reasonable costs in providing wholesale transmission services necessary for the transaction from the entity for which the transmission is provided so that the utility's other customers do not bear the costs of the service.⁴

Q. Do you recommend any adjustments to the amount of offsetting export revenues to be applied when calculating CEHE's WTS rate?

A. Yes. While the test year volume of exported energy is known and fixed, the actual WTS and export rates are changing in this proceeding. It is therefore necessary to make a known and measurable adjustment to the amount of export revenues to be consistent with the WTS and export rates approved in this proceeding. For example, if it is known that the WTS and export rates are doubling in this proceeding as compared to the rates in effect during the test year, then it is known that export revenues would be doubling as well. Failure to account for the known fact that WTS and export rates are changing in this proceeding would lead to a level of export revenues that is not representative of ongoing cost recovery from exporting entities. An adjustment to reach the proper level of offsetting export revenues that is consistent with the test year export volumes and the WTS and export rates approved in this proceeding is therefore necessary to ensure that CEHE recovers the reasonable costs in providing wholesale transmission services necessary for export transactions from the exporting entities so that the CEHE's other customers do not bear the costs of the service.

³ Public Utility Regulatory Act, Tex. Util. Code §§ 11.001-66.016.

⁴ PURA § 35.004(c).

Q. How are Staff's recommended transmission export revenues calculated?

A. The Staff-adjusted transmission export revenues are calculated using Staff's recommended export rates and the actual amount of energy exports from ERCOT through DC ties during the 2023 test year, as provided by ERCOT.⁵ The resulting export revenues are then incorporated into Staff's cost of service model. The Excel software subsequently runs various iterations until it converges upon the transmission export revenue amount consistent with Staff's recommended WTS rate. Using the export data provided by ERCOT for the test year ending December 31, 2023, and Staff-Adjusted CEHE WTS rate I discuss in section VI of my Revenue Requirement Direct Testimony, results in ERCOT export revenues of \$1,043,084. This amount is subject to update based upon any Commission decisions that affect CEHE's WTS rate and export rates.

Q. Does Commission precedent support your methodology regarding export revenues?

A. Yes. In Docket No. 52715, Denton Municipal Electric (DME) contested the application of offsetting export revenues in calculating WTS rates. The Commission ultimately approved rates based on deemed export revenues consistent with the methodology discussed above.⁶ More recently, in the proposal for decision in Docket No. 54657 regarding a similar dispute, the ALJ approved the application of the same methodology as well:

Accordingly, the ALJ recommends Staff's proposal to reduce LP&L's TCOS to reflect the impact of export revenues should be approved. However, because the ALJ recommends adjustments to LP&L's TCOS, which would affect the applicable reduction amount, the amount should be

⁵ Please refer to the Workpapers to the Revenue Requirement Direct Testimony of Adrian Narvaez.

⁶ See *Application of Denton Municipal Electric to Change Rates for Wholesale Transmission Service*, Docket No. 52715, Order at 7 (Oct. 12, 2023).

updated using Mr. Narvaez's methodology based on LP&L's ultimate Commission-approved TCOS.⁷

V. FUNCTIONALIZATION

Q. What is functionalization?

A. Functionalization is the allocation of a utility's cost of service into various business functions.

Q. What are CEHE's business functions?

A. CEHE has four functions to which it assigns or allocates costs: Transmission, Distribution, Distribution Utility Metering System Services, and Transmission & Distribution Utility Customer Service.

Q. Have you functionalized the Staff-adjusted CEHE revenue requirement into CEHE's four business functions?

A. Yes. Please refer to Attachment AN-RR-2 for a summary of the functionalization of the Staff-adjusted CEHE revenue requirement.

VI. TRANSMISSION COST OF SERVICE

Q. What is Staff's calculated TCOS?

A. The Staff-adjusted Wholesale TCOS revenue requirement, net of \$1,043,084 in offsetting export revenues discussed above, is \$654,578,697.

Q. What is the Staff-adjusted CEHE WTS Rate?

⁷ *Application of the City of Lubbock, Acting by and Through Lubbock Power & Light (LP&L) to Change Rates for Wholesale Transmission Service*, Docket No. 54657, Proposal for Decision at 72 (Apr. 8, 2024).

A. The Staff-adjusted Wholesale TCOS revenue requirement of \$654,578,697 and the most recently approved ERCOT 4CP value of 83,685,241.4 kW⁸ produces an annual WTS rate of \$7.822286/kW and a rate for the delivery of power to be exported from the ERCOT region of \$0.000893 per hourly kW. A summary of these values can be found on Attachment AN-RR-3.

Q. Did you make any corrections to CEHE's calculation of WTS rate?

A. Yes. CEHE used an erroneous ERCOT 4CP value of 83,556,846 kW. While the initial report filed by ERCOT in Docket No. 56050 was 83,556,846 kW, the final approved ERCOT 4CP based on ERCOT's report and the updated 4CP data submitted by Lubbock Power & Light, is 83,685,241.4 kW.⁹ CEHE's WTS rate should be set using the Commission approved 2023 4CP value of 83,685,241.4 kW.

VII. CONCLUSION

Q. If you do not address an issue or position in your testimony, should that be interpreted as Staff supporting CEHE's position on that issue?

A. No. The fact that I do not address an issue in my testimony should not be construed as agreeing, endorsing, or consenting to any position taken by CEHE.

Q. Does this conclude the revenue requirement portion of your direct testimony?

A. Yes.

⁸ *Commission Staff's Petition to Set 2024 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas, Inc.*, Docket No. 56050, Commission Staff's Amended Final Transmission Charge (Mar. 18, 2024).

⁹ *Id.* Order at Finding of Fact No. 2 (May 16, 2024).

Adrian Narvaez Canto

Public Utility Commission of Texas
1701 North Congress Avenue
Austin, TX 78711-3326

REGULATORY EXPERIENCE

Rate Analyst, Tariff and Rate Analysis Section

Public Utility Commission of Texas Rate Regulation Division

Employed: June 2015 to present.

Duties: Perform analysis of tariff filings, cost allocation, and rate design. Review tariffs of regulated utilities to determine compliance with Commission requirements. Analyze cost allocation studies and rate design issues for regulated electric and water utilities. Analyze policy issues associated with the regulation of the utility industry. Work on or lead teams in contested cases, reports, the development of market rules, and research concerning pricing and related issues. Prepare and present testimony as an expert witness on rate and related issues in docketed proceedings before the Commission and the State Office of Administrative Hearings.

EDUCATION:

2014 The University of Texas at Austin, Austin, TX
Bachelor of Arts in Economics and French

List of Testimony Filed at the Public Utility Commission of Texas:

Docket No. 45712 - *Application of Southwestern Electric Power Company for Approval of a Distribution Cost Recovery Factor*, May 4, 2016.

Docket No. 45787 – *Application of AEP Texas Central Company for Approval of a Distribution Cost Recovery Factor*, May 23, 2016.

Docket No. 45788 - *Application of AEP Texas North Company for Approval of a Distribution Cost Recovery Factor*, May 23, 2016.

Docket No. 46357 - *Application of Entergy Texas for Approval to Amend its Transmission Cost Recovery Factor*, December 6, 2016.

Docket No. 46449 - *Application of Southwestern Electric Power Company for Authority to Change Rates*, May 2, 2017.

Docket No. 47235 - *Oncor Electric Delivery Company LLC's Application for 2018 Energy Efficiency Cost Recovery Factor*, July 20, 2017

Docket No. 47527 - *Application of Southwestern Public Service Company for Authority to Change Rates*, Revenue Requirement Direct Testimony, May 2, 2018.

Docket No. 47527 - *Application of Southwestern Public Service Company for Authority to Change Rates*, Cost Allocation and Rate Design Direct Testimony, May 2, 2018.

Docket No. 47527 - *Application of Southwestern Public Service Company for Authority to Change Rates*, Cost Allocation and Rate Design Cross-Rebuttal testimony, May 22, 2018.

Docket No. 48231 - *Application of Oncor Electric Delivery Company for a Distribution Cost Recovery Factor*, May 24, 2018.

Docket No. 48401- *Application of Texas-New Mexico Power Company for Authority to Change Rates*, Direct Testimony, August 20, 2018.

Docket No. 48401- *Application of Texas-New Mexico Power Company for Authority to Change Rates*, Cross-Rebuttal testimony, August 28, 2018.

Docket No. 48325 - *Application of Oncor Electric Delivery Company LLC for Authority to Decrease Rates Based on the Tax Cuts and Jobs Act of 2017*, September 11, 2018.

Docket No. 48325 - *Review of Rate Case Expenses Incurred by Southwestern Electric Power Company and Municipalities in Docket No. 46449*, December 14, 2018.

Docket No. 49057 - *Application of Entergy Texas for Approval of Transmission Cost Recovery Factor*, March 25, 2019.

Docket No. 49427 - *Application of Oncor Electric Delivery Company to Amend its Distribution Cost Recovery Factor*, May 30, 2019.

Docket No. 49494 - *Application of AEP Texas Inc. for Authority to Change Rates*, Direct Testimony, August 1, 2019.

Docket No. 49494 - *Application of AEP Texas Inc. for Authority to Change Rates*, Cross-Rebuttal Testimony, August 13, 2019.

Docket No. 50200 - *Application of Undine Texas, LLC and Undine Environmental, LLC for Authority to Change Rates*, June 10, 2020.

Docket No. 49923 - *Application of Corix Utilities (Texas) Inc. to Implement Federal Tax Reduction Credit Riders*, July 31, 2020.

Docket No. 50944 - *Application of Monarch Utilities I, L.P. for Authority to Change Rates*, October 27, 2020.

Docket No. 51100 - *Application of the City of Lubbock, by and Through Lubbock Power & Light, for Authority to Establish Initial Wholesale Transmission Rates and Tariffs*, November 12, 2020.

Docket No. 51611 - *Application of Sharyland Utilities, L.L.C. for Authority to Change Rates, Direct Testimony*, March 12, 2021.

Docket No. 51611 - *Application of Sharyland Utilities, L.L.C. for Authority to Change Rates, Supplemental Testimony*, March 24, 2021.

Docket No. 51415 - *Application of Southwestern Electric Power Company for Authority to Change Rates, Direct Testimony*, April 7, 2021.

Docket No. 51415 - *Application of Southwestern Electric Power Company for Authority to Change Rates, Cross-Rebuttal Testimony*, April 23, 2021.

Docket No. 52195 - *Application of El Paso Electric Company for Authority to Change Rates, Direct Testimony*, October 29, 2021.

Docket No. 53601 - *Application of Oncor Electric Delivery Company for Authority to Change Rates, Direct Testimony*, September 2, 2022.

Docket No. 53601 - *Application of Oncor Electric Delivery Company for Authority to Change Rates, Cross-Rebuttal Testimony*, September 16, 2022.

Docket No. 54403 - *Application of El Paso Electric Company for a 10MW Community Solar Expansion and Authority to Modify Schedule No. CS Community Solar Rate, Testimony in Support of the Stipulation*, July 19, 2023.

Docket No. 54634 - *Application of Southwestern Public Service Company for Authority to Change Rates, Direct Testimony*, August 11, 2023.

Docket No. 54634 - *Application of Southwestern Public Service Company for Authority to Change Rates, Cross-Rebuttal Testimony*, August 25, 2023.

Docket No. 54657 - *Application of the City of Lubbock, Acting by and through Lubbock Power and Light (LP&L) to Change Rates for Wholesale transmission Service, Direct Testimony*, December 8, 2023.

Docket No. 54614 - *Statement of Intent and Application of El Paso Electric Company for Approval of Texas Electric Vehicle-Ready Pilot Programs and Tariffs, Direct Testimony*, February 27, 2024.

Docket No. 55176 - *Application of El Paso Electric Company to Implement a Voluntary Texas Business Solar Power Program, Direct Testimony*, March 19, 2024.

The following files are not convertible:

Attachments AN-RR 2 & 3.xlsx

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Contact centralrecords@puc.texas.gov if you have any questions.