

1 improvement to its service level and relationship with H-E-B. The Company's  
2 engagement with H-E-B is one example of many customer engagement efforts  
3 within its service territory. Exhibit RHH-1 to my testimony includes letters from  
4 H-E-B and other large customers expressing satisfaction with our customer  
5 engagement efforts.

6 **IV. PROGRAMS AND STRATEGIC INITIATIVES**

7 **Q. DOES THE SBG&E DIVISION HAVE ANY PROGRAMS OR STRATEGIC**  
8 **INITIATIVES ASIDE FROM THOSE ALREADY MENTIONED?**

9 A. Yes, the SBG&E oversees the Clean Air Technologies ("CAT") Program, which is  
10 run by the Transportation Electrification Department.

11 **Q. PLEASE DESCRIBE THE CAT PROGRAM.**

12 A. The CAT Program applies technology to reduce emissions in non-attainment areas  
13 in the Greater Houston Area. The CAT Program works in collaboration with the  
14 Texas Emissions Reduction Plan ("TERP"), administered by the Texas  
15 Commission on Environmental Quality, to maximize its impact. The Houston  
16 region has long suffered from poor air quality, which is created in part by the area's  
17 high concentration of internal combustion engines. Some of these engines—such  
18 as forklifts, compressors, transportation refrigeration units—perform functions that  
19 electric motors can accomplish more efficiently while simultaneously reducing  
20 harmful emissions. The CAT Program's initial focus has been improving forklifts  
21 and pipeline compression motors; however, it has recently expanded into  
22 transportation refrigeration units. The Electrification Department works with a

**Direct Testimony of Rina H. Harris**  
**CenterPoint Energy Houston Electric, LLC**

third-party vendor to identify companies with high emissions equipment, then helps customers meet their company objectives while improving their energy efficiency and Houston's overall air quality. Since its inception in 2006, the CAT Program has upgraded 6,727 combustion engine forklifts and 405,000 HP of combustion engine motors, reducing nitrous oxide emissions by a combined 9,673 tons. By helping companies efficiently reduce their carbon footprint, CenterPoint Houston improves the air quality for all customers in the region.

## V. COST CONTROLS

**Q. HOW DOES THE SBG&E DIVISION ENSURE THAT ITS COSTS ARE REASONABLE AND NECESSARY?**

**A.** Like all of CenterPoint Houston, SBG&E carefully plans its activities and related expenses, and monitors and controls costs on an ongoing basis. As described in the testimony of Eric Easton, the Company uses several processes to accomplish this oversight. These processes include: 1) the workforce planning process, 2) budgeting and cost control, 3) the use of contractors, 4) the distribution planning process, 5) the transmission planning process, and 6) the asset management and optimization process.

## VI. O&M EXPENSES

**Q. PLEASE DESCRIBE THE O&M EXPENSES INCURRED BY THE SBG&E DIVISION DURING THE TEST YEAR.**

Direct Testimony of Rina H. Harris  
CenterPoint Energy Houston Electric, LLC

- 1 A. The figure below summarizes the O&M costs for various departments within the  
 2 division for the Test Year. These costs were primarily administrative costs that  
 3 include employee-related expenses, office supplies, software licensing costs, etc.

4 **Figure 2. Test-Year O&M Expense by Department for**  
 5 **Distribution Operations and Service Delivery**  
 6

<b>Strategic Business Growth &amp; Engagement O&amp;M by Department</b>	<b>Test Year Expense (in Millions)</b>
Economic Development	\$ 0.744
Telecom Business Development	\$ 0.525
Transportation Electrification	\$ 1.224
Key Accounts	\$ 0.132
<b>TOTAL:</b>	<b>\$ 2.625</b>

7

- 8 **Q. ARE THERE ANY ADDITIONAL O&M EXPENSES THAT SGB&E HAS**  
 9 **INCURRED OR EXPECTS TO INCUR GOING FORWARD?**

- 10 A. The SBG&E division expects similar O&M expenses to be incurred going forward.  
 11 These expenses will be comprised of administrative costs that include  
 12 employee-related expenses, office supplies, software licensing costs, etc.

- 13 **Q. ARE THE EXPENSES THAT SGB&E HAS INCURRED DURING THE**  
 14 **TEST YEAR REASONABLE AND NECESSARY?**

- 15 A. Yes. As described in my testimony, SBG&E plays a necessary role in providing  
 16 quality service to CenterPoint Houston's customers and the Company's cost control  
 17 process ensures that our costs are reasonable.

**Direct Testimony of Rina H. Harris**  
**CenterPoint Energy Houston Electric, LLC**

1

**VII. CONCLUSION**

2   **Q.   DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS**  
3       **PROCEEDING?**

4   **A.   Yes.**

**Direct Testimony of Rina H. Harris  
CenterPoint Energy Houston Electric, LLC**

STATE OF Texas §  
COUNTY OF Winn §

**AFFIDAVIT OF RINA H. HARRIS**

BEFORE ME, the undersigned authority, on this day personally appeared Rina H. Harris who having been placed under oath by me did depose as follows:

1. "My name is Rina H. Harris. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

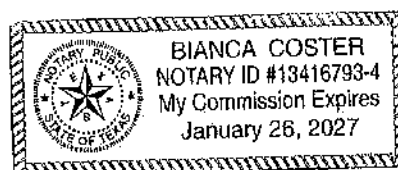
Further affiant sayeth not.

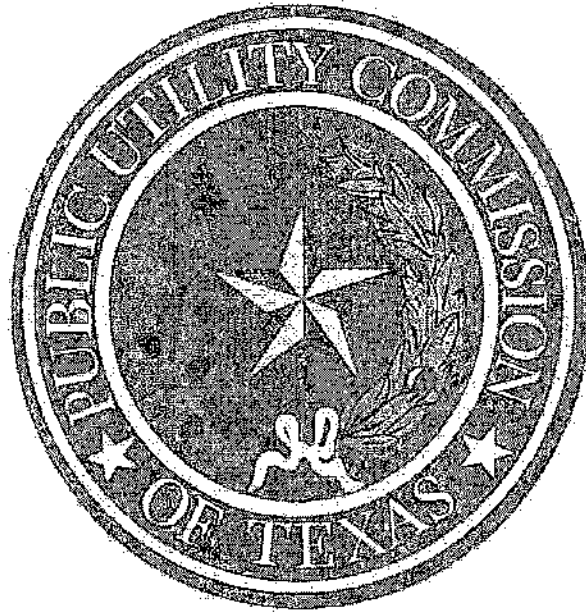
Rina H. Harris  
Rina H. Harris

SUBSCRIBED AND SWORN TO BEFORE ME on this 16<sup>th</sup> day of February,  
2024.

Bianca Coster  
Notary Public in and for the State of Texas

My commission expires: Jan 26, 2027



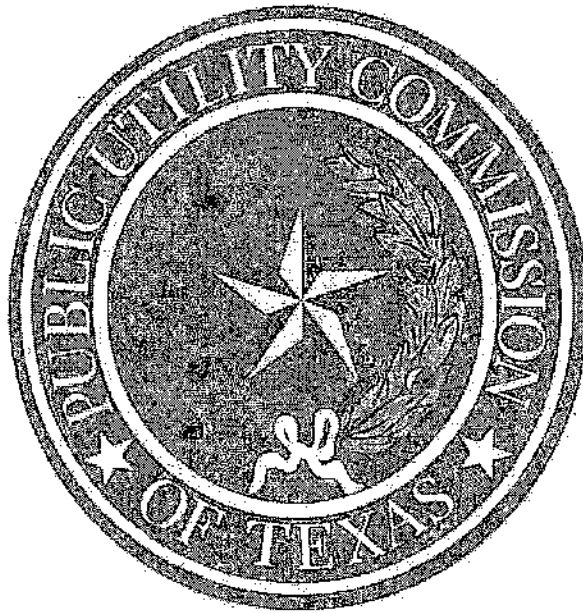


## **Filing Receipt**

**Filing Date - 2023-12-12 12:48:06 PM**

**Control Number - 55744**

**Item Number - 14**



## Filing Receipt

**Filing Date - 2023-12-12 11:51:20 AM**

**Control Number - 55744**

**Item Number - 13**

DOCKET NO. 55744

APPLICATION OF CENTERPOINT	§	PUBLIC UTILITY COMMISSION
ENERGY HOUSTON ELECTRIC, LLC	§	
FOR EXTENSION OF ITS RATE	§	OF
FILING DEADLINE UNDER 16 TAC §	§	TEXAS
25.247(b)(3)	§	

**H-E-B, LP'S FILING IN SUPPORT OF CENTERPOINT'S REQUEST TO EXTEND  
RATE CASE FILING DEADLINE**

H-E-B, LP ("H-E-B") files this pleading in support of CenterPoint's Energy Houston Electric, LLC's ("CenterPoint") request for an extension of the filing deadline for its next rate case.

On October 23, 2023, CenterPoint requested approval to extend its deadline to file a rate case from March 9, 2024 to June 30, 2024 to enable CenterPoint to use a full-calendar year as its test year for its rate case. On November 30, 2023, CenterPoint filed a Joint Motion, together with the Staff of the Public Utility Commission of Texas ("Commission") and the Office of Public Utility Counsel ("OPUC"), requesting expedited approval of CenterPoint's extension request.

H-E-B supports both CenterPoint's request to extend the filing deadline for its rate case, and the Joint Motion requesting expedited approval of CenterPoint's extension request. H-E-B is heartened by the spirit of cooperation that has emerged over the past 18 months in its relationship with CenterPoint. H-E-B has experienced much better communication with CenterPoint and has seen CenterPoint become much more proactive. This improvement in communication is beneficial to H-E-B, to H-E-B's customers and to its partners. When concerns or issues do arise, CenterPoint listens to H-E-B and endeavors to resolve them in a timely manner. H-E-B is encouraged to see CenterPoint working to improve both its service quality and its relationship with H-E-B.

Accordingly, H-E-B respectfully requests that the Commission (i) approve CenterPoint's request for an extension of the deadline to file its rate case, and (ii) grant such approval on an expedited basis.



Sincerely,



Diana M. Liebmann  
Texas State Bar No. 00797058  
diana.liebmann@haynesboone.com  
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Haynes and Boone, LLP  
600 Congress Ave., Suite 1300  
Austin, Texas 78701-3285

ATTORNEYS FOR H-E-B, LP

4881-3570-7798



**Shell Oil Products  
150 Dairy Ashford Road  
Houston, Texas  
770079  
USA**

December 14, 2023

To Whom it may concern:

In pursuit of developing E-Mobility infrastructure across the US, we get to interact with many Utilities and see how they differ in serving and supporting their customer base.

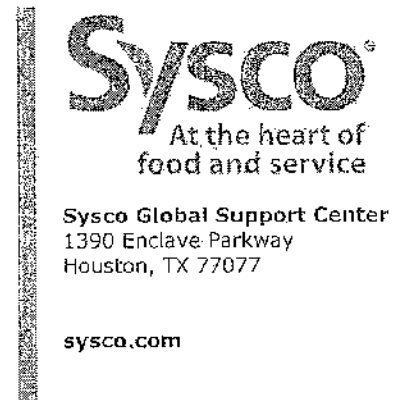
We are grateful for CenterPoint's innovative approach in offering us a designated point of contact. The presence of a dedicated representative, well-versed in the nuances of our account and with an understanding of our business, has significantly elevated our experience. It has been reassuring to know that we can rely on a familiar contact for any inquiries or concerns, adding a personalized touch and streamlining the entire process for increased efficiency.

CenterPoint's approachability and commitment to collaboration make them an invaluable and commendable partner, aligning seamlessly with the high standards we seek in our dynamic partnership within the energy sector at Shell. Their outstanding commitment truly makes them a great partner to work with.

Sincerely,

A handwritten signature in black ink, which appears to read "Alex Lansky", is written over a horizontal line.

Alex Lansky  
Head of Development for E-Mobility North America



January 12, 2024

To whom it may concern:

At Sysco, we recognize CenterPoint as collaborative partner who excels in building strong, synergistic relationships who has actively contributed to our success through open communication and shared goals. We want to express our appreciation for the prompt and efficient responses from CenterPoint. Whether it's a quick question or a more complex issue, the responsiveness of your team has been consistently impressive. It's evident that your company values timely communication and prioritizes customer satisfaction.

We see the value a strong relationship in the utility as CenterPoint provides both creative resolutions and adapts to an everchanging industry in electrification. We are encouraged to see CenterPoint work to continuously improve both their service level engagement and their relationship with Sysco.

Sincerely,

*Tracey L. Anderson*

Tracey Anderson  
Senior Director, Supply Chain Sustainability



**William F. McKeon**  
President & Chief Executive Officer  

---

6550 Bertner Avenue, Executive Offices  
Houston, TX 77030  
713.791.8810 | mckeon@tmc.edu

February 1, 2024

Rina Harris  
Vice President, Strategic Business Growth & Engagement  
CenterPoint Energy  
1111 Louisiana St  
Houston, TX 77002

Dear Ms. Harris,

The Texas Medical Center and CenterPoint Energy have a long-standing relationship focused on collaboration and proactive planning to ensure TMC has resilient, reliable power. Texas Medical Center appreciates CenterPoint Energy's commitment to customer service and willingness to consult and find solutions on complex service and design needs. CenterPoint has assisted TMC in achieving deadlines and advancing our projects forward.

CenterPoint Energy's staff is responsive and knowledgeable about utility design and proactively takes action to keep key projects moving ahead. Their staff communicates project expectations to provide predictability on project durations as well as the impacts to local streets and sidewalks. When concerns or issues do arise, CenterPoint listens to us and endeavors to resolve them in a timely manner.

We are grateful for CenterPoint's innovative approach in offering us a designated point of contact. The presence of a dedicated representative, focused on the nuances of our account, has significantly elevated our experience. It has been reassuring to know that we can rely on a familiar contact for any inquiries or concerns, adding a personalized touch and streamlining the entire process for increased efficiency.

CenterPoint's approachability and commitment to collaboration make them a trusted partner of Texas Medical Center. We look forward to further strengthening our relationship in the years to come.

Sincerely,

A handwritten signature in black ink, appearing to read "William F. McKeon", written over a light blue horizontal line.

William F. McKeon  
President & Chief Executive Officer



INTERNATIONAL  
ECONOMIC DEVELOPMENT  
COUNCIL

1275 K Street NW, Suite 300  
Washington, DC 20005  
Tel: 202.223.7800  
Fax: 202.223.4745  
[www.iedconline.org](http://www.iedconline.org)

July 5, 2023

Rina Harris  
Vice President, Strategic Business Growth and  
Engagement  
CenterPoint Energy

Elizabeth Brock  
Vice President, Energy Solutions  
CenterPoint Energy

Dear Ms. Harris and Ms. Brock,

We write to congratulate you and CenterPoint Energy Economic Development on the approval of your organization's recent application for reaccreditation as an Accredited Economic Development Organization (AEDO). The CenterPoint Energy Economic Development has met the criteria for reaccreditation set by the International Economic Development Council, and your AEDO status will remain in effect until June 8, 2026.

Please find attached a sample press release and the AEDO logo for use in promoting the high professionalism, commitment, and technical expertise that CenterPoint Energy Economic Development so finely demonstrates.

CenterPoint Energy Economic Development's reaccreditation will be announced in IEDC's e-newsletter *Economic Development Now* and quarterly publication *Economic Development Journal*. You will also receive an AEDO plaque to demonstrate your achievement.

Should you have any questions about your organization's accreditation, please do not hesitate to contact Dana Crater. Congratulations again on this great achievement!

Sincerely,

Allison J. H. Thompson, CEcD FM EDFP  
AEDO Committee Chair

CC: Dana Crater, AEDO Program Manager

THERE ARE NO WORKPAPERS  
TO  
THE DIRECT TESTIMONY  
OF  
RINA HARRIS

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**PUC DOCKET NO. 56211**

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

**DIRECT TESTIMONY**

**OF**

**JOHN R. HUDSON III**

**ON BEHALF OF**

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC**

**MARCH 2024**



## **TABLE OF CONTENTS**

EXECUTIVE SUMMARY .....	ES-1
I. INTRODUCTION .....	1
II. PURPOSE AND SCOPE OF TESTIMONY .....	2
III. ORGANIZATION, FUNCTIONS, AND COSTS OF EMO.....	4
A. TRANSACTION MANAGEMENT .....	5
1. Enrollment Transaction Management .....	5
2. Service Order Transaction Management .....	6
3. Billing & Usage Transaction Management .....	8
4. Issue Resolution .....	9
B. BUSINESS CONSULTING.....	11
C. ELECTRIC MARKET RELATIONS .....	12
D. PROGRAM MANAGEMENT .....	15
IV. COST CONTROL .....	17
V. CENTERPOINT HOUSTON'S CREDIT RISK AND BAD DEBT .....	21
VI. CONCLUSION.....	31

## GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym	Definition
AMS	Advanced Metering System
CR	Competitive Retailer
CNP	CenterPoint Energy, Inc.
CRIP	Competitive Retailer Information Portal
DEIS	Demand and Energy Information System
EDI	Electronic Data Interchange
EMO	Electric Market Operations
ERCOT	Electric Reliability Council of Texas, Inc.
ESI-ID	Electric Service Identifier
IT	Information Technology
IDR	Interval Data Recorder
JDOA	Joint Development and Operations Agreement
O&M	Operations and Maintenance
REP	Retail Electric Provider
SMT	Smart Meter Texas
SRC	System Restoration Charge
TAC	Texas Administrative Code
TC	Transition Charge
TDSP	Transmission and Distribution Service Provider
TDU	Transmission and Distribution Utility
TMH	Transaction Management Hub
TX SET	Texas Standard Electronic Transaction

### **Defined Terms**

**Advanced Metering System (“AMS”).** A system, including Advanced Meters and the associated hardware, software, and communications devices, that collects time-differentiated energy usage and is deployed pursuant to 16 TAC § 25.130, *Advanced Metering*. In 2009, the Company began deployment of advanced or smart meters in its service territory.

**Bankrupt Competitive Retailer (“Bankrupt CR”).** Brilliant Energy, Entrust Energy, Griddy Energy, Just Energy, Liberty Power, Power of Texas and POGO Energy.

**CenterPoint Houston or the “Company.”** CenterPoint Energy Houston Electric, LLC.

**Competitive Retailer (“CR”).** A Municipally Owned Utility or an Electric Cooperative that offers Customer Choice and sells electric energy at retail in the restructured electric power market in Texas, or a REP.

**Competitive Retailer Information Portal (“CRIP”).** Company’s secure site that contains Texas retail electric market transaction data available only to the REP of Record that is serving a customer’s premises and provides automated requests for historical usage for a premise, which is offered to REPs and other parties utilizing a Letter of Authorization from the customer.

**Customer.** An Entity that purchases electricity for its own consumption.

**Demand and Energy Information System (“DEIS”).** An automated system that is utilized by end-use retail customers to access usage information about their specific personal premises.

**Electronic Data Interchange (“EDI”).** Participants in the ERCOT retail electric market communicate all customer-related enrollment and service orders, all premise information, and meter reading and usage data through EDI transactions that are processed using TX SET guidelines.

**Electric Reliability Council of Texas, Inc. (“ERCOT”).** The independent organization and, in a geographic sense, refers to the area served by electric utilities, municipally owned utilities, and electric cooperatives that are not synchronously interconnected with electric utilities outside of the State of Texas. ERCOT is the independent system operator (“ISO”) manages the flow of electric power to Texas customers and manages financial settlement for the competitive wholesale bulk-power market and administers customer switching for Texans in competitive choice areas.

**ERCOT Protocols –** Body of procedures developed by ERCOT to maintain the reliability of the regional electric network and account for the production and delivery of electricity among resources and market participants. The procedures, initially approved by the Commission, include a revisions process that may be appealed to the Commission, and are subject to the oversight and review of the Commission.

**Electric Service Identifier (“ESI-ID”).** The basic identifier assigned to each point of delivery used in the registration system and settlement system managed by ERCOT.

**Interval Data Recorder (“IDR”).** Metering Equipment that is designed to provide Interval Data and does not otherwise qualify as a Standard Meter or an AMS Meter.

**Joint Development and Operations Agreement (“JDOA”).** The agreement under which CenterPoint Energy Houston Electric, LLC, Oncor Electric Delivery Company, AEP Texas Central Company, AEP Texas North Company, and Texas-New Mexico Power Company are the parties with a third-party service provider for the design, development, and operation of SMT portal.

**Load Profile.** A representation of the energy usages of a group of Customers, showing the demand variation on an hourly or sub-hourly basis.

**MarkeTrak.** A web-based database application used by ERCOT, TDSPs and CRs to track, manage and store retail and customer.

**Premise.** A Service Delivery Point or combination of Service Delivery Points that are assigned a single ESI-ID for purposes of settlement and registration.

**Retail Customer.** The separately metered end-use customer who purchases and ultimately consumes electricity.

**Regulatory Asset.** A regulatory asset for bad debt expenses, net of collateral posted, resulting from a REP's default to pay delivery charges to a TDU. Upon a review of reasonableness and necessity, a reasonable level of amortization of such regulatory asset shall be included as a recoverable cost in the TDU's rates in its next rate case or such other rate recovery proceeding as deemed necessary.

**Retail Electric Provider ("REP").** A person that sells electric energy to retail customers in this state.

**Smart Meter Texas ("SMT").** A website sponsored by a coalition of TDSPs. The site stores daily, monthly and 15-minute intervals of electric energy data recorded by digital electric meters (commonly known as smart meters) and provides secure portal access to that data to customers and authorized market participants. SMT enables customers to better manage their energy consumption to lower their monthly electric bills, and benefit from new products and services offered by REPs and third parties.

**System Restoration Charge ("SRC").** A bond issuance related to Hurricane Ike.

**Tariff.** The schedule of a utility, municipally-owned utility, or electric cooperative containing all rates and charges stated separately by type of service, the rules and regulations of the utility, and any contracts that affect rates, charges, terms or conditions of service. The use of "Tariff" throughout this testimony refers to CenterPoint Houston's Tariff for Retail Delivery Service.

**Transition Charge ("TC").** Charges established pursuant to a financing order issued by the Commission.

**Transmission and/or Distribution Service Provider ("TDSP").** An Entity that is a TSP, a DSP or both, or an Entity that has been selected to own and operate Transmission Facilities and has a PUCT approved code of conduct in accordance with 16 TAC § 25.272, *Code of Conduct for Electric Utilities and Their Affiliates*.

**Transmission and Distribution Utility ("TDU").** A person or river authority that owns, or operates for compensation in this state equipment or facilities to transmit or distribute electricity, except for facilities necessary to interconnect a generation facility with the transmission or distribution network, a facility not dedicated to public use, or a facility

otherwise excluded from the definition of “electric utility”, in a qualifying power region certified under PURA §39.152, but does not include a municipally owned utility or an electric cooperative. The TDU may be a single utility or may be separate transmission and distribution utilities.

**Test Year.** The most recent 12 months for which operating data for an electric utility, electric cooperative, or municipally-owned utility are available and shall commence with a calendar quarter or a fiscal year quarter. The Test Year for the period ending December 31, 2023, is the period upon which the Company’s costs are based in this Cost of Service Rate Filing case.

**Transaction Management Hub (“TMH”).** An electronic transaction processing system used by Company for processing retail electric market transactions.

**Texas Standard Electronic Transaction (“TX SET”).** The electronic data transactions, implementation guides, and applicable external standards that enable and facilitate the retail business processes in the deregulated Texas electric market.

1                    **EXECUTIVE SUMMARY OF JOHN R. HUDSON III**

2            My testimony supports the reasonableness and necessity of recovering Operations  
3    and Maintenance expenses of CenterPoint Houston's Electric Market Operations  
4    organization for the 12 months ending December 31, 2023 (the "Test Year"), as well as  
5    costs related to the Smart Meter Texas portal, and Competitive Retailer-related bad debt  
6    expense.

7            First, I explain the organization and function of the Electric Market Operations  
8    organization. This includes describing the efficient, effective, and cost-conscious processes  
9    that the Electric Market Operations organization employs to accomplish its objectives, such  
10   as maintaining multiple digital channels for information and functionality purposes. Next,  
11   my testimony describes cost controls implemented by the Electric Market Operations  
12   organization, as well as the unique role and costs related to the Smart Meter Texas portal.

13           Last, I testify to the heightened Company risks from billing to and collecting  
14   receivables from Competitive Retailers, instead of Retail Customers. Due to the  
15   relationship between credit risk and the Company's role in the retail electric market, my  
16   testimony supports recovery of Competitive Retailer-related bad debt expenses.

**I.     INTRODUCTION**

1  
2     **Q.     PLEASE STATE YOUR NAME, EMPLOYER, POSITION, AND BUSINESS**  
3     **ADDRESS.**

4     A.     My name is John R. Hudson III. I am the Director of Electric Market Operations  
5             ("EMO") for CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston"  
6             or the "Company"). My business address is 1111 Louisiana St, Houston, TX  
7             77002.

8     **Q.     WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF ELECTRIC**  
9     **MARKET OPERATIONS?**

10    A.     As Director of EMO, I oversee the processing and delivery of retail market  
11             transactions and the processes, systems, and controls that ensure the timely and  
12             accurate execution of those transactions. In addition, I supervise Competitive  
13             Retailer ("CR") and Electric Reliability Council of Texas ("ERCOT") relations, as  
14             well as project management for various retail market-related projects and programs.  
15             All these functions work together to execute CenterPoint Houston's retail market  
16             responsibilities in accordance with Commission rules, ERCOT Protocols, and the  
17             Company's Tariff for Retail Delivery Service ("Tariff").

18    **Q.     PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND,**  
19    **PROFESSIONAL QUALIFICATIONS, AND PREVIOUS WORK**  
20    **EXPERIENCE.**

21    A.     I hold a Bachelor of Accountancy degree from the University of Oklahoma, and a  
22             Master of Business Administration degree from the University of Tulsa. I joined  
23             CenterPoint Houston's predecessor company in 1999. Prior to serving my current

1           role as Director of EMO, I was employed by the Company as a manager of  
2           Regulatory Affairs, and a manager of Electric Market Relations. I assumed my  
3           current role in 2018.

4   **Q.   HAVE YOU PREVIOUSLY SPONSORED TESTIMONY BEFORE THE**  
5           **COMMISSION OR OTHER REGULATORY AUTHORITIES?**

6   A.   Yes. I sponsored testimony in CenterPoint Houston's last rate case in Docket No.  
7           49421 in 2019.

8   **Q.   ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

9   A.   I am testifying on behalf of CenterPoint Houston

10                           **II.    PURPOSE AND SCOPE OF TESTIMONY**

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

13   A.   The purpose of my testimony is to discuss the services provided by EMO and to  
14           support the reasonableness and necessity of O&M expenses for EMO for the 12  
15           months ending December 31, 2023 (the "Test Year"). During the Test Year, EMO  
16           incurred approximately \$11.3 million in direct O&M expenses. I will support Test  
17           Year costs of EMO by describing the processes that EMO employs to accomplish  
18           its objectives in an efficient, effective, and cost-conscious manner.

19                       In addition to the EMO function, I will discuss the credit risk associated  
20           with CenterPoint Houston's role in the retail electric market and will support the  
21           Company's recovery of CR-related bad debt expense. I will also support Company  
22           costs related to SMT.



1    **Q.    WHAT AMOUNTS IN THE COMPANY'S PROPOSED COST OF**  
2    **SERVICE DOES YOUR TESTIMONY SUPPORT?**

3    A.    My testimony supports \$11.3 million in O&M costs associated with EMO,  
4    including \$3.2 million of costs related to SMT.

5    **Q.    HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH YOUR**  
6    **TESTIMONY?**

7    A.    No.

8    **Q.    HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF**  
9    **OTHER WITNESSES IN THIS PROCEEDING?**

10   A.   Several of the specific issues that I address in my direct testimony are also  
11   supported by other CenterPoint Houston witnesses. First, my testimony addresses  
12   the planning and budgeting for EMO and SMT costs. Other aspects of those topics  
13   are addressed and supported by Company witness L. Darren Storey. Company  
14   witness Ann Bulkley discusses the overall risk profile of CenterPoint Houston and  
15   discusses the risks associated with the Company's CR customer base, which I also  
16   discuss briefly below. Company witness Shonda Royston-Johnson discusses the  
17   Customer Operations organization, of which EMO is a part.

18   **Q.    WAS YOUR TESTIMONY, INCLUDING ASSOCIATED EXHIBITS**  
19   **PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND**  
20   **CONTROL?**

21   A.    Yes.

1           **III.    ORGANIZATION, FUNCTIONS, AND COSTS OF EMO**

2   **Q.    HOW IS EMO ORGANIZED?**

3   A.    EMO is part of the Customer Operations organization; the rest of the Customer  
4   Operations organization is discussed by Company witness Ms. Royston-Johnson.  
5   EMO is comprised of four functional areas organized into seven independent  
6   functional groups operating under that management structure:

7           1.   **Transaction Management**, which includes:

- 8                   a.   Enrollment Transaction Management,  
9                   b.   Service Order Transaction Management,  
10                  c.   Billing and Usage Transaction Management, and  
11                  d.   Issue Resolution;

12          2.   **Business Consulting**;

13          3.   **Electric Market Relations**; and

14          4.   **Program Management**.

15   **Q.    HOW HAVE THE FUNCTIONS AND ORGANIZATION OF EMO**  
16   **CHANGED SINCE THE LAST RATE CASE?**

17   A.    At the time of CenterPoint Houston's last rate case, the Company's credit and  
18   business risk management function was organizationally part of EMO. During the  
19   Test Year, the Company's Credit and Business Risk team transitioned to be part of  
20   the Company's Billing and Credit group. However, I discuss this function in my  
21   testimony due to its relationship to Company's role in the retail electric market.

1                                   **A. TRANSACTION MANAGEMENT**

2   **Q.     CAN YOU DESCRIBE THE TRANSACTION MANAGEMENT GROUP**  
3           **AND ITS FUNCTIONS?**

4   A.     Transaction Management is responsible for the processing and delivery of all  
5           electronic transactions related to CenterPoint Houston's role in the competitive  
6           retail electric market, including, enrollments, service orders, and billing and usage  
7           transactions. The work of Transaction Management is accomplished by four teams:  
8           Enrollments; Service Orders; Billing and Usage; and Issue Resolution. All  
9           Transaction Management teams are responsible for executing and monitoring the  
10          processes and controls that ensure the processing of retail market transactions in  
11          compliance with the applicable rules and protocols. The teams are also responsible  
12          for resolving processing exceptions and errors in a timely manner.

13                               **1. Enrollment Transaction Management**

14   **Q.     WHAT IS THE ENROLLMENT TRANSACTION MANAGEMENT**  
15           **GROUP AND WHAT ARE ITS RESPONSIBILITIES?**

16   A.     Enrollment Transaction Management is responsible for monitoring and controls  
17          related to enrollment transactions. An enrollment transaction is a transaction that  
18          results in the change of the CR of Record and includes Switch Requests, Move-In  
19          Requests, Move-Out Requests, and any subsequent date changes or cancellations.  
20          This group also handles premise-level transactions for updates of premise  
21          information, addresses, meter exchanges and load profile changes.

22                 Enrollment Transaction Management personnel are responsible for  
23          real-time monitoring of enrollment transactions being processed through the

CenterPoint Houston systems as well as root cause analysis and correction of overdue or failed market transactions relating to enrollment requests. The team works to address and provide timely resolution of inquiries from CRs regarding Retail Customer accounts and resolves market exceptions relating to enrollments, including inadvertent switches or disputed enrollments.

**Q. WHAT OTHER RESPONSIBILITIES DOES THE ENROLLMENT TRANSACTION MANAGEMENT GROUP HAVE?**

A. Enrollment Transaction Management also collaborates with the Information Technology ("IT") department and the EMO Business Consulting team to develop and deliver system enhancements by defining requirements, participating in functional design, and performing user testing. The team is also responsible for translating new market rules into actual internal system requirements for CenterPoint Houston to ensure the Company's compliance with these standards.

**2. Service Order Transaction Management**

**Q. WHAT IS THE SERVICE ORDER TRANSACTION MANAGEMENT GROUP AND WHAT ARE ITS RESPONSIBILITIES?**

A. Service Order Transaction Management personnel are responsible for monitoring delivery and completion of transactions relating to the disconnection and reconnection of service at a customer's premise, meter tests, meter re-reads, meter exchanges, and a variety of additional service-related orders. Service Order Transaction Management personnel are responsible for real-time monitoring of service order transactions being processed through the CenterPoint Houston systems as well as root cause analysis and correction of overdue market transactions

1 relating to enrollment requests. Service Order Transaction Management uses the  
2 MarkeTrak tool<sup>1</sup> to address and ensure timely resolution of inquiries from CRs  
3 regarding Retail Customer accounts and reviews and resolves market exceptions  
4 and disputes relating to service order transactions.

5 Like Enrollment Transaction Management, Service Order Transaction  
6 Management also works closely with the IT department and Business Consulting  
7 in the development of enhancements related to service order transaction processing,  
8 including requirements, functional design and testing. This group's efforts reduce  
9 the need for manual intervention processes, which in turn creates a more effective  
10 and efficient operation. Service Order Transaction Management is also responsible  
11 for leading and coordinating the Company's participation in external retail market  
12 testing. This end-to-end market-wide testing is performed three times each year  
13 with ERCOT, transmission and distribution service providers ("TDSPs"), and CRs  
14 to both support the certification of new CRs entering the retail electric market as  
15 well as test any new or updated electronic data interchange ("EDI") Texas standard  
16 electronic transactions ("TX SET") or other market-wide system process changes.

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<sup>1</sup> The MarkeTrak tool is a web-based database application used to track, manage and store data utilized by ERCOT and the market participants. Several of the functional groups within Market Operations use MarkeTrak to track and resolve certain types of retail market transaction issues and data discrepancies, including usage and billing issues, CR of Record discrepancies, and missing transactions, among others. CenterPoint Houston resolved 60,228 issues in MarkeTrak during the Test Year.

**3. Billing & Usage Transaction Management**

**Q. WHAT IS THE BILLING AND USAGE TRANSACTION MANAGEMENT GROUP AND WHAT ARE ITS RESPONSIBILITIES?**

A. Billing and Usage Transaction Management manages all matters regarding billing and usage transactions, including delivering accurate usage and invoice transactions for Tariff-based retail delivery charges that are rendered to CRs. The team closely monitors transaction delivery to ensure that the usage transactions are loaded into MarkeTrak. During the Test Year, CenterPoint Houston delivered approximately 68.8 million monthly billing and usage transactions to the market. The group is also responsible for the daily delivery of 15-minute interval usage data to ERCOT and SMT from approximately 2.8 million AMS meters. The 15-minute interval data is used by ERCOT for the settlement of the wholesale power market. SMT provides the interval data to CRs and authorized third parties for the use in delivering pricing plans and services to end-use customers. During the Test Year, CenterPoint Houston delivered more than 2.06 billion AMS interval usage records to ERCOT and SMT.

Billing and Usage Transaction Management resolves transaction processing exceptions and addresses missing or disputed monthly and interval usage or billing transactions. The group also collaborates with the IT department and EMO's Business Consulting team to develop and deliver system enhancements by defining requirements, participating in functional design, and performing user testing.

#### 4. Issue Resolution

**Q. WHAT IS THE ISSUE RESOLUTION GROUP AND WHAT ARE ITS RESPONSIBILITIES?**

A. The Issue Resolution group is primarily responsible for the back-end exception processing required for transactions received from the market into CenterPoint Houston's systems, primarily SAP. SAP is the system of record for all premises in CenterPoint Houston's territory, and contains all relevant data related to each premise, including CR of Record, enrollment history, and usage history. While each of the Transaction Management groups processes various types of system exceptions, Issue Resolution focuses on exceptions related specifically to SAP. Issue Resolution is tasked with clearing inbound orders (such as Move-In Requests) that are pending due to an exception, as well as analyzing and processing orders that require manual intervention to resolve errors or exceptions. An example of an exception that this group might encounter is the receipt of a Move-In Request for a premise where the meter has been previously removed. In that event, the electronic Move-In Request transaction would fail in CenterPoint Houston's SAP, and an issues resolution analyst is required to review and resolve this issue. Additionally, this group identifies system issues that may prevent the automated transfer of transactions from the SAP to our field workforce management system.

**Q. HOW DOES CENTERPOINT HOUSTON MEASURE THE EFFICIENCY OF TRANSACTION PROCESSING?**

A. The Company reports a variety of transaction-related metrics on a quarterly basis to the Commission as prescribed by 16 TAC § 25.88, *Retail Market Performance*

1       *Measure Reporting.* CenterPoint Houston's Performance Measure Reports  
2       encompass metrics regarding many facets of transactional activity, including the  
3       Company's Retail Customer enrollment and meter reading success rates.

4               ERCOT, independent of any report that CenterPoint Houston provides to  
5       the Commission, files a quarterly Performance Measures Report as defined in  
6       Project No. 36141, *Retail Performance Measure Reports Pursuant to PUC Subst.*  
7       *R. § 25.88 Beginning 3<sup>rd</sup> Quarter 2008*, to provide the market and CenterPoint  
8       Houston with information concerning the timeliness of the delivery of transactions  
9       to the market. ERCOT analyzes CenterPoint Houston's transaction data to  
10      calculate a compliance percentage according to relevant ERCOT protocols. Of the  
11      market-initiated Move-In Request and Switch Request transactions processed in the  
12      TMH in 2023, ERCOT determined that CenterPoint Houston responded to these  
13      transactions at a 100% accuracy level in accordance with ERCOT protocol  
14      standards. Transaction Management's efforts to monitor and ensure the efficiency  
15      of daily transaction processing, along with timely exception resolution and the  
16      manual work-around efforts regarding these Move-In Request and Switch Request  
17      transactions, directly improve customer enrollment and meter-reading success  
18      rates.

19              ERCOT provided quarterly assessments measuring the Company's monthly  
20      performance concerning transactions received by ERCOT from CenterPoint  
21      Houston in 2023. These measurements are summarized in Figure 1 below.



**Figure 1**

<b>Transaction Description</b>	<b>Measure</b>	<b>Transaction Quantity (Annual)</b>	<b>Transaction Percentage Within Protocol</b>	<b>Protocol Performance Requirement</b>
Switch Notification Response	B-1a)	443,632	100%	98%
Historical Usage Request	B-2	418,973	100%	98%
Move-In Notification Response with No Permit Requirement	B-1b)	489,799	100%	98%
Historical Usage Request	B-2	402,851	100%	98%
Move-In Notification Response with No Permit Requirement	B-1c)	651,993	100%	98%
Historical Usage Request	B-1c)	597,682	100%	98%
Move-Out Response	B-1d)	276,458	100%	98%
Ad-hoc Historical Usage Response	B-2a)	115,677	100%	98%
Historical Usage Request	B-2a)	110,028	100%	98%
Monthly Meter Reading	B-2b)	38,629,406	Not Calculated	No Requirement

As Figure 1 shows, CenterPoint Houston exceeded the required performance level for each transaction type.

## **B. BUSINESS CONSULTING**

**Q. WHAT IS THE BUSINESS CONSULTING GROUP AND WHAT ARE ITS FUNCTIONS?**

A. The Business Consulting group is responsible for designing and implementing system and process enhancements to improve the functioning and efficiency of CenterPoint Houston's transaction processing systems. The group also manages system and process changes that are necessary to comply with changes in Commission rules, ERCOT protocols, or other market rules. The business analysts in Business Consulting evaluate rule or protocol changes and then define business requirements that internal processes and systems must meet. The team then

1 collaborates closely with other EMO groups and IT on functional design. Once the  
2 changes are programmed by IT, Business Consulting tests the changes to ensure  
3 that the requirements are met and that the system functions as designed. In some  
4 cases, changes are not driven by new rules or protocols, but are necessary to  
5 maintain or upgrade the Company's IT systems. Business Consulting leads the  
6 testing effort related to such upgrades to ensure that the upgrades are implemented  
7 without negatively impacting transaction processing.

8 Since 2021, Business Consulting has transitioned its project management  
9 methodology to the Agile delivery model, which uses a cross-functional team  
10 approach to deliver process and system enhancements faster and more efficiently  
11 than the traditional "waterfall" method of project management. EMO's transition  
12 to the Agile delivery model is discussed in more detail later in my testimony.

### 13 **C. ELECTRIC MARKET RELATIONS**

14 **Q. WHAT IS THE ELECTRIC MARKET RELATIONS GROUP AND WHAT**  
15 **ARE ITS RESPONSIBILITIES?**

16 A. The Electric Market Relations group utilizes a broad range of experience,  
17 knowledge and specialized skills to provide an effective interface between the  
18 Company and CRs, ERCOT, the Commission, and other market participants.

19 Electric Market Relations' personnel provide a single point of contact and  
20 accountability for CRs, with 24/7 availability to answer questions, resolve issues  
21 and facilitate necessary field activities. In addition, this group provides an effective  
22 liaison between CRs and all business units and functions within the CenterPoint

1 Houston organization to ensure that CRs' needs for timely service and resolution  
2 of issues are being addressed by the appropriate internal parties.

3 Electric Market Relations also works to develop and execute  
4 communication strategies designed to provide CRs with timely and accurate  
5 information concerning CenterPoint Houston system issues, significant service  
6 interruptions, emergency operations events, weather-moratorium events, Tariff  
7 changes, and other relevant market information as required.

8 In addition, Electric Market Relations acts as a liaison between CenterPoint  
9 Houston and ERCOT, providing leadership and participation to multiple  
10 subcommittees, working groups and task forces in the ERCOT stakeholder process.

11 Through involvement in the ERCOT working groups, Electric Market  
12 Relations plays an active role in keeping CenterPoint Houston aware of market  
13 rules and ensuring compliance with those rules. Additionally, in coordination with  
14 CenterPoint Houston's Regulatory Group, the team actively monitors rulemakings  
15 at the Commission to ensure that the Company complies with any new statutory,  
16 regulatory, or ERCOT requirements.

17 **Q. HAS THE ELECTRIC MARKET RELATIONS GROUP EMPLOYED**  
18 **AUTOMATED SYSTEMS TO IMPROVE A CR'S EXPERIENCE WITH**  
19 **EMO?**

20 **A.** Yes, Electric Market Relations maintains several digital channels that provide  
21 information and functionality to CRs, customers, and other market participants.

22 **Competitive Retailer Support website.** Electric Market Relations  
23 actively manages the CenterPoint Houston CR portion of the CenterPoint Energy,

1 Inc. ("CNP") corporate website. The CR Support website includes relevant  
2 information related to starting a business as a CR in CenterPoint Houston's service  
3 territory, as well as other useful retail market related information, forms, and links.  
4 The availability of the website allows CRs to obtain the information they need  
5 without having to call an Account Manager or the CenterPoint Houston call center.  
6 The website is also used to provide critical information to CRs regarding the  
7 Company's operations during Emergency Operations events.

8 **Competitive Retailer Information Portal ("CRIP").** CRIP is a secure  
9 website that contains data available only to the CR of Record serving a particular  
10 customer's premise. This data includes premise specific information concerning  
11 rate class, permit requirements, service voltage, meter information and more. In  
12 addition, CRIP provides specific transactional status data for service order and  
13 enrollment transactions, usage data, and usage and invoice transaction information.  
14 Having this data available to the CRs in a secure manner on a 24/7 automated basis  
15 has eliminated many e-mails and telephone calls from CRs to Electric Market  
16 Relation's Account Management staff and the CenterPoint Houston call center that  
17 would have otherwise been required to obtain this information necessary for daily  
18 CR operations. Following a major upgrade in early 2023, CRIP also provides the  
19 ability for CRs to upload "Safety Net" Move-In requests, which are a market  
20 workaround for instances in CRs need to energize service outside of the normal  
21 transactional process. CRIP's Safety Net functionality automates a previously  
22 manual process.

1 CRIP also provides a usage history request function, which allows CRs and  
2 third-party service providers to obtain usage history for prospective customers.  
3 This function is essentially an online version of the market's Letter of Authorization  
4 process, and greatly reduces the volume of manual usage requests fulfilled by  
5 CenterPoint Houston. In 2023, the CRIP usage history function fulfilled 662,463  
6 requests for usage history.

7 **The Demand and Energy Information System ("DEIS").** DEIS is  
8 another automated system that is utilized by end-use retail customers, including  
9 Interval Data Recorder ("IDR") customers whose interval data is not on SMT, to  
10 access usage information about their specific premises. In 2023, DEIS was utilized  
11 111,234 times to obtain this usage information. DEIS is designed for and used by  
12 end-use retail customers, and empowers those customers to obtain usage  
13 information from CenterPoint Houston's automated system without the need to  
14 contact CenterPoint Houston or their CR.

#### 15 **D. PROGRAM MANAGEMENT**

16 **Q. WHAT IS THE PROGRAM MANAGEMENT GROUP AND WHAT ARE**  
17 **ITS FUNCTIONS?**

18 A. The Program Management group primarily manages CenterPoint Houston's  
19 responsibilities related to the SMT portal. SMT is a website that provides access  
20 to smart meter data to end-use retail customers, CRs, and other customer-authorized  
21 third parties in the ERCOT region. SMT is jointly owned and operated by  
22 CenterPoint Houston, Oncor Electric Delivery Company, LLC, AEP Texas Inc.,  
23 and Texas-New Mexico Power Company, under a Joint Development and

1        Operation Agreement (“JDOA”). The parties to the JDOA contract with a vendor  
2        for the design, development, and ongoing operation of SMT. Program  
3        Management works with the parties to the JDOA to ensure that SMT meets the  
4        Commission and ERCOT rules and requirements, and interfaces seamlessly with  
5        CenterPoint Houston’s systems.

6        **Q.    HOW ARE THE COSTS RELATED TO SMT TREATED IN THIS CASE?**

7        A.    The costs associated with the original version of SMT were recovered and  
8        reconciled in CenterPoint Houston’s AMS surcharge proceedings. Since the final  
9        reconciliation of CenterPoint Houston’s AMS costs in Docket No. 47364,<sup>2</sup> SMT  
10       costs have been accumulated in a regulatory asset for recovery in a future rate case.  
11       The regulatory asset and associated recovery is discussed by Ms. Colvin.

12       **Q.    HOW ARE CENTERPOINT HOUSTON’S SMT COSTS DIFFERENT**  
13       **FROM OTHER ONGOING EXPENSES?**

14       A.    Because SMT is operated in conjunction with parties to the JDOA under a contract  
15       with a third-party service provider, CenterPoint Houston does not have the same  
16       ability to manage and reduce costs associated with SMT in the same way that it  
17       manages the costs of internal operations. SMT O&M costs are negotiated as part  
18       of the contract between the SMT host and the JDOA. During the Test Year,  
19       CenterPoint Houston’s share of SMT O&M expenses was \$3.2 million.

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<sup>2</sup> *Application of CenterPoint Energy Houston Electric, LLC for the Final Reconciliation of Advanced Metering Costs*, Docket No. 47364, Final Order (Dec. 14, 2017).

#### IV. COST CONTROL

Q. WHAT DOES EMO DO TO BUDGET, MONITOR, AND CONTROL COSTS?

A. The preparation and use of EMO's budget is the primary way in which the Company budgets, monitors, and controls costs for EMO. The overall budget planning for the Company is under the direct management of Darren Storey, who will further describe the overall business planning process in his direct testimony in this proceeding. The EMO's budget is derived as part of this process. Actual expenses are monitored and managed against budgeted amounts on a monthly basis, and variances are investigated. Forecasts and changes to the budget are made monthly to evaluate and analyze spending levels and to maximize system-wide cost control.

**Q. HAS MARKET OPERATIONS UNDERTAKEN INITIATIVES TO CONTROL COSTS?**

A. Yes. Market Operations continuously works to identify and evaluate automated processes and system enhancements that can reduce the manual processing and intervention required to resolve transactional processing issues. These initiatives allow Market Operations to handle increased transaction volumes and respond to changing market requirements while maintaining stable costs.

**Q. WHAT ARE SOME EXAMPLES OF INITIATIVES THAT HAVE IMPROVED THE EFFICIENCY OF PROCESSES?**

A. **Continuous Improvement.** Over the past two years, EMO embarked on a program to apply Continuous Improvement methods and principles to several of our

1 processes in an effort to improve performance and efficiency. One of the processes  
2 that was addressed was Production Monitoring, the process by which EMO  
3 monitors daily transaction flow to identify processing issues and delays.  
4 Previously, EMO analysts would manually query the systems throughout the day  
5 for delayed or “stuck” transactions. After a process to fully understand the current  
6 state, identify waste and inefficiency, and design a new future state, an automated  
7 dashboard was developed to display end-to-end transaction flows. Processing  
8 issues can now be detected and remedied much more quickly with less manual  
9 effort.

10 **Agile Delivery.** Beginning in 2021, EMO transitioned its project  
11 management methodology to the Agile delivery model. The Agile delivery model  
12 uses a cross-functional team approach to deliver process and system enhancements  
13 faster and more efficiently. IT department, the Agile framework allows EMO to  
14 prioritize, design, test and deliver system enhancements faster and more efficiently,  
15 by breaking the work into its smallest parts and delivering those work items in three  
16 week “sprints.” EMO has used the Agile methodology to reduce transaction  
17 exceptions and automate previously manual processes.

18 **CRIP Enhancements.** In 2023, CenterPoint Houston implemented  
19 upgrades to CRIP. CRIP provides premise-level information and transaction status  
20 to CRs, as well as historical usage. The use of CRIP to obtain information reduces  
21 the need for CRs to contact CenterPoint Houston’s call center. CRIP also provides  
22 the ability for CRs to upload “Safety Net” Move-In requests, which are a market  
23 workaround for instances in which CRs need to energize service outside of the



1 normal transactional process. CRIP's Safety Net functionality automates a  
2 previously manual process.

3 **Q. PLEASE PROVIDE EXAMPLES OF THE TYPES OF PLANNED MAJOR**  
4 **PROJECTS FOR WHICH EMO WILL BE RESPONSIBLE.**

5 A. EMO is or will be implementing the following major projects:

6 **Texas SET Version 5.0.** In 2024, transmission and distribution utilities  
7 ("TDUs"), CRs, and ERCOT will implement a major update to the TX SET that  
8 provides the framework for Electronic Data Interchange in the Texas retail electric  
9 market. TX SET version 5.0 is the first major update to TX SET since 2012, and  
10 includes process enhancements, new data fields, new purpose codes, and other  
11 changes designed to make processes more efficient and to add functionality that  
12 benefits market participants and end-use customers. The changes were developed  
13 in the ERCOT stakeholder process over several years and will be implemented in  
14 the fourth quarter of 2024. The changes require extensive coding and testing by all  
15 market participants, including a market-wide testing effort prior to go-live.

16 **Additional CRIP Enhancements.** In 2024, EMO will implement further  
17 enhancements to CRIP. The enhancements will include single sign-on capability  
18 to enhance security and improve how CR administrators assign users to the system.  
19 The CRIP historical usage function will be enhanced to include the current DEIS  
20 functionality, resulting in one market-facing historical usage system.

21 **Q. WHY IS ELECTRIC MARKET OPERATIONS NECESSARY FOR**  
22 **END-USE RETAIL CUSTOMERS AND CRS?**

1     A.     The EMO's services are necessary to ensure that the CRs and Retail Customers  
2     receive their service order, enrollment, and billing & usage transactions in both a  
3     timely and accurate manner. EMO accomplishes high quality services through the  
4     transaction monitoring process, as well as through coordination with multiple  
5     internal CenterPoint Houston personnel and external market participants. EMO  
6     provides accurate and efficient transaction processing and timely exception  
7     resolution which are necessary to ensure that Switch Requests, Move-In Requests,  
8     Move-Out Requests, and other customer-initiated order transactions are executed  
9     in a timely manner and within ERCOT protocols. Efficient transaction processing  
10    and timely exception resolution involving monthly meter read transactions sent by  
11    CenterPoint Houston enable CRs to bill the Retail Customer accurately, with  
12    validated usage data. Also, the daily interval usage data enabled by advanced  
13    metering systems ("AMS") that the Company transmits to MarkeTrak is also  
14    validated for accuracy according to industry standards so that all financial  
15    settlements of the wholesale market are based upon validated accurate information.

16           In the event Company must exercise exceptions or special processing  
17    requirements, the Electric Market Relations group is the single point of contact for  
18    CRs and the Company to coordinate any necessary field activities or other actions  
19    needed to facilitate the timely resolution of retail issues. Electric Market Relations'  
20    participation in the ERCOT stakeholder process plays a crucial role in the  
21    functioning of the ERCOT market so that the Company, CRs, ERCOT, the  
22    Commission and market participants have an informed understanding of the

1 complexities of changes to market transaction processes and other rules and  
2 protocols impacting the retail market served by CenterPoint Houston.

3 **V. CENTERPOINT HOUSTON'S CREDIT RISK AND BAD DEBT**

4 **Q. WHAT ARE CENTERPOINT HOUSTON'S CREDIT AND BUSINESS**  
5 **RISKS ASSOCIATED WITH THE TEXAS RETAIL ELECTRIC**  
6 **MARKET?**

7 A. The major credit risk that CenterPoint Houston encounters is CR delinquency and  
8 default. In contrast to TDUs that operate within Texas, but outside the ERCOT  
9 region, CenterPoint Houston bills and collects receivables from CRs rather than  
10 Retail Customers. In the Texas competitive retail electric market, this risk is  
11 substantial because receivables are concentrated over a much smaller customer  
12 base— i.e., TDUs do not directly serve Retail Customers; TDUs serve CRs, which  
13 serve Retail Customers. Therefore the customer base of TDUs (made up of CRs) is  
14 much smaller than the customer base of CRs (made up of Retail Customers).  
15 CenterPoint Houston's customer base entails roughly 81 CRs, meaning CenterPoint  
16 Houston's receivables are dispersed among 81 entities as opposed to having the  
17 receivables dispersed among millions of Retail Customers like the TDUs that  
18 operate within Texas, but outside the ERCOT region. Additionally, many of the 81  
19 CRs are subsidiaries of the same parent company. When common ownership is  
20 taken into account, approximately 61% of CenterPoint Houston's receivables are  
21 concentrated among three parent companies that own 15 CRs.

1   **Q.   HAS CENTERPOINT HOUSTON EXPERIENCED CR DEFAULTS OR**  
2       **CRS CEASING TO DO BUSINESS?**

3   A.   Yes.

4   **Q.   HOW DO THE COMMISSION'S RULES PROVIDE FOR MITIGATION**  
5       **OF BAD DEBT RELATED TO TRANSITION OR SYSTEM**  
6       **RESTORATION CHARGES?**

7   A.   Commission Rules (e.g., 16 TAC § 25.108), Company's Tariff, and various  
8       Commission securitization financing orders (e.g., Docket Nos. 52321 and 52322)  
9       require CRs to provide security for Transition Charges ("TCs") and System  
10      Restoration Charges ("SRCs"). This security may be in the form of a cash deposit,  
11      letter of credit, affiliate guarantee, or other form of security. In lieu of security,  
12      CRs may show that they have an investment-grade credit rating; however, only two  
13      of the approximately 81 CRs active in CenterPoint Houston's service territory  
14      currently have an investment-grade credit rating.

15   **Q.   HOW DO THE COMMISSION'S RULES PROVIDE FOR MITIGATION**  
16       **OF BAD DEBT RELATED TO OTHER DELIVERY CHARGES?**

17   A.   The Tariff for Retail Delivery Service allows the Company to collect deposits to  
18       secure non-securitization related Delivery Charges only after a CR defaults, and for  
19       two years after the default. While this provision provides limited mitigation for  
20       bad debt exposure after a CR default, the Tariff itself provides no mitigation for the  
21       original default.

22               16 TAC § 25.107(j)(2), *Certification of Retail Electric Providers (REPs)*  
23       requires TDUs, such as CenterPoint Houston, to create a regulatory asset for bad

1 debt expense related to a REP default on delivery charges, the amortization of  
2 which is to be included as a recoverable cost in the utility's next rate case.

3 **Q. HOW DOES CENTERPOINT HOUSTON CONTROL DELINQUENCIES**  
4 **AND MITIGATE THE EFFECT OF CR DEFAULTS AND**  
5 **BANKRUPTCIES?**

6 A. The Credit Risk Group, which used to be part of the EMO, is responsible for  
7 mitigating bad debt for CenterPoint Houston. Credit Risk has assigned Credit Risk  
8 Analysts who monitor CR account activity on a daily basis, looking at the incoming  
9 invoice payments to detect potential CR financial distress. Credit Risk Analysts  
10 communicate with CRs to resolve invoice disputes and/or collect outstanding  
11 invoices to reduce or eliminate delinquencies, which ultimately mitigate defaults.

12 Credit Risk Analysts also conduct quarterly TC and SRC evaluations that  
13 involve analysis of a CR's credit rating. The rating of each CR is regularly analyzed  
14 to determine whether there has been a significant change since the previous  
15 analysis, and to determine if a change in the amount of any TC and SRC security  
16 deposit is warranted at the time of the review. The Credit Risk group regularly  
17 reviews rating agency information to monitor CR financial performance during the  
18 period between quarterly credit rating reviews.

19 CenterPoint Houston is not currently permitted by Commission rule or  
20 Company's Tariff to charge any deposit amount or require other security in relation  
21 to the non-TC and non-SRC delivery charges except under limited circumstances,  
22 the Company is limited in its options for mitigating CR risk in the current market.  
23 Thus, it is absolutely imperative that Credit Risk remains actively involved in

1 managing the real-time CR account activity for the limited TC and SRC security  
2 deposits available for the Company's protection, as well as the day-to-day payment  
3 activity for outstanding delivery charge invoices, in order to minimize the impact  
4 of a CR default and reduce the size of the resulting regulatory asset. Credit Risk  
5 Analysts engage in daily open communication with CRs regarding late payments  
6 to resolve issues before a default situation occurs. Credit Risk Analysts also  
7 communicate with new CRs to ensure that payment obligations under the  
8 Company's Tariff are clearly understood.

9 **Q. PLEASE DESCRIBE THE CREDIT RISK GROUP'S RESPONSIBILITIES**  
10 **FOR ADMINISTERING TRANSITION AND SYSTEM RESTORATION**  
11 **BONDS.**

12 A. Credit Risk conducts a thorough review of each CR's bond deposit each quarter.  
13 All TC and SRC deposits are forwarded to and held by the Trustee of the  
14 corresponding TC and SRC bonds. The review is performed to determine if the  
15 amount held by the Trustee is sufficient to cover the requirements of 16 TAC  
16 § 25.108 , *Financial Standards for Retail Electric Providers Regarding the Billing*  
17 *and Collection of Transition Charges*, and various securitization financing orders  
18 referenced above. In these cases, the deposit amounts are adjusted up or down to  
19 reflect changes in the CR's load or changes to the various TC rates.

20 **Q. WHAT EVENTS OR CIRCUMSTANCES DROVE THE CR BAD DEBT**  
21 **ACCUMULATED IN THE REGULATORY ASSET SINCE**  
22 **CENTERPOINT HOUSTON'S LAST RATE CASE?**

1 A. Following Winter Storm Uri in February 2021 and the accompanying financial  
 2 challenges in the ERCOT wholesale energy market, five CRs defaulted on delivery  
 3 charge payments owed to CenterPoint Houston. After the Company's efforts to  
 4 collect the amounts owed were exhausted, the Company wrote off approximately  
 5 \$7.9 million to a Regulatory Asset. Figure 2 below lists the CRs that defaulted and  
 6 the corresponding amounts written off.

7 **Figure 2**

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

8

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

12 A. CenterPoint Houston communicated with the defaulted CRs throughout the  
 13 post-Uri period to attempt to collect as much of the outstanding debt as possible.  
 14 In several cases, the CRs declared bankruptcy, and the Company participated in the  
 15 bankruptcy proceedings. Through these efforts, the Company was able to recover  
 16 \$4.6 million of the original defaulted amounts.

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

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

1 Entrust Energy; Griddy Energy; Just Energy; Liberty Power; Power of Texas; and  
2 POGO Energy (collectively, the “Bankrupt CRs”).

3 **Q. WAS THE COMPANY INVOLVED IN THE BANKRUPT CRs’**  
4 **RESPECTIVE BANKRUPTCY CASES?**

5 A. Yes.

6 **Q. WHY DID THE COMPANY GET INVOLVED IN THE BANKRUPT CRs’**  
7 **BANKRUPTCY CASES?**

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

12 **Q. WHAT WAS THE NATURE AND EXTENT OF THE COMPANY’S**  
13 **INVOLVEMENT IN THE CRs’ BANKRUPTCY CASES?**

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



1

**Table 1**

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

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

1           respective bankruptcy cases.

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

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

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

19   A.   The purpose of the pre-payment arrangement was to mitigate the risk of  
20       non-payment of invoiced amounts accrued and due during the pendency of the  
21       Bankrupt CR's bankruptcy case. Normally, the Company provides a CR an invoice  
22       after the provision of service, and the CR has 35 days to pay the invoice. For a CR  
23       that is in bankruptcy, there is a greater risk of non-payment of invoiced amounts

1 accrued and due during the pendency of the Bankrupt CR's bankruptcy case. The  
2 pre-payment arrangement reduced the risk of non-payment by ensuring that the  
3 Bankrupt CR advance funds to the Company rather than have the Company wait  
4 for payment.

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

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

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

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

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

22 A. Yes. Each year CenterPoint Houston, as servicer of transition and securitization  
23 bonds approved by the Commission, performs a reconciliation for each CR on the

1 appropriate amount of deposit for transition and securitization charges for the  
2 upcoming year. For a CR that needs to increase its deposit amount for the upcoming  
3 year, the Company will issue an invoice. For a CR that is able to have a lower  
4 deposit amount for the upcoming year, the CR has an option of receiving the excess  
5 deposit amount or leaving the deposit amount as is. For the Bankrupt CRs that had  
6 an excess deposit after the Company's reconciliation, the Company was able to  
7 negotiate with the Bankrupt CR to apply the excess deposit to pay down invoiced  
8 amounts accrued and owed as of the Bankrupt CR's bankruptcy filing.

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

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

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

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

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

1           • Reduced the amount sought by the Company in the bad debt regulatory  
2           asset. Collectively, the Bankrupt CRs owed the Company approximately  
3           \$14.5 million.

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

7 VI. CONCLUSION

8 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

9 A. Yes.

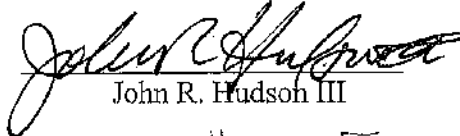
STATE OF Texas §  
COUNTY OF Waller §

**AFFIDAVIT OF JOHN R. HUDSON III**

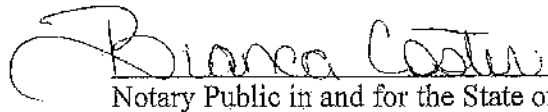
BEFORE ME, the undersigned authority, on this day personally appeared John R. Hudson III who having been placed under oath by me did depose as follows:

1. "My name is John R. Hudson III. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

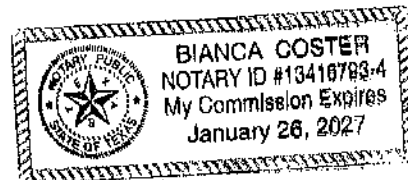
Further affiant sayeth not.

  
John R. Hudson III

SUBSCRIBED AND SWORN TO BEFORE ME on this 19<sup>th</sup> day of February,  
2024.

  
Notary Public in and for the State of Texas

My commission expires: Jan 26, 2027



THERE ARE NO WORKPAPERS  
TO  
THE DIRECT TESTIMONY  
OF  
JOHN R. HUDSON

**PUC DOCKET NO. 56211**

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

**DIRECT TESTIMONY**

**OF**

**KRISTIE L. COLVIN**

**ON BEHALF OF**

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC**

**MARCH 2024**



## TABLE OF CONTENTS

I.	INTRODUCTION .....	1
II.	RFP REQUIREMENTS.....	5
	A. General Compliance.....	5
	B. Exclusions Required .....	7
	C. Functionalization.....	7
III.	AFFILIATE TRANSACTIONS .....	8
	A. Executive Management.....	10
	B. Finance.....	15
	C. Chief Accounting Officer .....	19
IV.	RATE BASE.....	22
	A. Electric Plant in Service.....	23
	B. General Plant.....	25
	C. Communications Plant.....	26
	D. Accumulated Depreciation and Amortization .....	27
	E. Construction Work in Progress.....	28
	F. Electric Plant Held for Future Use.....	29
	G. Accumulated Provisions .....	30
	1. Insurance Reserves.....	30
	2. Accrued Benefit Restoration Costs .....	34
	H. Accumulated Deferred Income Taxes .....	35
	I. Materials & Supplies.....	36
	J. Cash Working Capital.....	38
	K. Prepayments.....	39
	L. Customer Deposits .....	43
	M. Regulatory Assets and Liabilities .....	44
	1. PURA § 36.065 Deferred Benefits .....	46
	2. Bad Debt .....	48
	3. COVID-19.....	49
	4. Hurricane Harvey .....	51
	5. Hurricane Ike .....	55
	6. Other Storm Costs.....	56
	7. Long Lead Time Facilities.....	57
	8. Expedited Switches.....	62
	9. Smart Meter Texas .....	64
	10. Load Management .....	66
	11. Medicare Part D Subsidy .....	66
	12. Excess Deferred Income Tax .....	67
	N. Construction Costs.....	68
	O. Other Rate Base Items .....	69
	P. Rate of Return.....	70

Q.	Return on Rate Base.....	71
V.	OVERALL COST OF SERVICE.....	72
A.	Operations and Maintenance/Administrative and General Expenses .....	72
1.	Energy Efficiency .....	74
2.	Transmission of Electricity by Others .....	74
3.	Transportation Depreciation .....	76
4.	Bad Debt Expense.....	76
5.	Workers' Compensation Expense.....	78
6.	Auto and General Claim Expense.....	78
7.	Direct and Affiliate Salaries and Wages.....	79
8.	Direct and Affiliate Employee Benefits.....	83
9.	Other Employee Expenses .....	83
10.	Prior Period Adjustments.....	85
11.	Non-Recoverable Costs .....	86
12.	Uninsured Property Loss Reserves .....	86
B.	Depreciation and Amortization.....	87
1.	Electric Plant in Service.....	87
2.	Non-Tax Regulatory Assets and Liabilities.....	90
3.	Tax-Related Regulatory Assets and Liabilities.....	91
C.	Other Expenses .....	93
D.	Federal Income Taxes .....	93
E.	Taxes Other Than Federal Income Tax .....	93
F.	Non-electric Revenues .....	96
VI.	ERCOT WHOLESALE TRANSMISSION COST OF SERVICE .....	99
VII.	OTHER ACCOUNTING MATTERS .....	99
A.	CLOUD COMPUTING.....	99
B.	INFLATION REDUCTION ACT .....	105
VIII.	RATE CASE EXPENSES .....	107
IX.	CONCLUSION.....	108

## LIST OF EXHIBITS

Exhibit KLC-01	Schedules Sponsored or Co-Sponsored by Kristie L. Colvin
Exhibit KLC-02	Business Records Affidavit
Exhibit KLC-03	Total Supported Rate Base
Exhibit KLC-04a	Rate Base Adjustments to Test Year Amounts
Exhibit KLC-04b	Rate Base Adjustments to Test Year Amounts – Explanations
Exhibit KLC-05	Supported Rate of Return
Exhibit KLC-06a	Revenue Requirement Adjustments to Test Year Amounts
Exhibit KLC-06b	Revenue Requirement Adjustments to Test Year Amounts – Explanations
Exhibit KLC-07	Supported Retail and Wholesale Revenue Requirement
Exhibit KLC-08	Workers' Compensation Reserve Study ( <b>Confidential</b> )
Exhibit KLC-09	Auto and General Insurance Reserve Study ( <b>Confidential</b> )
Exhibit KLC-10	Capitalization Policy and Capitalization of Computer Software Policy
Exhibit KLC-11	General Expense and Reimbursement Policy
Exhibit KLC-12	AFUDC and Capitalized Interest Policy
Exhibit KLC-13	Construction Overhead Policy

## **GLOSSARY OF ACRONYMS AND DEFINED TERMS**

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

## **GLOSSARY OF ACRONYMS AND DEFINED TERMS (cont'd)**

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

## **GLOSSARY OF ACRONYMS AND DEFINED TERMS (cont'd)**

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

**EXECUTIVE SUMMARY – ACCOUNTING****(KRISTIE L. COLVIN)**

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

My testimony and supporting materials:

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

**DIRECT TESTIMONY OF KRISTIE L. COLVIN**

**I. INTRODUCTION**

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

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

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

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

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

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

**Direct Testimony of Kristie L. Colvin  
CenterPoint Energy Houston Electric, LLC**



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

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

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

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

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

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

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

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

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

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

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

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

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

---

<sup>1</sup> See Section II, RFP Requirements.

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

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

10      A.    Yes.

11      **Q.    WHAT DIRECT ACCOUNTING COSTS DOES YOUR TESTIMONY**  
12      **SUPPORT?**

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

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

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

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

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

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

2 **II. RFP REQUIREMENTS**

3 **A. General Compliance**

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

6 A. The Company prepared the testimony, exhibits, and schedules in this proceeding as  
 7 described by 16 TAC § 25.231, as well as followed the instructions contained in  
 8 the Commission's RFP.<sup>2</sup>

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

11 A. Yes. The RFP requirements used in this rate proceeding are largely similar to the  
 12 instructions used in the Company's prior base rate case proceeding. However,  
 13 Section VI of the RFP has been expanded to include Schedules VI-M. These  
 14 schedules include certain transmission plant additions with a cost exceeding  
 15 \$250,000. Schedules VI-M are discussed further in the direct testimonies of  
 16 Company witnesses Eric D. Easton, David Mercado, and Mandie Shook.

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

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

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

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

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

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

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

1 misstatements; and

2 • to ensure compliance with applicable laws and regulations, including  
3 adherence to SOX.

4 **B. Exclusions Required**

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

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

20 **C. Functionalization**

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

23 A. Yes. As described in the RFP General Instructions using the definitions provided  
24 in 16 TAC § 25.341 and as further defined in 16 TAC § 25.344, the Company has

1 functionalized its cost of service and rate base into functions. The Company  
2 functionalized its costs and revenues, where appropriate, following the three-tier  
3 process as prescribed by RFP General Instruction No. 11.

4 **III. AFFILIATE TRANSACTIONS**

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

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

12 **Q. HAVE AFFILIATE COSTS BEEN INCLUDED IN THIS FILING?**

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

21 **Q. PLEASE DESCRIBE THE SERVICE COMPANY FUNCTION.**

22 A. Service Company personnel carry out corporate oversight, managerial functions,  
23 and specialized support activities (i.e., Legal, Human Resources) for CNP and its  
24 business units. Costs incurred by Service Company are initially recorded on its

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CenterPoint Energy Houston Electric, LLC

1 books and are then directly billed or allocated, as appropriate, to the appropriate  
 2 business units, which Mr. Storey addresses in his direct testimony. Mr. Storey,  
 3 along with other Company witnesses, provides greater detail on the functions  
 4 provided by Service Company to CenterPoint Houston.

5 **Q. PLEASE DESCRIBE THE CERC AFFILIATE FUNCTIONS.**

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

11 **Q. PLEASE DESCRIBE THE VUH AFFILIATE FUNCTIONS.**

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

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

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

20 **Q. DESCRIBE THE STEPS TAKEN TO FUNCTIONALIZE AFFILIATE**  
 21 **EXPENSES.**

22 A. Affiliate expenses were functionalized following the Operations and Maintenance  
 23 ("O&M") or Administrative and General ("A&G") schedules based on where the



1 underlying transaction occurred and then following the functionalization of that  
2 FERC account. For example, affiliate costs charged to FERC Account 5600 were  
3 traced to the function assigned on Schedule II-D-1, Operations and Maintenance.  
4 Please refer to Schedules II-D-1 and II-F for more functionalization detail.

5 **Q. DESCRIBE THE AFFILIATE ORGANIZATIONS YOUR TESTIMONY**  
6 **SUPPORTS.**

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

9 **Q. HOW ARE AFFILIATE COSTS BILLED TO THE COMPANY?**

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

20 **A. Executive Management**

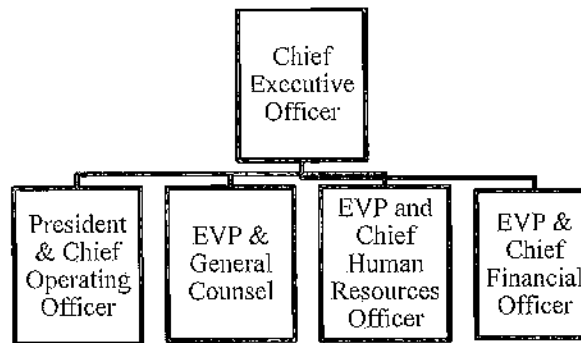
21 **Q. PLEASE DESCRIBE THE EM SERVICES PROVIDED BY SERVICE**  
22 **COMPANY DURING THE TEST YEAR.**

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

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CenterPoint Energy Houston Electric, LLC

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

**Figure 1. Executive Management**



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

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

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

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

A. In order to provide leadership, oversight and support services, EM incurs labor and third-party costs that are allocated to CNP business units using allocation factors as

1 defined in the cost allocation manuals sponsored by Mr. Storey and provided in  
2 Schedule V-K-4. Non-recoverable costs incurred by EM are recorded in the  
3 appropriate non-recoverable FERC accounts on the Company's books and records.

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

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

15 **Q. ARE EM SERVICES NECESSARY TO THE COMPANY?**

16 A. Yes. The services of the CEO relate to providing support to CNP and interfacing  
17 with the CNP board of directors, shareholders, the investment community,  
18 customers, and regulators. The CEO provides oversight and leadership of the  
19 overall operations of CNP, including CenterPoint Houston. Services from this  
20 function are focused on providing a vision for the organization, leading the  
21 development of the short-term and long-term strategy of the organization, assessing  
22 risk and establishing strategic goals, reviewing the market and expansion  
23 opportunities, providing oversight of the executive leaders in the Company, and

1 evaluating the financial and economic analysis of the Company, which are  
2 necessary functions for any large, publicly traded entity. The centralized structure  
3 of Service Company allows CNP to leverage executive resources across multiple  
4 business units in an efficient and cost-effective manner without duplicating those  
5 resources or functions within the Company itself. As discussed above, after the end  
6 of the test year, the title of this role changed to President & CEO, but the  
7 responsibilities remain unchanged.

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

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

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

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

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

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

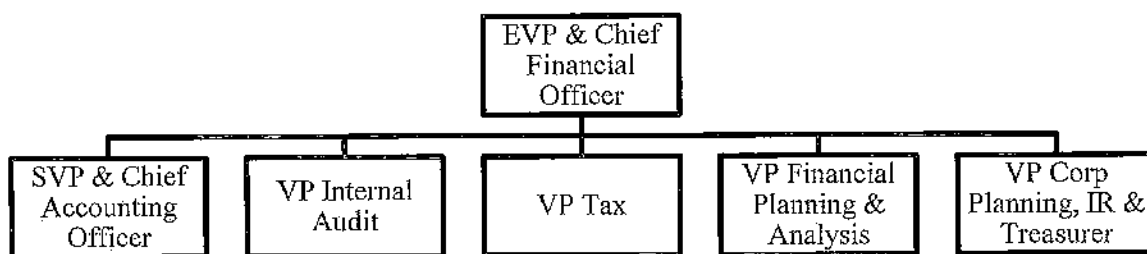
\$15.0 billion in Net Plant in Service, which is approximately 50% of total CNP Net Property, Plant and Equipment, and the Company's December 2023 reported Operating Income of \$994 million, which is approximately 56% of CNP's Operating Income for the period ending December 2023. Under the centralized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

#### **B. Finance**

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

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

**Figure 2. Finance Organization**



The Finance Organization provides support to ensure the Company is able to fund its operations daily, its vendors and employees are paid timely and accurately, and all financial and regulatory reporting requirements are met. In this way, the Finance Organization provides services that are necessary for the day-to-day functioning of

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CenterPoint Energy Houston Electric, LLC**

the Company both internally and externally. The activities of the Finance Organization are also critical to ensuring the Company meets monthly, quarterly and annual reporting requirements.

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

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

**Table 1 - List of Witness Testimony**

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

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

A. Yes. The Finance Organization activities noted above are corporate support activities that any utility would require on an ongoing basis. As noted for EM, if those activities were not provided by Service Company, CenterPoint Houston would need its own employees to perform the functions and services provided by the Finance Organization. Company witness Ms. Villatoro addresses the reasonableness of CNP's and CenterPoint Houston's employee labor market

1 salaries and benefit plans. Additionally, the services provided by the Finance  
2 Organization are under a Service Level Agreement (“SLA”), governing  
3 transactions with affiliates, which Mr. Storey provides with his direct testimony.  
4 As Mr. Storey testifies, the Finance Organization’s costs are controlled through  
5 CNP’s annual budget process and adherence to cost control processes. The  
6 Commission should authorize the Company to recover its Finance Organization  
7 costs through the rates set in this proceeding.

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

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

12 1. **Financial Planning and Performance Reporting** – coordinates and  
13 consolidates the corporate and business one-year plan, monthly forecast and  
14 performance reporting; supports the Service Company and affiliate billings  
15 to the business units; and supports regulatory filings across all jurisdictions.

16 2. **Financial Services** – provides accounts payable, remittance processing,  
17 corporate disbursement and payroll and benefits accounting services, as  
18 discussed below.

19 a. **Accounts Payable** – pays vendors accurately and in a timely manner,  
20 in compliance with CNP policy for items including, but not limited



- 1 to, construction services and materials, stock materials and  
 2 operating and maintenance services and materials for the Company.
- 3 b. Remittance Processing – processes payments, including customer  
 4 payments received for the Company’s account and other business  
 5 units; and performs significant controls to ensure payments are  
 6 processed accurately and cost effectively.
- 7 c. Corporate Disbursements – prints paychecks as well as checks  
 8 payable to vendors in compliance with company policies and  
 9 procedures; receives, scans and indexes invoices from vendors for  
 10 construction services and materials, stock materials and operating  
 11 and maintenance services and materials for the Company and other  
 12 business units.
- 13 d. Payroll and Benefits Accounting – provides accounting for payroll  
 14 and employee benefits, including payroll tax reporting and  
 15 accounting for executive benefits plans.

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

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

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

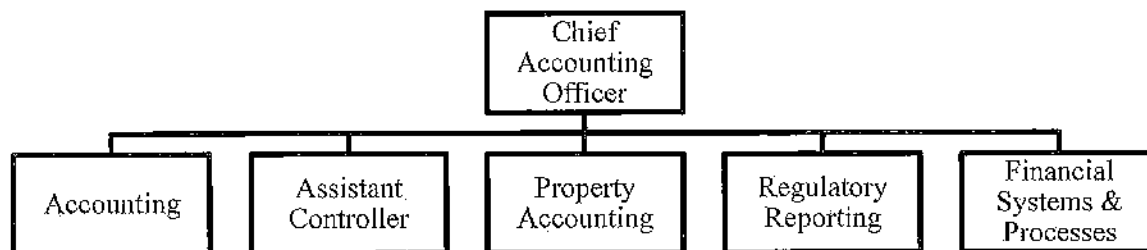
- Third-party costs that are applicable to and incurred on behalf of a specific business unit, such as consulting and professional services.

**C. Chief Accounting Officer**

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

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

**Figure 3. CAO Organization**



The CAO functions provide support to the Company as follows:

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

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

3 3. **Property Accounting** – tracks and reports on all capitalized assets and  
4 assists the business units with CNP’s capitalization policy.<sup>3</sup>

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

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

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

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

- 19 • Labor costs and expenses charged to specific business units. Employees  
20 who direct bill labor keep time records to document the activities they  
21 perform, their time records are entered into SAP, and billed to the specific  
22 business unit. For example, during the test year, Regulatory Reporting had  
23 personnel who worked exclusively on behalf of CenterPoint Houston for  
24 various annual reports and regulatory filings and whose costs discussed  
25 above are direct costs.
- 26 • Third-party costs that are applicable to and incurred on behalf of a specific

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<sup>3</sup> See Exhibit KLC-10 Capitalization Policy and Capitalization of Computer Software Policy  
Direct Testimony of Kristie L. Colvin  
CenterPoint Energy Houston Electric, LLC

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

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

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

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

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

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

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<sup>4</sup> *Id.*

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

#### 9 **IV. RATE BASE**

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

12 A. 16 TAC § 25.231(c)(2) defines rate base interchangeably with invested capital and  
 13 "includes as a major component the original cost of plant, property, and equipment,  
 14 less accumulated depreciation, used and useful in rendering service to the public."  
 15 Rate base primarily consists of the Company's investment in distribution and  
 16 transmission system assets and related intangible and general plant assets that make  
 17 up the original cost of utility plant, general plant and communication equipment,  
 18 used and useful in providing utility service to the public. These items are designated  
 19 as "plant" or Electric Plant in Service ("EPIS"). Plant is reduced by accumulated  
 20 depreciation and amortization to arrive at net plant in service. Other rate base items  
 21 include plant held for future use ("PHFU"), accumulated provisions (except  
 22 Accumulated Deferred Income Taxes ("ADIT"), ADIT, materials and supplies,  
 23 cash working capital, prepayments and other rate base items. The Company's total  
 24 requested rate base is approximately \$12.1 billion. The individual rate base

Direct Testimony of Kristie L. Colvin  
 CenterPoint Energy Houston Electric, LLC

1 components are described below and can be seen on Schedule II-B and Exhibit  
2 KLC-03. In addition, I address adjustments to rate base below, which are shown on  
3 Exhibit KLC-04a with explanations of the adjustments provided on Exhibit  
4 KLC-04b.

5 **A. Electric Plant in Service**

6 **Q. PLEASE DESCRIBE EPIS.**

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

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

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

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

21 A. Yes. ASC 410-20, *Asset Retirement Obligations*, requires the Company to estimate,  
22 recognize, and disclose the present value of future obligations related to the  
23 retirement or removal of assets. The Company is required to recognize the  
24 obligation as an ARO liability with a corresponding increase to the cost of the

Direct Testimony of Kristie L. Colvin  
CenterPoint Energy Houston Electric, LLC

1 related plant. Consistent with Docket Nos. 38339 and 49421, the Company has  
2 removed ARO from EPIS.

3 **Q. HAVE ANY OTHER ADJUSTMENTS BEEN MADE TO EPIS?**

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

11 **Q. HOW HAS EPIS BEEN FUNCTIONALIZED?**

12 A. The Company relies on the FERC USOA as guidance to functionalize the  
13 Company's EPIS. Consistent with prior rate cases, a significant portion of the  
14 Company's EPIS can be directly functionalized based on the FERC USOA;  
15 however, a small number of EPIS FERC accounts require additional examination  
16 to be properly functionalized. EPIS FERC Accounts 303 through 374 have been  
17 specifically mapped to the functions supported by those assets. FERC Accounts  
18 350 through 359 are primarily assigned to the transmission function, whereas FERC  
19 Accounts 360 through 374 have been specifically identified and functionalized to  
20 the distribution function, or to the metering function for FERC Account 370. 16  
21 TAC § 25.341 defines transmission and distribution to be "system and discretionary  
22 services associated with facilities" necessary to transform and move electricity

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<sup>5</sup> Also See WP/II-B-1.

1 from one point to another, and “related processes necessary to perform such  
 2 transformation and movement.”<sup>6</sup> Facilities or systems at or above 60 kilovolts are  
 3 transmission, whereas those below 60 kilovolts are distribution.

4 Exceptions for these FERC accounts relate to the specific identification of  
 5 substation land, facilities and equipment. Substation assets generating up to the  
 6 step-up transformer, from that point to the step-down transformer, are deemed to  
 7 be transmission. Beyond that point, the assets are deemed to be distribution. This  
 8 principle has been applied throughout the Company’s filing for substation-related  
 9 assets and costs. To determine the proper identification for FERC Accounts 350,  
 10 352, 353, 360, 361, and 362, transmission and distribution operations personnel  
 11 reviewed the charges within these FERC accounts and assigned the charges  
 12 according to the type of facility or service.

#### 13 **B. General Plant**

#### 14 **Q. WHAT IS GENERAL PLANT?**

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

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<sup>6</sup> 16 TAC § 25.341(5) defines “distribution,” and 16 TAC § 25.341(14) defines “transmission.”



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

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

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

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

11   **Q.    HOW HAS GENERAL PLANT BEEN FUNCTIONALIZED?**

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

14                   **C.    Communications Plant**

15   **Q.    WHAT IS COMMUNICATIONS PLANT?**

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

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<sup>7</sup> See WP/II-B-2.

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

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

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

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

11  **Q.   HOW HAS COMMUNICATION PLANT IN SERVICE BEEN**  
12       **FUNCTIONALIZED?**

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

17               **D.   Accumulated Depreciation and Amortization**

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

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

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<sup>8</sup> See WP/II-B-3.

1 **Q. WHAT IS INCLUDED IN ACCUMULATED DEPRECIATION AND**  
2 **AMORTIZATION?**

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

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

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

13 **Q. HOW HAS ACCUMULATED DEPRECIATION AND AMORTIZATION**  
14 **BEEN FUNCTIONALIZED?**

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

17 **E. Construction Work in Progress**

18 **Q. WHAT IS CONSTRUCTION WORK IN PROGRESS (“CWIP”)?**

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

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<sup>9</sup> See WP/II-B-5 for the depreciation study – retirements adjustment.

<sup>10</sup> See WP/II-B-5 for the ARO adjustment.

<sup>11</sup> See WP/II-B-5 for the asset reclass adjustment.

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

3 **Q. WHAT CWIP AMOUNTS ARE INCLUDED IN THIS RFP?**

4 A. The Company is not requesting recovery of any CWIP in this filing.<sup>12</sup>

5 **F. Electric Plant Held for Future Use**

6 **Q. WHAT IS ELECTRIC PLANT HELD FOR FUTURE USE (“PHFU”)?**

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

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

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

19 **Q. HOW ARE PHFU ASSETS FUNCTIONALIZED?**

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

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<sup>12</sup> 16 TAC § 25.231(c)(2)(D).

<sup>13</sup> See WP/II-B-6 for the PHFU adjustment.

**G. Accumulated Provisions**

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

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

**1. Insurance Reserves**

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

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

**Direct Testimony of Kristie L. Colvin  
CenterPoint Energy Houston Electric, LLC**

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

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

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

8 A. Yes. The Company utilized a self-insurance reserve established in Docket  
 9 No. 49421, in which the Commission agreed that the self-insurance reserve is  
 10 appropriate and found the Company’s property self-insurance reserve account to be  
 11 in the public interest and a lower-cost alternative than commercial insurance. The  
 12 Commission set (1) an annual accrual of \$3.575 million to provide for average  
 13 annual expected losses from events where losses are greater than \$100,000 and (2)  
 14 an accrual of \$4.11 million annual for three years to achieve a target reserve of  
 15 \$6.55 million from a reserve deficit level of (\$5.79 million).<sup>14</sup>

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

19 A. No. As of the end of the test year, the reserve account is at a deficit balance of \$42.0  
 20 million, which is approximately \$48.6 million less than the target reserve balance  
 21 of \$6.55 million approved in Docket No. 49421.<sup>15</sup> In each year following the final

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

<sup>15</sup> Docket No. 49421, Final Order at Finding of Facts 109-112 and Ordering Paragraph 25 (Mar. 9, 2020).

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

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

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

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

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

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<sup>16</sup> PURA § 36.403(j).

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

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

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

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<sup>17</sup> See WP/II-B-7.

<sup>18</sup> See WP/II-B-7 for the claims insurance receivable adjustment.

<sup>19</sup> See WP/II-B-7 for the Harvey and Uri reserve adjustment.



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

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

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

11 **2. Accrued Benefit Restoration Costs**

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

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

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

19 A. For the same reasons I discuss in IV.K. for the inclusion of the prepaid pension  
20 asset in prepayments, the benefit restoration plan associated with pension should  
21 also be included in rate base. In the case of the benefit restoration plan, CNP  
22 carries, on behalf of the Company, an accrued liability of \$5.3 million at the end of

1 the test year, which is included as a reduction to rate base as shown on Schedule  
 2 II-B-7.<sup>20</sup>

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

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

7 **H. Accumulated Deferred Income Taxes**

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

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

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

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

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<sup>20</sup> See WP/II-B-7 for the accrued benefit restoration cost adjustment.

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

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

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

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

9 **L. Materials & Supplies**

10 **Q. WHAT HAS THE COMPANY INCLUDED IN THIS FILING FOR**  
11 **MATERIALS & SUPPLIES (“M&S”)?**

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

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

18 A. Yes. The FERC USOA identifies certain assets as EPIS, whether actually in service  
19 or held in reserve. Specifically, the FERC USOA states that FERC 368 (line  
20 Transformers) and FERC 370 (Meters) include assets in service and those in  
21 reserve. The Company’s line transformers, previously included in M&S, were  
22 reclassified to EPIS in December 2023. The monthly balances of the M&S were,

1           therefore, reduced on Schedule II-B-8 in order to normalize the thirteen-month  
2           average of M&S.<sup>21</sup>

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

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

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

15   A.   As discussed further below in Section IV.M.7. of my testimony, the Company has  
16       included a regulatory asset in rate base related to M&S qualifying under PURA §  
17       39.918 as long-lead time facilities ("Qualifying LLTF") in this rate proceeding.

18   **Q.   HOW HAS THE COMPANY FUNCTIONALIZED M&S?**

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

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<sup>21</sup> See WP/II-B-8 for the transformer adjustment.