J. Cash Working Capital

Q. WHAT IS CASH WORKING CAPITAL?

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

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

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

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

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

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

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

Q. HOW HAS THE COMPANY FUNCTIONALIZED CWC?

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

K. Prepayments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. HOW HAS THE COMPANY FUNCTIONALIZED PREPAYMENTS?

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

L. Customer Deposits

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

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

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

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

Q. HOW HAVE CUSTOMER DEPOSITS BEEN FUNCTIONALIZED?

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

M. Regulatory Assets and Liabilities

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

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

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

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

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

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

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

1. PURA § 36.065 Deferred Benefits

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

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

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

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

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

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

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

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

Table 2 - PURA § 36.065 Baselines

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

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

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

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

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

2. Bad Debt

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

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

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

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

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

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

3. COVID-19

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

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

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

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

Q. ON WHAT BASIS WERE THESE INCREMENTAL COSTS DEFERRED?

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

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

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

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

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

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

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

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

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

4. Hurricane Harvey

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

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

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

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

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

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

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

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

A. PURA § 36.405(a) states that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. <u>Hurricane Ike</u>

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

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

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

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

[44] Docket No. 49421, Direct Testimony of Jorge Ordonez at 39:15 (June 12, 2019).
[45] *Application of CenterPoint Energy Houston Electric, LLC for Determination of Hurricane Restoration Costs*, Docket No. 36918, Final Order at Finding of Fact 15 (Aug. 14, 2009).
Docket No. 49421, Final Order at Finding of Fact 98, Ordering Para. 21 (Mar. 9, 2020).

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

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

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

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

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

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

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

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

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

A. No.

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

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

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

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

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

Q. PLEASE DESCRIBE LLTF AUTHORIZED UNDER PURA § 39.918.

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

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

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

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

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

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

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

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

Q. PLEASE DESCRIBE THE LLTF THAT THE COMPANY OWNS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. <u>Expedited Switches</u>

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

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

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

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

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

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

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

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

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

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

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

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

9. Smart Meter Texas

Q. WHAT IS SMART METER TEXAS?

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

Q. PLEASE DESCRIBE THE SMT REGULATORY ASSET.

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

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

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

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

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

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

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

Q. HOW HAS THE SMT REGULATORY ASSET BEEN FUNCTIONALIZED?

A. The SMT regulatory asset is functionalized to metering.

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[51] *Id.* at Finding of Fact 13(e).

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

10. **Load Management**

Q. PLEASE DESCRIBE THE LOAD MANAGEMENT REGULATORY ASSET.

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

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

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

11. **Medicare Part D Subsidy**

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

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

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

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

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

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

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

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

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

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[54] Docket No. 38339, Order on Rehearing at Finding of Fact 159(a) (Jun. 23, 2011).
[55] Includes the TCJA net regulatory liability of $656,164,476 on Schedule II-B-11; the pre-TCJA regulatory liability of $42,975,936 on Schedule II-B-12; and the pre-TCJA regulatory asset of $42,182,030 on Schedule II-B-12.
[56] Net of regulatory asset in the amount of $46,696,774 on Schedule II-B-12 and regulatory liability of $38,586,966 on Schedule II-B-11.

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

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

N. Construction Costs

Q. PLEASE DESCRIBE THE COMPONENTS OF CAPITALIZED CONSTRUCTION COSTS.

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

Q. WHAT IS AFUDC?

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

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

Q. WHAT IS COH?

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

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

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

O. Other Rate Base Items

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

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

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

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

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

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

P. Rate of Return

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

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

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

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

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

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

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

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

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

A. No.

Q. Return on Rate Base

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

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

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

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

V. OVERALL COST OF SERVICE

Q. HOW IS THIS SECTION OF YOUR TESTIMONY ORGANIZED?

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

A. Operations and Maintenance/Administrative and General Expenses

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

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

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

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

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

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

1. Energy Efficiency

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

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

2. Transmission of Electricity by Others

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

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

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

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

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

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

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

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

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

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

3. Transportation Depreciation

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

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

4. Bad Debt Expense

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

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

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

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

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

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

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

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

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

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

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

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

5. Workers' Compensation Expense

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

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

6. Auto and General Claim Expense

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

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

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

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

7. Direct and Affiliate Salaries and Wages

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

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

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

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

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

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

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

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

Q. ARE EMPLOYEE COMPENSATION COSTS REASONABLE?

A. Yes. PURA § 36.067 states the following:

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

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

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

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

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

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

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

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

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

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

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

8. **Direct and Affiliate Employee Benefits**

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

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

Q. HAS THE COMPANY ADJUSTED ITS EMPLOYEE BENEFIT EXPENSE?

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

9. **Other Employee Expenses**

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

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

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

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

Q. WHAT APPROVALS ARE REQUIRED FOR EMPLOYEE EXPENSES?

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

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

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

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

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

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

10. Prior Period Adjustments

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

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

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

II-D-2, the Company, therefore, increased FERC 9302 by $6.6 million for this prior period sales tax audit adjustment.[80]

11. Non-Recoverable Costs

Q. **PLEASE DESCRIBE THE ADJUSTMENT TO A&G TEST YEAR COSTS FOR OTHER NON-RECOVERABLE COSTS.**

A. The adjustment for other non-recoverable costs removes $169,082 in costs that are not recoverable through rates under 16 TAC § 25.231(b)(2).[81]

12. Uninsured Property Loss Reserves

Q. **HAS THE COMPANY ADJUSTED ITS TEST YEAR COSTS FOR UNINSURED PROPERTY LOSS EXPENSE IN FERC ACCOUNT 9240?**

A. Yes. The Company included a property self-insurance reserve adjustment of an increase of $17.5 million. This adjustment is discussed in detail earlier in my testimony.[82] When this adjustment is added to the existing test year accrual amount, the result is an annual accrual of approximately $22.3 million for uninsured restoration costs in excess of $100,000 per event.[83] Company witness Mr. Wilson discusses the need for the revised insurance accrual in his direct testimony.

Q. **HOW HAS THE COMPANY'S UNINSURED PROPERTY LOSS EXPENSE BEEN FUNCTIONALIZED?**

A. The Company's uninsured property loss expense has been functionalized to net plant in service.

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[80] *See* WP/II-D-2 for the sales tax refund adjustment.
[81] *See* WP/II-D-2 for the other non-recoverable adjustment.
[82] *See* Section IV.G 1. Insurance Reserves.
[83] *See* WP/II-D-2 for the property self-insurance reserve adjustment.

B. Depreciation and Amortization

1. Electric Plant in Service

Q. WHAT TEST YEAR DEPRECIATION EXPENSES HAVE BEEN INCLUDED IN THE COST OF SERVICE?

A. Test year depreciation expense shown on Schedule II-E-1 and included in FERC Account 4030 consists of the amount calculated based on the Company's plant in service amounts during the test year.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO TEST YEAR DEPRECIATION EXPENSE?

A. Yes. As discussed above in the Transportation Depreciation section of my testimony,[84] the Company proposes to continue to use current depreciation rates, as approved in Docket No. 49421. A similar adjustment is made to annualize depreciation expense based on adjusted test year end plant values. The net impact of this adjustment to depreciation is an increase of $37.7 million.[85]

Q. IS THE COMPANY PRESENTING A NEW DEPRECIATION STUDY WITH THIS FILING?

A. Yes, but the Company proposes to continue to use current depreciation rates as discussed above. The Company's last depreciation study was prepared for, and the depreciation rates were approved in, Docket No. 49421, approximately four years ago.[86]

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[84] *See* Section V. A. 3. Transportation Depreciation.
[85] *See* WP-II-E-1 Adj. 1. Total depreciation expense adjustment is $38.4 million and is comprised of O&M ($0.7 million) and Depreciation and Amortization ($37.7 million).
[86] Docket No. 49421, Final Order at Ordering Para. 6 (Mar. 9, 2020).

Q. WHAT IS THE DIFFERENCE BETWEEN DEPRECIATION AND AMORTIZATION?

A. According to 18 C.F.R. , Part 101, depreciation is defined as:

> the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes that are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements and obsolescence.

Depreciation measures how much of an asset's value has been expended at a point in time. The C.F.R. defines amortization to mean, "the gradual extinguishment of an amount in an account by distributing such amount over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized."[87] All depreciation and amortization rates for property assets are set by the Commission based on depreciation studies prepared by external experts.

Q. WHAT TYPES OF ASSETS ARE AMORTIZED, AND WHAT TYPES OF ASSETS ARE USUALLY DEPRECIATED?

A. In general, tangible assets that are in service are depreciated. Intangible assets, such as software and land-use rights, are amortized.

Q. WHAT TEST YEAR AMORTIZATION EXPENSES RELATED TO EPIS HAVE BEEN INCLUDED IN THE COST OF SERVICE?

[87] *See* CFR Title 18, Part 101.

A. Test year amortization expense related to EPIS shown on Schedule II-E-1 and included in FERC Accounts 4040 and 4050 consists of the amount calculated based on the Company's EPIS amounts during the test year.

Q. HAVE ANY ADJUSTMENTS BEEN MADE TO TEST YEAR AMORTIZATION EXPENSE FOR EPIS?

A. Other than a minor reclass between asset classes for security lighting (FERC Accounts 37302 and 37401), no adjustments have been made to the test year amortization expense for EPIS.

Q. WHAT IS THE TOTAL ADJUSTED TEST YEAR DEPRECIATION AND EPIS-RELATED AMORTIZATION EXPENSES REQUESTED IN THIS CASE?

A. The Company's adjusted depreciation and EPIS-related amortization expenses for the test year are $560.0 million.

Q. HOW HAVE DEPRECIATION AND EPIS-RELATED AMORTIZATION EXPENSE BEEN FUNCTIONALIZED?

A. Depreciation and EPIS-related amortization expenses have been functionalized in the same manner as the assets that are being depreciated.

Q. OTHER THAN EPIS-RELATED AMORTIZATION EXPENSE, ARE THERE ADDITIONAL ADJUSTMENTS TO AMORTIZATION EXPENSE?

A. Yes. Additional adjustments to amortization expense are discussed in the Regulatory Assets and Liabilities section[88] below.

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[88] *See* Section V.B.2, Regulatory Assets and Liabilities.

2. Non-Tax Regulatory Assets and Liabilities

Q. IS THE COMPANY PROPOSING TO RECOVER THE REGULATORY ASSETS AND LIABILITIES IN ITS COST OF SERVICE IN THIS CASE?

A. Yes. The Company is seeking approval to recover the non-tax regulatory assets and liabilities previously discussed in Section IV.M. Regulatory Assets and Liabilities, over a five-year amortization period. This request is generally consistent with recent Commission decisions approving a five-year amortization period for Oncor Electric Delivery Company[89] and a four-year amortization period for Southwestern Electric Power Company.[90] Please see **Table** *3* below, which shows each requested non-tax regulatory asset or liability, its adjusted test year ending balance, the requested amortization amount which has been included in the Company's total cost of service, and its functionalization methodology.

Table 3 - Amortization of Non-Tax Regulatory Assets and Liabilities

Regulatory Asset / Liability	Adjusted Test Year Balance	Amortization	Functionalization
PURA § 36.065 Deferred Benefits	$ (70,062,252)	(14,012,450)	PAYXAG
Bad Debt[91]	8,027,442	1,605,488	DIST
COVID-19	8,104,605	1,620,921	DIRECT
Hurricane Harvey	37,938,456	7,587,691	DIRECT
Hurricane Ike	(1,652,163)	(330,433)	DIST
Other Storm Costs[92]	112,886,462	22,577,292	DIRECT
LLTF	7,593,554	1,518,711	DIST
Expedited Switches	303,943	60,789	DIST
SMT	7,215,579	1,443,116	DIST
Load Management	2,984,848	596,970	DIST
Total	**$113,340,473**	**$22,668,095**	

[89] *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates,* Docket No. 53601, Order, Findings of Fact 167A (Apr. 6, 2023).
[90] *Application of Southwestern Electric Power Company for Authority to Change Rates,* Docket No. 51415, Order, Findings of Fact 43 (Jan. 14, 2022) (amortizing SWEPCO's regulatory assets over a four-year period).
[91] The amortization for Bad Debt shown on WP II-E-4.1.1 is shown on two separate lines comprised of $26,814 being amortized to FERC Account 4073 and $1,578,674 being amortized to FERC Account 9040.
[92] Includes $50,527,267 for Nicholas, $17,313,260 for Uri and $45,045,935 for Laura.

The amortization amounts above are also shown in Schedule II-E-4.1.1. In addition, an adjustment has been made to remove test year amortization related to regulatory assets and liabilities in the amount of $58.4 million, as shown on Schedule II-E-4.1.1.

3. Tax-Related Regulatory Assets and Liabilities

a) Unprotected EDIT

Q. HOW DID THE TAX CUTS AND JOB ACT OF 2017 ("TCJA") UNPROTECTED EDIT REGULATORY LIABILITY CHANGE TO A REGULATORY ASSET?

A. The Company began immediately refunding the TCJA-related net unprotected EDIT regulatory liability balance in 2018. However, as a result of IRS guidance and tax accounting changes, the Company reclassed amounts for cost of removal and mixed service costs from protected to unprotected EDIT, therefore, reducing the net unprotected EDIT regulatory liability. Ms. Story discusses these true-up adjustments further in her testimony. In addition, before current rates were placed into effect, some protected Average Rate Assumption Method ("ARAM") amortization became available to be refunded to customers, which increased the net unprotected EDIT regulatory liability. The net of these changes, along with the unprotected EDIT refunds, resulted in a net unprotected EDIT regulatory asset.

b) Protected EDIT

Q. DESCRIBE THE COMPANY'S PROPOSAL RELATED TO THE NET PROTECTED EDIT REGULATORY LIABILITY.

A. The Company is requesting to continue returning its protected EDIT regulatory liability balance using ARAM through rates determined through this rate proceeding, consistent with authorization granted under Docket No. 49421.[93] Please refer to Ms. Story's direct testimony for additional discussion of protected EDIT.

c) Medicare Part D Subsidy

Q. DESCRIBE THE COMPANY'S PROPOSAL RELATED TO THE MEDICARE PART D SUBSIDY.

A. The Company began amortizing the Medicare Part D Subsidy effective with the last base rate case, Docket No. 49421. Ms. Story provides additional detail on the Medicare Part D Subsidy in her testimony including the amortization of the regulatory asset through tax expense.

d) Other Tax Related Regulatory Assets

Q. ARE THERE ANY OTHER TAX RELATED REGULATORY ASSETS THAT HAVE BEEN INCLUDED IN THE FILING?

A. No. However, I discuss the proposal related to the Inflation Reduction Act ("IRA") below in Section VII.B. Other Accounting Matters.

[93] Docket No. 49421, Final Order at Findings of Fact 93 through 94 (Mar. 9, 2020).

C. Other Expenses

Q. HAS THE COMPANY MADE ADJUSTMENTS TO OTHER EXPENSES?

A. Yes. The Company has adjusted test year amounts to remove $14.6 million in interest costs related to storm costs, TEEEF, EECRF, and LLTF.[94]

D. Federal Income Taxes

Q. PLEASE DESCRIBE THE CALCULATION OF FEDERAL INCOME TAXES FOR THE ADJUSTED TEST YEAR.

A. As discussed in Ms. Story's direct testimony, federal income tax expense has been calculated based on PURA and Commission rules. The income taxes requested in the Company's cost of service are calculated on Schedule II-E-3 using the applicable income tax rate.

E. Taxes Other Than Federal Income Tax

Q. PLEASE DESCRIBE THE COMPONENTS OF TAXES OTHER THAN INCOME TAXES ("OTHER TAXES") INCLUDED IN THE COST OF SERVICE.

A. Other Taxes include employment-related taxes, ad valorem (or property) taxes, sales and use taxes, revenue related Texas margin tax, and municipal franchise fees, all of which are recorded to FERC Account 4081. For these components, as shown on Schedule II-E-2, a total of $306.7 million has been recorded for the test year.

Q. HAVE OTHER TAXES BEEN ADJUSTED?

A. Yes. Adjustments have been made to employment-related, ad valorem (or property) taxes, sales and use tax, and municipal franchise fees for a total

[94] See WP/II-E-4 for interest expense adjustments.

adjustment of $22.9 million. I discuss each of the adjustments in more detail below.

Q. WHAT ARE EMPLOYMENT-RELATED TAXES?

A. Employment-related taxes are taxes assessed to a company based on an employee's earnings or payroll, such as Federal Insurance Contributions Act ("FICA") and Federal Unemployment Tax Act ("FUTA"). These are shown on Schedule II-E-2.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO EMPLOYMENT-RELATED TAXES.

A. As noted above, adjustments were made to direct and affiliate salaries and wages.[95] These adjustments have a corresponding impact on employment-related taxes that are based on employee earnings. The direct and affiliate salaries and wages adjustments have a FICA taxes impact for a combined adjustment to increase FICA taxes expense of $287,703.[96] FICA taxes expense have been functionalized following the underlying employee payroll. A payroll related taxes adjustment has also been made to remove EE costs of $140,175 as they are recovered through a separate EECRF tariff.[97]

Q. WHAT ARE AD VALOREM (OR PROPERTY) TAXES?

A. Ad valorem or property taxes are the taxes assessed to a property owner annually based on the assessed value of the property.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO AD VALOREM (OR PROPERTY) TAXES.

A. Ad valorem tax expense has been adjusted to reflect the assets placed in service as

[95] *See* Section V.A.7., Direct and Affiliate Salaries and Wages.
[96] *See* WP/II-E-2 for the FICA taxes related to the direct and affiliate salaries and wage adjustment.
[97] *See* WP/II-E-2 for the EECRF adjustment.

of the end of the test year which reflects an expected increase in ad valorem taxes for 2024. These items result in an adjustment of $17.8 million. Please see the direct testimony of Company witness Ms. Story for information on ad valorem taxes and the ad valorem tax adjustment.[98]

Q. HOW HAVE PROPERTY TAXES BEEN FUNCTIONALIZED?

A. Property taxes have been functionalized based upon net general plant excluding intangibles, as discussed by Ms. Story in her direct testimony.

Q. WHAT ARE SALES AND USE TAXES?

A. Sales taxes are assessed on goods or services where the purchase and consumption occur within the same state in which the good or service was purchased. Use taxes are taxes assessed on goods or services where the purchase and consumption occur in a different state. Test year sales and use taxes of $8,440 have been removed for non-recoverable expenses as shown on Schedule II-E-2.[99]

Q. PLEASE EXPLAIN STATE MARGIN TAXES.

A. State margin taxes are privilege taxes imposed on each taxable entity organized or doing business in Texas.[100] The Texas state margin tax ("TMT) is based on the Company's taxable margin taxed at the authorized rate. For the test year, the TMT rate was 0.75%. State margin taxes of $27.5 million are shown on Schedule II-E-2.

Q. HOW HAS STATE MARGIN TAX EXPENSE BEEN FUNCTIONALIZED?

A. The functionalization factor used for the Texas state margin tax is based on the total revenue requirement, or TOTREV, on Schedule II-F.

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[98] *See* WP/II-E-2 the ad valorem tax Adjustment.
[99] *See* WP/II-E-2 for the sales and use tax adjustment.
[100] Texas Tax Code § 171.001(a).

Q. WHAT ARE MUNICIPAL FRANCHISE FEES?

A. Municipal franchise fees are payments the Company makes to a city, based on a municipal franchise ordinance, in exchange for certain rights from the city, such as the right to use the city's public rights-of-way to install, use, and maintain utility poles, transmission and distribution lines, and other equipment necessary to provide service.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO MUNICIPAL FRANCHISE FEES.

A. Municipal franchise fee expense has been adjusted to reflect the difference between the amount accrued during the test year and the amounts expected to be accrued in 2024. Municipal franchise fees totaled $157.8 million during the test year after adjustments. The 2024 estimate is based on revised franchise contracts. These items result in an adjustment to increase municipal franchise fees by $4.9 million. Please see the direct testimony of Company witness Mr. Tutunjian for information on municipal franchise fees and the municipal franchise fee adjustment.[101]

Q. HOW HAVE MUNICIPAL FRANCHISE FEES BEEN FUNCTIONALIZED?

A. Municipal franchise fees have been functionalized to distribution.

F. Non-electric Revenues

Q. WHAT ARE NON-ELECTRIC REVENUES?

A. Unadjusted non-electric revenues include forfeited discounts of $0.4 million, miscellaneous service revenue of $28.9 million, rent from property of $33.4

[101] *See* WP/II-E-2 for the municipal franchise fee adjustment.

million, other electric revenue of $61.4 million, and $426.7 million in revenues from the transmission of electricity of others, for a total unadjusted other electric revenue of $550.8 million in the test year. Other revenues are shown on Schedule II-E-5.

Q. ARE NON-ELECTRIC REVENUES INCLUDED IN THE TOTAL ADJUSTED REVENUE REQUIREMENT SHOWN ON SCHEDULE I-A-1?

A. Yes. Per the RFP Schedule II-E-5 instructions, non-electric revenues reduce the Company's cost of service to arrive at the base revenue requirement. Exhibit KLC-07 shows the cost of service net of other revenues.

Q. DID THE COMPANY HAVE ANY GAIN OR LOSS ON THE SALE OF LAND DURING THE TEST YEAR?

A. No.

Q. WHAT ARE MISCELLANEOUS SERVICE REVENUES?

A. Miscellaneous service revenues recorded to FERC Account 4510 include connect and reconnect fees, late fees, and right of way grants. The Company increased discretionary service fees by $3.0 million based on updated tariffs in this filing. An adjustment of $400,854 was also made to remove an out of period item. The adjusted miscellaneous service revenues in the test year are $32.3 million.[102]

Q. HOW ARE MISCELLANEOUS SERVICE REVENUES FUNCTIONALIZED?

A. Miscellaneous service revenues are directly assigned as shown on RFP workpaper II-E-5.1.1.

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[102] *See* WP/ II-E-5.1 for adjustment to miscellaneous service revenues and WP/ II-E-5.1.1 for a breakout of the miscellaneous service revenues.

Q. PLEASE DESCRIBE THE ADJUSTMENTS TO RENT FROM PROPERTIES REVENUES.

A. Adjustments were made to increase Rent from Property, FERC Account 4540, to remove amounts related to periods outside the test year, resulting in an increase to Rent from Property in the amount of $1.5 million.[103]

Q. PLEASE DESCRIBE THE ADJUSTMENTS TO OTHER ELECTRIC REVENUES.

A. Other Electric Revenues, FERC Account 4560, are adjusted for revenues that are collected through separate tariffs or riders such as EECRF, TCRF, DCRF, Accumulated Deferred Federal Income Tax Credit ("ADFITC"), System Restoration and Transition Bonds, all of which are removed from the test year. The recognition of the energy efficiency bonus has also been removed based on the requirements in 16 TAC § 25.181.[104]

Q. PLEASE DESCRIBE THE ADJUSTMENTS TO REVENUES FROM TRANSMISSION OF ELECTRICITY OF OTHERS.

A. Revenues for the wholesale transmission of electricity to others, recorded in FERC Account 4561, are removed from the non-operating revenue adjustment because this amount is collected through the Company's wholesale tariff and will be reset in the base rate proceeding.[105]

Q. WHAT IS THE TOTAL ADJUSTED NON-ELECTRIC REVENUES?

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[103] *See* WP/II-E-5.1.
[104] *See* WP II-E-5.1 for EECRF & EE Bonus, TCRF, DCRF, System Restoration & Other Bond Companies adjustments.
[105] *See* WP/II-E-5.1 transmission of electricity of others adjustment.

A. The total adjusted non-electric revenues included in the cost of service is $73.3 million as shown on Schedule II-E-5.

VI. ERCOT WHOLESALE TRANSMISSION COST OF SERVICE

Q. HOW WERE THE TCOS SCHEDULES PREPARED FOR SECTION III OF THE RFP?

A. Section III of the RFP represents all cost of service components that comprise the Company's Wholesale TCOS in ERCOT, including the return on transmission and properly assigned general capital investments, net of ADIT, and allowable expenses for O&M, A&G, depreciation and amortization, taxes other than income taxes, and income taxes. CenterPoint Houston has functionalized its transmission cost of service in accordance with 16 TAC §§ 25.191 – 25.203 and the RFP instructions. The Company's transmission cost of service is $729.3 million, including $355.5 million of return on capital investment, is shown on Schedule III-A-1.

VII. OTHER ACCOUNTING MATTERS

A. CLOUD COMPUTING

Q. PLEASE EXPLAIN CLOUD COMPUTING AND HOW IT IS BEING USED BY THE COMPANY.

A. As discussed in Ronald W. Bahr's direct testimony, cloud computing is the delivery of IT products, including servers, storage, databases, networking, and software, over the internet or "cloud". The use of the cloud will grow over time as more companies move away from purchasing IT products or applications within their own premises. As Mr. Bahr explains, CNP's cloud computing arrangements ("CCAs") are primarily for infrastructure as a service ("IaaS") and software as a service ("SaaS"). Please refer to Mr. Bahr's testimony for further discussion of IaaS and SaaS, and on the difference between CCAs and traditional on-premises ("On-Prem") IT solutions.

Q. ARE IAAS-RELATED COSTS INCURRED UNDER A CCA ELIGIBLE TO BE CAPITALIZED?

A. Yes. Whether or not an IaaS-type CCA may be capitalized requires an evaluation under lease accounting guidance. As such, certain costs may be eligible to be capitalized under GAAP in instances where it can be demonstrated that control exists. Control can take various forms, such as the ability to restrict or dictate the way in which the CCA provider may utilize the underlying infrastructure. For example, control would exist where a server under an IaaS-type CCA was entirely reserved for the service recipient alone or if the service recipient had the ability to require the service be provided using specific assets. For FERC purposes, the IaaS-type CCA would be eligible to be capitalized as a capital lease assuming certain criteria are met. Additionally, certain costs, such as implementation and development costs may be eligible to be capitalized as well.

Q. ARE SAAS-RELATED COSTS INCURRED UNDER A CCA ELIGIBLE TO BE CAPITALIZED?

A. Yes. If the SaaS-type CCA includes an identifiable cost associated with a license, then that cost may be eligible to be capitalized. In making this determination, it must also be demonstrated that: (1) a contractual right to take possession of the software at any time may occur without significant penalty or loss in functionality; and (2) it is feasible to run the software on the company's own hardware or contract with another party to do so. Additionally, certain costs, such as implementation and development costs may be eligible to be capitalized as well. Determining whether a SaaS-type CCA contains a license can be difficult, however, as many of these CCAs do not contain the level of detail necessary to reasonably make that determination. In those situations, none of the costs under the SaaS-type CCA would be capitalized, despite the similarity of the economics between On-Prem and the CCA that would indicate that a capital component would exist.

Q. WHAT IS THE INDUSTRY AVERAGE OF CAPITAL VERSUS EXPENSE TREATMENT WHEN IT COMES TO SAAS-TYPE CCAs?

A. Based on industry guidance from Gartner Research and Advisory that is included as a workpaper to my testimony, the average portion of a SaaS-type CCA that contains costs that qualify for treatment as an expense (such as hosting and ongoing maintenance and support) is and has been for some time approximately 22%.[106] Thus, the capital portion – in essence, the license portion – based on the industry average for SaaS-type CCAs is approximately 78%.

Q. HOW MUCH OF CNP'S ON-PREM COSTS HAVE BEEN CAPITALIZED IN THE PAST?

A. As Mr. Bahr describes in his testimony, the average O&M percentage for CNP's On-Prem software costs is approximately 20%, which equates to approximately an 80% capital percentage as compared with the 78% experienced by the industry for SaaS-type CCAs.

[106] *See* Workpaper KLC-01 Gartner Research and Advisory

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED ACCOUNTING TREATMENT FOR THIRD-PARTY CCA COSTS.

A. The Company is proposing to establish a deferred regulatory asset to track amounts for the Company not already included in the Company's base rates that are incurred for third-party CCAs. For any amounts incurred above or below a baseline level of costs, a percentage will be recorded to the regulatory asset and deferred for recovery until a future base rate proceeding. The percentage to be used for deferrals to the regulatory asset would be reflective of the capital portion of the CCAs and take into consideration CNP's past experience for On-Prem. The proposed CCA regulatory asset is designed to allow the Company to defer and recover in the future essentially what would be the capital portion of third-party costs above the baseline level included in base rates, or to issue credits to customers if future third-party costs fall below the baseline level recovered through base rates. The Company's request for such a regulatory asset is similar to the treatment whereby the Commission approved the deferral of one-time, unusual or extraordinary costs in between rate cases and not already reflected in base rates. Examples of such deferrals were approved in Docket No. 47364 for the O&M costs associated with SMT and in Project No. 36536 for the costs associated with the expedited customer switching timelines. [107, 108]

Q. DO THE COMPANY'S REQUESTED RATES IN THIS CASE REFLECT THIS PROPOSED ACCOUNTING TREATMENT?

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[107] *Application of CenterPoint Energy Houston Electric, LLC for the Final Reconciliation of Advanced Metering Costs,* Docket No. 47364, Final Order at Findings of Fact 13e and Ordering Para. 3 (Dec. 14, 2017).
[108] *Rulemaking to Expedite Customer Switch Timelines*, Project No. 36536, Final Order (June 15, 2009).

A. No. The Company proposes the above accounting treatment on a prospective basis, beginning with the effective date of rates as a result of this proceeding.

Q. WHAT IS THE STANDARD BASELINE LEVEL OF THIRD-PARTY CCA COSTS INCLUDED IN THIS CASE, AND HOW WAS THIS AMOUNT CALCULATED?

A. The standard baseline level of third-party CCA costs in the amount of $5,877,591, which the Company proposes to recover through base rates and has included in this case, and the associated deferral percentages are shown in **Table 4** below.

Table 4 CCA Baseline and Deferral Percentage

CCA Type	Baseline	Deferral Percentage
SaaS	$5,395,474	78%
IaaS	$482,117	78%
Total	**$5,877,591**	**78%**

The amounts in the table above represent the Company's unadjusted test year level of expense for CCAs. Eligible CCA costs are recorded either to Work-Breakdown Structure ("WBS") Elements with a specific identifying code, or into a specific cost center. In either case, third-party CCA costs are recorded to specific general ledger accounts designated for CCAs. For the CCA deferrals, 78% will be recorded to the regulatory asset. The 78% is reflective of the industry average for the capital portion that I previously discussed and is also comparable to CNP's past experience for On-Prem.

Q. WHY IS THE COMPANY PROPOSING THIS ACCOUNTING TREATMENT?

A. While the test year level of expense for CCAs is minimal, there is a high likelihood for increased usage of CCAs over On-Prem in the future. As I previously mentioned, disparate outcomes between the treatment of comparable On-Prem and CCAs can occur despite similarities in economics. Moreover, due to the nature of SaaS-type CCAs that make it very difficult to determine identifiable license costs, there is also increased potential for CCA costs to be recorded as O&M expense as opposed to capital as would occur with On-Prem. It is for these reasons, that the Company is requesting the accounting treatment described above.

Q. HOW WOULD THE DEFERRED ACCOUNTING WORK UNDER THE PROPOSED CCA REGULATORY ASSET?

A. The proposed deferral would specifically authorize the Company to create a regulatory asset to recover, or regulatory liability to credit, eligible CCA costs as described above. The CCA regulatory asset balance will be adjusted on a monthly basis consistent with actual CCA eligible costs and will be addressed in the Company's next rate case. Because the costs recorded to the regulatory asset represent amounts that would have been capitalized if they were for On-Prem, the Company requests to also defer to the regulatory asset a return on the balance. The Company would defer a return using the Company's approved weighted average cost of capital and would do so until the balance begins to be recovered in rates.

Q. HOW WOULD THE PROPOSED CCA REGULATORY ASSET BE TREATED IN THE COMPANY'S EARNINGS REPORT?

A. The Company would include the CCA regulatory asset in rate base in the annual earnings report filings made after this case.

B. INFLATION REDUCTION ACT

Q. PLEASE DESCRIBE THE IRA.

A. Company witness Ms. Story discusses the tax impacts of the IRA in great detail. As she discusses, H.R. 5376 (commonly referred to as the IRA), was signed into law on August 16, 2022, and generally applies to tax years after December 31, 2022. Of significant impact to CNP is the Corporate Alternative Minimum Tax ("CAMT"). Ms. Story discusses in her testimony the costs associated with the IRA including the Company's return on the cost-free capital resulting from the CAMT deferred tax asset. In addition, Company witness Ms. Richert discusses the impact to the Company's credit rating in her direct testimony.

Q. WHAT IS THE COMPANY PROPOSING REGARDING THE CAMT?

A. The Company is proposing to move the impacts of the CAMT into a new rider ("Rider IRA") to ensure that the impacts of the IRA are captured on an annual basis. Tracking the impacts of the IRA would begin immediately upon receiving a final order in this proceeding. Rider IRA is discussed further in the testimony of Company witness Mr. Durland.

Q. WHAT COSTS WILL BE INCLUDED IN RIDER IRA?

A. As explained by Ms. Story, the payment of the CAMT creates a CAMT carryforward, which is a deferred tax asset. The baseline deferred tax asset in rate base for the test year related to the CAMT is zero. The proposed Rider IRA will capture the costs associated with the IRA that occur *outside of a test year*. The proposed Rider IRA will capture the Company's return on the CAMT deferred tax asset.

Q. HOW WILL THE RETURN ON THE CAMT CARRYFORWARD BE CAPTURED IN THE PROPOSED RIDER IRA?

A. The Company's proposal is that beginning with the year following the test year, the return on the CAMT carryforward, using the Company's proposed weighted average cost of capital in this base rate case, would be deferred into a regulatory asset which would accumulate carrying costs until recovered through the Rider IRA.

Q. IS THERE AN ALTERNATIVE APPROACH FOR RECOVERY OF THE IMPACTS OF THE IRA IF THE A RIDER IS NOT APPROVED?

A. Yes. The Company could include the impacts of the CAMT carryforward in the TCOS or DCRF filings. The transmission and distribution component of the CAMT carryforward asset could be included in the rate base updates in these mechanisms on an annual basis mitigating the negative impacts of the CAMT payments between rate cases.

Q. HOW WOULD RIDER IRA BE FUNCTIONALIZED?

A. The impacts of the Rider IRA would be functionalized by the total revenue requirement (TOTREV) approved in this base rate case proceeding.

VIII. RATE CASE EXPENSES

Q. PLEASE DESCRIBE THE COMPANY'S RATE CASE EXPENSES.

A. The Company's rate case expenses through the conclusion of this filing, associated with this proceeding, are estimated to be $9.0 million.[109] Actual rate case expenses as of December 31, 2023, are $0.9 million related to this rate proceeding and $1.8 million related to the Company's DCRF (Docket Nos. 53442, 54825[110]) and TEEEF (Docket No. 54830) filings. Adjustments have been made, as discussed further by Company witness Mr. Myles Reynolds in his testimony, based on a review of the reasonableness of expenses for this proceeding. Further adjustments have been made to test year regulatory expenses recorded to FERC Account 9280 as discussed below in my testimony.

Q. HOW DOES THE COMPANY PROPOSE TO HANDLE RECOVERY OF RATE CASE EXPENSES?

A. Rate case expenses, as outlined in 16 TAC § 25.245, include fees and expenses for outside attorneys and consultants, other reasonable out-of-pocket expenses incurred, and the Company's internal costs related to this and other ratemaking proceedings. The Company requests that its rate case expenses be recovered through Rider RCE in this case. The total amount to be recovered will be determined and approved by the Commission. For a discussion of the Rider RCE, please see Mr. Durland's direct testimony.

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[109] *See* WP/II-E-4.1.1 for rate case expenses included in Rider RCE.

[110] *Application of CenterPoint Energy Houston Electric, LLC to Amend its Distribution Cost Recovery Factor*, Docket No. 55993 is pending a final order as of the filing date of this base rate case. Associated rate case expenses for Docket No. 55993 are not included in this filing but may be updated during the course of this base rate proceeding.

Q. HAS THE COMPANY ADJUSTED ITS TEST YEAR COSTS FOR RATE CASE EXPENSES IN FERC ACCOUNT 9280?

A. Yes. The rate case expense adjustment of $51,860, as shown on Schedule II-E-4.4, removes the Company's amortization of rate case expense related to EE because these costs are recovered under the separate Rider EECRF.[111]

IX. CONCLUSION

Q. WHAT IS THE TOTAL AMOUNT REQUESTED IN THIS RATE FILING?

A. As shown on Schedule I-A-1 and in Exhibit KLC-07, the Company is requesting a wholesale revenue requirement of $697.3 million and a retail revenue requirement of $3.1 billion.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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[111] *See* WP/II-D-2 for the EECRF rate case expense adjustment.

STATE OF Texas §
§
COUNTY OF Harris §

AFFIDAVIT OF KRISTIE L. COLVIN

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

1. "My name is Kristie L. Colvin. 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.

Kristie L. Colvin

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

Bianca Coster
Notary Public in and for the State of Texas

My commission expires: Jan 26, 2027

BIANCA COSTER
NOTARY ID #13416793-4
My Commission Expires
January 26, 2027

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SCHEDULES SPONSORED OR CO-SPONSORED BY KRISTIE L. COLVIN

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SCHEDULES SPONSORED OR CO-SPONSORED BY KRISTIE L. COLVIN

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SCHEDULES SPONSORED OR CO-SPONSORED BY KRISTIE L. COLVIN

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SCHEDULES SPONSORED OR CO-SPONSORED BY KRISTIE L. COLVIN

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STATE OF TEXAS §
§
COUNTY OF HARRIS §

BUSINESS RECORDS AFFIDAVIT OF KRISTIE L. COLVIN

Before me, the undersigned authority, on this day personally appeared Kristie L. Colvin, who having been placed under oath by me did depose as follows:

1. "My name is Kristie L. Colvin. 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.

Kristie L. Colvin

SUBSCRIBED AND SWORN TO BEFORE ME on this 22nd day of February 2024.

Alice S Hart

Notary Public in and for The State of Texas

My commission expires: 7/17/2027

ALICE S HART
NOTARY ID #130321-7
My Commission Expires
July 17, 2027

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
TOTAL SUPPORTED RATE BASE

	Per Books	Adjustments	Supported
Net Plant in Service	13,405,519,632	(14,796,485)	13,390,723,148
CWIP	1,067,127,699	(1,067,127,699)	-
Plant Held for Future Use	10,452,078	(4,192,438)	6,259,640
Accumulated Provisions	18,550,490	5,883,631	24,434,121
Accumulated Deferred Federal Income Taxes	(1,428,931,365)	150,313,642	(1,278,617,723)
Materials & Supplies	449,428,267	(50,330,784)	399,097,483
Cash Working Capital	62,968,637	(50,742,599)	12,226,038
Prepayments	35,532,670	34,957,557	70,490,227
Customer Deposits & Advances	(37,446,336)	37,106,170	(340,166)
Regulatory Liabilities	(933,697,180)	167,231,322	(766,465,858)
Regulatory Assets	1,034,925,341	(792,987,411)	241,937,930
Total Retail Rate Base	$ 13,684,429,934	$ (1,584,685,094)	$ 12,099,744,839
Rate of Return	7.03%	7.03%	7.03%
Return	$ 962,237,389	$ (111,429,066)	$ 850,808,323

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

		Adjustments
	Gross Plant In Service (WP II-B-1, WP II-B-2, WP II-B-3)	
1	Asset Retirement Obligation (ARO)	(27,178)
2	Reclass	-
3	Depreciation Study-Retirements	(6,603)
4	Other	(3,730)
	Total Gross Plant In Service (WP II-B-1, WP II-B-2, WP II-B-3)	(37,511)
	Construction Work in Progress	
5	WP II-B-4 Adj 1 CWIP	(1,067,128)
	Less Accumulated Depreciation	
6	WP II-B-5 Adj 1 Depreciation Study - Retirements	6,603
7	WP II-B-5 Adj 2 Not Used	-
8	WP II-B-5 Adj 3 ARO	16,111
9	WP II-B-5 Adj 4 Not Used	-
10	WP II-B-5 Adj 5 Not Used	-
11	WP II-B-5 Adj 6 Reclass	-
	Total Less Accumulated Depreciation	22,714
	Plant Held for Future Use	
12	WP II-B-6 Adj 1 Land Not Used in Next 10 Years	(4,192)
	Accumulated Provisions	
13	WP II-B-7 Adj 1 Claims Insurance Receivable	5,488
14	WP II-B-7 Adj 2 Accrued Benefit Restoration Cost	(5,278)
15	WP II-B-7 Adj 3 Harvey & Uri Reserve	5,674
	Total Accumulated Provisions	5,884
	Accumulated Deferred Federal Income Taxes	
16	WP II-B-7 Adj 4 ADIT	150,314
	Materials and Supplies	
17	WP II-B-8 Adj 1 Not Used	-

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

		Adjustments
18	WP II-B-8 Adj 2 Transformer	(50,331)
	Total Materials and Supplies	(50,331)
Cash Working Capital		
19	Lead Lag Study	(50,743)
Prepayments		
20	WP II-B-10 Adj 1 Other Affiliates	(108)
21	WP II-B-10 Adj 2 TEEEF	(15,596)
22	WP II-B-10 Adj 3 Prepaid Pension Asset	53,031
23	WP II-B-10 Adj 4 Executive Benefits	(2,368)
	Total Prepayments	34,958
Customer Deposits & Advances		
24	WP II-B-11 Adj 1 Customer Advances for Construction	37,013
25	WP II-B-11 Adj 3 EECRF	93
	Total Customer Deposits & Advances	37,106
Regulatory Liabilities		
26	WP II-B-11 Adj 2 TC2 & TC3 Over Collection and ADFIT Credit	(95)
27	WP II-B-11 Adj 4 TCRF	78,684
28	WP II-B-11 Adj 5 Not Used	-
29	WP II-B-11 Adj 6 EDIT	443
30	WP II-B-11 Adj 7 Not Used	-
31	WP II-B-11 Adj 8 Pension BRP & Postretirement	82,209
32	WP II-B-11 Adj 9 Interest Rate Hedge Reclass	5,991
33	WP II-B-11 Adj 10 Not Used	-
34	WP II-B-11 Adj 11 Not Used	-
	Total Regulatory Liabilities	167,231
Regulatory Assets		
35	WP II-B-12 Adj 1 EECRF	(9,449)
36	WP II-B-12 Adj 2 ARO	(29,010)

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

			Adjustments
37	WP II-B-12 Adj 3 Margin Tax		(25,814)
38	WP II-B-12 Adj 4 TEEEF ST Removal		(106,062)
39	WP II-B-12 Adj 5 TEEEF LT Removal		(598,926)
40	WP II-B-12 Adj 6 Tax Reg Assets		(41,562)
41	WP II-B-12 Adj 7 LLTF Rate Case Expenses		(6)
42	WP II-B-12 Adj 8 Reg Assets-TEEEF Other		9,527
43	WP II-B-12 Adj 9 Bad Debt		(277)
44	WP II-B-12 Adj 10 Rate Case Expense		(2,848)
45	WP II-B-12 Adj 11 Not Used		-
46	WP II-B-12 Adj 12 Hurricane Harvey		11,440
	Total Regulatory Assets		(792,987)
Total Adjustment to Rate Base		$	(1,584,685)
	Rate of Return		7.03%
Adjustment to Return on Rate Base		$	(111,429)

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS- EXPLANATIONS

			Witness
Gross Plant in Service			
1	Asset Retirement Obligation (ARO)	The Company has adjusted asset retirement obligations since these costs recorded for GAAP purposes represent an estimate of future obligations related to the retirement or removal of assets.	K. Colvin
2	Reclass	The Company is reclassing security lighting plant to ensure it is in the correct asset class.	K. Colvin
3	Depreciation Study-Retirements	The Company is requesting updates based on the depreciation study.	K. Colvin / D. Watson
4	Other Adj	The Company is removing all test year compensation costs associated with the former CEO due to the former CEO's retirement and the resulting COO-CEO transition.	L. Storey
Construction Work in Progress			
5	WP II-B-4 Adj 1 CWIP	The Company is not seeking a return on CWIP amounts following Texas Administrative Code §25.231 (c)(2)(D).	K. Colvin
Accumulated Depreciation			
6	WP II-B-5 Adj 1 Depreciation Study - Retirements	The Company is requesting updates based on the depreciation study.	K. Colvin / D. Watson
8	WP II-B-5 Adj 3 ARO	The Company has adjusted asset retirement obligations since these costs recorded for GAAP purposes represent an estimate of future obligations related to the retirement or removal of assets.	K. Colvin
11	WP II-B-5 Adj 6 Reclass	The Company is reclassing security lighting plant to ensure it is in the correct asset class.	K. Colvin
Plant Held for Future Use			
12	WP II-B-6 Adj 1 Land Not Used in Next 10 Years	The Company is not seeking a return on certain amounts following Texas Administrative Code §25.231(c)(2)(F)(iii) for plant held for future use.	K. Colvin
Accumulated Provisions			
13	WP II-B-7 Adj 1 Claims Insurance Receivable	The Company made an adjustment to reduce the reserve for oustanding insurance claims receivable.	K. Colvin
14	WP II-B-7 Adj 2 Accrued Benefit Restoration Cost	An adjustment has been made to include the benefit restoration plan liability.	K. Colvin
15	WP II-B-7 Adj 3 Harvey & Uri Reserve	The Company made an adjustment to reduce the G/L reserve for Hurricane Harvey and Winter Storm Uri.	K. Colvin
Accumulated Deferred Federal Income Taxes			
16	WP II-B-7 Adj 4 ADIT	An adjustment has been made to remove certain ADIT balances from rate base.	J. Story
Materials and Supplies			

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS- EXPLANATIONS

		Witness
18 WP II-B-8 Adj 2 Transformer	An adjustment was made to reflect the current treatment of transformers in the 13-month average.	K. Colvin
Cash Working Capital		
19 Lead Lag Study	A Lead lag Study was prepared for this filing. This adjustment reflects the result of the study in rate base.	K. Colvin / T. Lyons
Prepayments		
20 WP II-B-10 Adj 1 Other Affiliates	The Company has removed an amount which belonged to an Affiliate for EEI dues.	K. Colvin
21 WP II-B-10 Adj 2 TEEEF	The Company has removed amounts collected through a separate rider (TEEEF).	K. Colvin
22 WP II-B-10 Adj 3 Prepaid Pension Asset	The Company is requesting a return on its Prepaid Pension Asset.	K. Colvin
23 WP II-B-10 Adj 4 Executive Benefits	Historic executive benefit plans and associated COLI programs have been removed. The company is not including these amounts in this Docket.	K. Colvin / B. Villatoro
Customer Deposits & Advances		
24 WP II-B-11 Adj 1 Customer Advances for Construction	This adjustment removes the Customer Advances for Construction from Rate Base.	K. Colvin
25 WP II-B-11 Adj 3 EECRF	The Company will refund the over collections of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from rate base.	K. Colvin
Regulatory Liabilities		
26 WP II-B-11 Adj 2 TC2 & TC3 Over Collection and ADFIT Credit	An adjustment has been made to remove TC2 & TC3 over collection and ADFIT credit	K. Colvin
27 WP II-B-11 Adj 4 TCRF	An adjustment has been made to remove the liability related to TCRF	K. Colvin
29 WP II-B-11 Adj 6 EDIT	The Company has made a known and measurable change to EDIT.	J. Story
31 WP II-B-11 Adj 8 Pension BRP & Postretirement	This adjustment is to remove balances that are required under GAAP that have no impact on rate making.	K. Colvin
32 WP II-B-11 Adj 9 Interest Rate Hedge Reclass	The Company has reclassed the Tax Regulatory liability associated with interest rate hedge to ADIT.	K. Colvin / J. Story

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
RATE BASE ADJUSTMENTS TO TEST YEAR AMOUNTS- EXPLANATIONS

			Witness
Regulatory Assets			
35	WP II-B-12 Adj 1 EECRF	The Company will recover the costs of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from test year rate base.	K. Colvin
36	WP II-B-12 Adj 2 ARO	The Company has adjusted asset retirement obligations since these costs represents an estimate of future obligations related to the retirement or removal of assets recorded for GAAP purposes.	K. Colvin
37	WP II-B-12 Adj 3 Margin Tax	The Company has made an adjustment to remove the Regulatory Asset Margin Tax for GAAP purposes.	K. Colvin
38	WP II-B-12 Adj 4 TEEEF ST Removal	The Company has removed TEEEF ST collected through a separate rider.	K. Colvin
39	WP II-B-12 Adj 5 TEEEF LT Removal	The Company has removed TEEEF LT collected through a separate rider.	K. Colvin
40	WP II-B-12 Adj 6 Tax Reg Assets	The Company has made an adjustment to remove tax-related regulatory assets.	J. Story
41	WP II-B-12 Adj 7 LLTF Rate Case Expenses	The Company has made an adjustment to remove LLTF Rate Case Expense recovered through a separate rider.	K. Colvin
42	WP II-B-12 Adj 8 Reg Assets-TEEEF Other	The Company has made an adjustment to remove Regulatory assets - TEEEF recovered through a separate rider.	K. Colvin
43	WP II-B-12 Adj 9 Bad Debt	The Company made an adjustment to bad debt balance.	K. Colvin
44	WP II-B-12 Adj 10 Rate Case Expense	The Company has made an adjustment to move rate case expenses to a separate rider.	K. Colvin
46	WP II-B-12 Adj 12 Hurricane Harvey	The Company has adjusted the regulatory asset to correct the carrying costs.	K. Colvin

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
SUPPORTED RATE OF RETURN

	Per Books	Supported	Cost	Supported ROR
Common Equity	44.90%	44.90%	10.40%	4.67%
Long-Term Debt	55.10%	55.10%	4.29%	2.36%
				7.03%

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

			Adjustments
O&M Expenses			
1	WP II-D-1 Adj 1 EECRF	$	(40,518)
2	WP II-D-1 Adj 2 Transportation Depreciation		654
3	WP II-D-1 Adj 3 Bad Debt		1,579
4	WP II-D-1 Adj 4 Affiliate Wages		111
5	WP II-D-1 Adj 5 Direct Wages		9,952
6	WP II-D-1 Adj 6 Affiliate Employee Expense		(74)
7	WP II-D-1 Adj 7 Affiliate Other		56
8	WP II-D-1 Adj 8 Employee Expenses		(156)
9	WP II-D-1 Adj 9 Asset Transfer		(187)
10	WP II-D-1 Adj 10 Affiliate Weather Event		(122)
11	WP II-D-1 Adj 11 Affiliate Benefit		(0)
12	WP II-D-1 Adj 12 TCOS		304,239
13	WP II-D-1 Adj 13 Affiliate Savings		0
	Total O&M Adjustments		275,534
A&G Expenses			
14	WP II-D-2 Adj 1 Energy Efficiency		(849)
15	WP II-D-2 Adj 2 Transportation Depreciation		21
16	WP II-D-2 Adj 3 Affiliate Benefit		(4,317)
17	WP II-D-2 Adj 4 Affiliate Wages		(10,715)
18	WP II-D-2 Adj 5 Direct Wages		436
19	WP II-D-2 Adj 6 Benefits		(11,347)
20	WP II-D-2 Adj 7 Rate Case Exclusions		(169)
21	WP II-D-2 Adj 8 Employee Expense		(8)
22	WP II-D-2 Adj 9 Property Self-Insurance Reserve		17,486
23	WP II-D-2 Adj 10 Workers' Compensation		(2,060)
24	WP II-D-2 Adj 11 Not Used		-
25	WP II-D-2 Adj 12 Auto & General Reserve		2,755
26	WP II-D-2 Adj 13 Asset Transfer		(155)
27	WP II-D-2 Adj 14 Affiliate Employee Expense		(1,164)
28	WP II-D-2 Adj 15 Affiliate Other		(1)
29	WP II-D-2 Adj 16 Affiliate Weather Event		(18)
30	WP II-D-2 Adj 17 Prior Period		2,390
31	WP II-D-2 Adj 18 Affiliate Savings		268
32	WP II-D-2 Adj 19 Sales Tax Refund		6,628
	Total A&G Adjustments		(819)

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR AMOUNTS
(Thousands of Dollars)

		Adjustments
Depreciation & Amortization, and Other Expenses		
33	WP II-E-1 Adj 1 Not Used	-
34	WP II-E-1 Adj 2 Depreciation Annualization	38,424
35	WP II-E-1 Adj 3 Remove Annualization for Trans Depr	(721)
36	WP II-E-1 Adj 4 Not Used	-
37	WP II-E-1 Adj 5 Not Used	-
38	WP II-E-1 Adj 6 Not Used	-
39	WP II-E-1 Adj 7 Reclass	-
40	WP II-E-4 Adj 1 Interest Other	14,572
41	WP II-E-4.1 Adj 1 Expedited Switches	(171)
42	WP II-E-4.1 Adj 2 Harvey	(5,294)
43	WP II-E-4.1 Adj 3 Ike Residual	476
44	WP II-E-4.1 Adj 4 Pension PURA	(1,884)
45	WP II-E-4.1 Adj 5 Smart Meter Texas	55
46	WP II-E-4.1 Adj 6 Bad Debt	(75)
47	WP II-E-4.1 Adj 7 Covid Deferral	1,621
48	WP II-E-4.1 Adj 8 Load Management Program	597
49	WP II-E-4.1 Adj 9 Hurricane Nicholas	10,105
50	WP II-E-4.1 Adj 10 Winter Storm Uri	3,463
51	WP II-E-4.1 Adj 11 Hurricane Laura	9,009
52	WP II-E-4.1 Adj 12 LLTF	1,519
53	WP II-E-4.1 Adj 13 TEEEF	(56,741)
	Total Depreciation & Amortization, and Other Expenses Adjustments	14,955
Taxes Other Than Income Taxes		
54	WP II-E-2 Adj 1 Direct Wage	384
55	WP II-E-2 Adj 2 Affiliate Other	(96)
56	WP II-E-2 Adj 3 Ad Valorem Tax	17,808
57	WP II-E-2 Adj 4 Municipal Franchise Tax	4,915
58	WP II-E-2 Adj 5 Sales & Use Tax Adjustments	(8)
59	WP II-E-2 Adj 6 EECRF	(140)
	Total Taxes Other Than Income Taxes Adjustments	22,862
Federal Income Tax		
60	Various	3,503
	Total Adjustments to Revenue Requirement	$ 316,035

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR - EXPLANATIONS

			Witness
O&M Expenses			
1	WP II-D-1 Adj 1 EECRF	The Company will recover the costs of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from expense.	K. Colvin
2	WP II-D-1 Adj 2 Transportation Depreciation	The adjustment annualizes transportation depreciation expense based on currently approved rates established in Docket No. 49421 and adjusted test year end plant values.	K. Colvin
3	WP II-D-1 Adj 3 Bad Debt	The Company has included an adjustment for REP defaults on their obligations to pay delivery charges to the Company.	K. Colvin
4	WP II-D-1 Adj 4 Affiliate Wages	The Company has included an adjustment for an ongoing increase in labor billings from CNP Service Company.	L. Storey
5	WP II-D-1 Adj 5 Direct Wages	The Company has adjusted test year salaries and wages, competitive pay adjustment, and incentive compensation to reflect the expected costs when new rates become effective.	K. Colvin
6	WP II-D-1 Adj 6 Affiliate Employee Expense	The Company has included an adjustment related to affiliate employee expenses reimbursed through it's "OnePay" system. This adjustment removes the non-recoverable amounts from the requested expense.	L. Storey
7	WP II-D-1 Adj 7 Affiliate Other	This adjustment removes affiliate-related amounts in the cost of service to ensure the accuracy of affiliate expense.	L. Storey
8	WP II-D-1 Adj 8 Employee Expenses	The Company has included an adjustment related to employee expenses reimbursed through its "One Pay" system. This adjustment removes the non-recoverable amounts from the requested expense.	K. Colvin
9	WP II-D-1 Adj 9 Asset Transfer	To adjust Service Company billings related to assets transferred from Service Company to CenterPoint Houston	L. Storey
10	WP II-D-1 Adj 10 Affiliate Weather Event	To adjust for Service Company and Affiliate employee participation in weather related restoration efforts of the Emergency Operations Plan ("EOP") to the Company.	L. Storey
11	WP II-D-1 Adj 11 Affiliate Benefit	Adjustment to reflect actual annual expense as determined by the 2023 actuarial studies from CNP Service Company.	L. Storey
12	WP II-D-1 Adj 12 TCOS	The Company is requesting a revised Wholesale TCOS rate in this filing. A revised Wholesale TCOS Matrix was utilized to determine the incremental change that the CenterPoint DSP will be charged as a result of the revised Matrix.	K. Colvin
13	WP II-D-1 Adj 13 Affiliate Savings	Adjustment to savings match due to adjusted affiliate wages.	L. Storey
A&G Expenses			
14	WP II-D-2 Adj 1 Energy Efficiency	The Company will recover the costs of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from expense.	K. Colvin

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR - EXPLANATIONS

			Witness
15	WP II-D-2 Adj 2 Transportation Depreciation	The adjustment annualizes transportation depreciation expense based on currently approved rates established in Docket No. 49421 and adjusted test year end plant values.	K. Colvin
16	WP II-D-2 Adj 3 Affiliate Benefit	Adjustment to reflect actual annual expense as determined by the 2023 actuarial studies from CNP Service Company.	L. Storey
17	WP II-D-2 Adj 4 Affiliate Wages	The Company has included an adjustment for an ongoing increase in labor billings from CNP Service Company.	L. Storey
18	WP II-D-2 Adj 5 Direct Wages	The Company has adjusted test year salaries and wages, competitive pay adjustment, and incentive compensation to reflect the expected costs when new rates become effective.	K. Colvin
19	WP II-D-2 Adj 6 Benefits	Adjustment to reflect actual annual expense as determined by the 2023 actuarial studies.	K. Colvin
20	WP II-D-2 Adj 7 Rate Case Exclusions	The Company will recover the costs of its rate case expenses through a separate rider, accordingly, these rate case costs have been removed from expense.	K. Colvin
21	WP II-D-2 Adj 8 Employee Expense	The Company has included an adjustment related to employee expenses reimbursed through its "One Pay" system. This adjustment removes the non-recoverable amounts from the requested expense.	K. Colvin
22	WP II-D-2 Adj 9 Property Self-Insurance Reserve	The Company has included an adjustment to expense to account for the difference between test year and revised annual level of the expense.	K. Colvin / G. Wilson
23	WP II-D-2 Adj 10 Workers' Compensation	Adjustment to reflect actual annual expense as determined by the 2023 actuarial studies.	K. Colvin
25	WP II-D-2 Adj 12 Auto & General Reserve	Adjustment to reflect actual annual expense as determined by the 2023 actuarial studies.	K. Colvin
26	WP II-D-2 Adj 13 Asset Transfer	To adjust Service Company billings related to assets transferred from Service Company to CenterPoint Houston	L. Storey
27	WP II-D-2 Adj 14 Affiliate Employee Expense	The Company has included an adjustment related to affiliate employee expenses reimbursed through it's "OnePay" system. This adjustment removes the non-recoverable amounts from the requested expense.	L. Storey
28	WP II-D-2 Adj 15 Affiliate Other	This adjustment removes affiliate-related amounts in the cost of service to ensure the accuracy of affiliate expense.	L. Storey
29	WP II-D-2 Adj 16 Affiliate Weather Event	To adjust for Service Company and Affiliate employee participation in weather related restoration efforts of the Emergency Operations Plan ("EOP") to the Company.	L. Storey
30	WP II-D-2 Adj 17 Prior Period	Removes prior period amount of STI expense true-up.	K. Colvin
31	WP II-D-2 Adj 18 Affiliate Savings	Adjustment to savings match due to adjusted affiliate wages.	K. Colvin
32	WP II-D-2 Adj 19 Sales Tax Refund	Removes prior period amount recorded during test year to reduce sales and use tax recorded at the conclusion of an audit of sales taxes by the Texas Comptroller of Public Accounts	K. Colvin

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR - EXPLANATIONS

			Witness
Depreciation & Amortization, and Other Expenses			
34	WP II-E-1 Adj 2 Depreciation Annualization	The adjustment annualizes depreciation expense based on currently approved rates established in Docket No. 49421 and adjusted test year end plant values.	K. Colvin
35	WP II-E-1 Adj 3 Remove Annualization for Trans Depr	The adjustment removes the annualized amount of transportation depreciation expense calculated in WP II-E-1 Adj 2, and reclasses the amount to O&M and A&G; calculation is based on currently approved rates established in Docket No. 49421 and adjusted test year end plant values.	K. Colvin
40	WP II-E-4 Adj 1 Interest Other	Removes interest costs related to storm costs, TEEEF, EECRF, and LLTF.	K. Colvin
41	WP II-E-4.1 Adj 1 Expedited Switches	This adjustment reflects the amortization of deferred expenses related to Expedited Switches.	K. Colvin
42	WP II-E-4.1 Adj 2 Harvey	This adjustment reflects the amortization of deferred expenses related to Hurricane Harvey.	K. Colvin
43	WP II-E-4.1 Adj 3 Ike Residual	This adjustment reflects the amortization of deferred expenses related to Hurricane Ike Residual.	K. Colvin
44	WP II-E-4.1 Adj 4 Pension PURA	This adjustment reflects the amortization of deferred expenses related to Pension PURA.	K. Colvin
45	WP II-E-4.1 Adj 5 Smart Meter Texas	This adjustment reflects the amortization of deferred expenses related to Smart Meter Texas.	K. Colvin
46	WP II-E-4.1 Adj 6 Bad Debt	This adjustment reflects the amortization of deferred expenses related to Bad Debt.	K. Colvin
47	WP II-E-4.1 Adj 7 Covid Deferral	This adjustment reflects the amortization of deferred expenses related to COVID.	K. Colvin
48	WP II-E-4.1 Adj 8 Load Management Program	This adjustment reflects the amortization of deferred expenses related to Load Management Program.	K. Colvin
49	WP II-E-4.1 Adj 9 Hurricane Nicholas	This adjustment reflects the amortization of deferred expenses related to Hurricane Nicholas.	K. Colvin
50	WP II-E-4.1 Adj 10 Winter Storm Uri	This adjustment reflects the amortization of deferred expenses related to Winter Storm Uri.	K. Colvin
51	WP II-E-4.1 Adj 11 Hurricane Laura	This adjustment reflects the amortization of deferred expenses related to Hurricane Laura.	K. Colvin
52	WP II-E-4.1 Adj 12 LLTF	This adjustment reflects the amortization of deferred expenses related to LLTF.	K. Colvin
53	WP II-E-4.1 Adj 13 TEEEF	This adjustment removes TEEEF amortization recovered in a separate rider.	K. Colvin
Taxes Other Than Income Taxes			
54	WP II-E-2 Adj 1 Direct Wage	The payroll tax impact related to the adjustment to payroll expenses has been included as an adjustment.	K. Colvin / B. Villatoro

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
REVENUE REQUIREMENT ADJUSTMENTS TO TEST YEAR - EXPLANATIONS

			Witness
55	WP II-E-2 Adj 2 Affiliate Other	Adjustment to payroll tax for the impact related to the adjustment to affiliate wages	L. Storey
56	WP II-E-2 Adj 3 Ad Valorem Tax	The Company is requesting an adjustment for forecasted ad valorem taxes.	K. Colvin / J. Story
57	WP II-E-2 Adj 4 Municipal Franchise Tax	This adjustment is requesting the known changes to franchise fees that will be in effect in 2024.	B. Tutunjian / K. Colvin
58	WP II-E-2 Adj 5 Sales & Use Tax Adjustments	To remove non-recoverable expenses	K. Colvin / J. Story
59	WP II-E-2 Adj 6 EECRF	The Company will recover the costs of its Energy Efficiency programs and activities through a separate rider (EECRF). Accordingly, these Energy Efficiency costs have been removed from expense.	K. Colvin
Federal Income Tax			
60	Various	The Company is requesting various adjustments to Federal Income Tax expense.	J. Story

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
TOTAL SUPPORTED REVENUE REQUIREMENT

		Retail		Wholesale		Total
Revenue Requirement	**$**	**3,075,173,669**	**$**	**697,326,740**	**$**	**3,772,500,409**
Cost of Service						
O&M and A&G	$	1,843,164,510	$	106,396,662	$	1,949,561,172
Depreciation and Amortization	$	433,335,228	$	150,082,380	$	583,417,608
Taxes Other than Income Taxes	$	268,281,601	$	61,299,821	$	329,581,422
Federal Income Tax	$	76,317,881	$	56,090,774	$	132,408,656
Minus: Other Revenues	$	41,273,710	$	32,003,060	$	73,276,770
Return	$	495,348,159	$	355,460,163	$	850,808,323
Total Rate Base	$	7,044,578,875	$	5,055,165,964	$	12,099,744,839
Rate of Return		7.03%		7.03%		7.03%

Exhibit KLC-08

Workers' Compensation Reserve Study

IS CONFIDENTIAL

A copy of this material will be provided only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

Exhibit KLC-09
Auto and General Insurance Reserve Study

IS CONFIDENTIAL

A copy of this material will be provided only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

CenterPoint Energy

Accounting and Control Policies

Policy Number: 21

Capitalization Policy

Policy

Company expenditures for items that have a useful life greater than one year or that extend the useful life of an existing asset by more than one year, that meet the minimum dollar thresholds, and that are not intended for sale in the ordinary course of business shall be capitalized as per the guidance outlined below. Capitalization of software is covered under the Company's Capitalization of Computer Software Policy and construction overhead is covered under the Company's Construction Overhead Policy.

Purpose

The purpose of this Capitalization Policy is to provide the criteria for expenditure capitalization and addition to the capital base. Adherence to this policy is designed to:

- Ensure the integrity of the financial data by defining consistent criteria for capitalization across all Business Units
- Provide a consistent basis for determining when expenditures are recorded as capital assets
- Provide a defined expectation for assets to be added to or removed from the capital base.

Capital Additions

Timing

Capital orders are considered to be field complete at the end of the capitalization period, i.e., when the asset is substantially complete and ready for intended use. At that time, the status of the order in SAP should be changed to field complete (FC) or a status equivalent to field complete, such as Contractor Complete (CTCC). Setting a capital order to a FC status will ensure interest or AFUDC, as applicable, is no longer capitalized and will allow the asset to be moved into Construction Complete Not Classified (CCNC) and begin depreciation.

Subsequent to the Field Complete status, a capital order will updated to Technically Complete (TECO) status. The TECO status indicates that all capital materials associated with the order have been properly entered. Specifically, this means that all installed materials have been appropriately charged and all actual retirement components have been properly itemized on the work order.

Property Accounting strives to unitize work orders within 60 days but no later than 120 days from the end of the calendar month in which an order is placed in TECO status. Sufficient information must be contained on the work order in order to facilitate unitization analysis. Additionally, work orders tied to Superior Projects are not unitized until all related work orders are placed in TECO status. When an order is unitized, Property Accounting will move the asset from CCNC into

CenterPoint Energy

Accounting and Control Policies

Policy Number: 21

Capitalization Policy

Capital Additions continued

Plant in Service (PIS). Depreciation will continue to be accrued monthly after the asset is moved to PIS.

Retirement Unit

The addition of a complete Retirement Unit (RU), a complete Substantial Minor Item (SMI), or a Betterment can increase the capital base of an Entity. In addition, certain assessment costs, excluding Pipeline Integrity, incurred in conjunction with major capital rehabilitation projects can be included in the capital base of the associated retirement unit. Only retirement of a complete RU can decrease the capital base. The treatment for each follows:

- When an identical or different RU replaces an existing RU, the old unit must always be retired and the new unit added to the capital base. A minimum threshold may also be required to capitalize a replacement of an RU of pipe, i.e., 50 feet of plastic pipe.
- The addition of an RU shall be capitalized.
- For Electric Companies and Local Distribution Companies (LDCs), RUs are defined in their respective retirement unit catalogs.
- For regulated entities, the removal cost associated with an RU shall be included as capital by charging accumulated depreciation at the Business Unit level for regulatory reporting purposes. For external reporting purposes, removal cost is reclassified to the regulatory liability for rate-regulated entities that apply the guidance of Accounting Standards Codification (ASC) 980, "Regulated Operations.[1].

Substantial Minor Item

- The <u>addition</u> of an SMI to an existing RU is defined as a "substantial addition" and is capitalized.
- When an existing SMI is replaced, the entire replacement cost is charged to maintenance expense.
- An SMI is considered integral to the underlying retirement unit. Consequently, an SMI should never be removed without being replaced. Any costs associated with the removal or replacement of an SMI independent of the RU of which it is part would be considered maintenance expense.

[1] See the CenterPoint Energy, Inc. Accounting for Rate-Regulation Policy for information on ASC 980.

CenterPoint Energy

Accounting and Control Policies

Policy Number: 21

Capitalization Policy

Capital Additions *continued*

- When an SMI is replaced and the conditions of a "Betterment" are met, the excess cost of the new SMI over the cost of "like replacement" is capitalized and the estimated "like replacement cost" is charged to maintenance expense. An estimate of the cost of making the change without a Betterment must be submitted with the work order request. All charges are to be made to the work order. The cost of making the change without Betterment will be transferred to maintenance expense by Property Accounting Services. The excess cost of the Betterment over the estimated cost at current prices of replacing without Betterment will remain in Construction Work In Progress until the work order is cleared to Plant In Service. The RU value will then be increased by the Betterment amount. No retirement from plant is made.
- When an SMI is modified and the conditions of a Betterment are met, the cost is capitalized. After the completion of this work, the work order will be cleared to Plant In Service and the RU value increased by the Betterment amount.

Less than Substantial Minor Items

Due to the relative cost of such items in relation to the cost of the RU of which they are a part, the addition of a Less than Substantial Minor Item (LSMI) is not a "substantial addition" and such costs are charged to maintenance expense.

The addition of an LSMI is normally charged to maintenance expense. The addition of an LSMI is charged to capital only when installing new facilities or when an LSMI is part of a related capital work order.

Betterment

The costs incurred that meet the definition of betterment are capitalized.

CenterPoint Energy

Accounting and Control Policies

Policy Number: 21

Capitalization Policy

Capital Additions *continued*

Determining the treatment	The following table shall be used to determine the treatment of costs as capital or expense for a property item type.		
Property Item Type	**Adding Property**	**Removing & Replacing Property**	**Removing Property – No Replacement**
Retirement Unit	Capitalize	Capitalize	Capitalize
Substantial Minor Item of Property	Capitalize	Expense (Capitalize a Betterment)	Expense
Less than a Substantial Minor Item of Property	Expense (Capitalize if installing new facilities or part of a capital work order)	Expense (Capitalize if installing new facilities or part of a capital work order)	Expense

Assessment Costs

Generally, costs incurred to inspect, test and report on the condition of existing assets in order to determine the need for repairs or replacements are considered expense. Additionally, costs incurred as part of an ongoing inspection, testing or maintenance programs are also recorded as expense. Pipeline Integrity is an example of ongoing maintenance costs that should be expensed.

However, assessment costs incurred when the work is being performed in conjunction with a major rehabilitation program may be capitalized if certain conditions are met:

1) The assessment costs must be incurred subsequent to determining the need for a major rehabilitation program
2) The rehabilitation project involves a significant number of capital replacements and modification of facilities
3) The rehabilitation project must extend the overall service life of the asset beyond its original useful life and serviceability
4) The scope of the rehabilitation project must be clearly defined with a projected completion date
5) The rehabilitation project must be separately budgeted as a capital item

CenterPoint Energy

Accounting and Control Policies **Policy Number: 21**

Capitalization Policy

Approval from the Director of Financial Accounting is required before any capital assessment costs are planned. Such approval should be given if there is a strong probability of regulatory recovery of capital assessment costs

Retirement Unit Catalog/ Capitalization Guidelines

Property Accounting will maintain a property unit catalog (catalog) or capitalization guidelines for all Entities. Additions or changes to the catalog or guidelines must meet one of the following criteria for consideration.

- Relative dollar value to the current RU
- For SMI's, the frequency of replacement without removing the associated RU
- Change in technology
- Approval of a regulator

Retirement – Property Unit Catalog Example

(Electric)

Catalog Section: Distribution Plant
Retirement-Property Unit Code: FCA 364
Fixed Capital Account (FCA): Poles, Towers & Fixtures
Expense Account(s): 583 and 593
Retirement-Property Unit: Poles, Wood, Length
Unit of Measure: Each

Description includes installed cost for treated wood poles, all classes, complete with framing, hardware and supports used singly or in multi-pole structures.

Minor Items Of Property:
- Crossarms*
- Anchor Rod
- Vertical Brackets
- Guy Wire
- Crossarm Braces
- Guy Hook
- Pins
- Guy Grip
- Cluster Racks*
- Secondary Rack
- Secondary Fork
- Miscellaneous Wood Pole Hardware
- Bolts, Nuts, Washers (BNW)
- Bus Support Structure
- Bracket
- Pole Bracing*
- Anchor

CenterPoint Energy

Accounting and Control Policies **Policy Number: 21**

Capitalization Policy

*Substantial Minor Items – Addition of a substantial minor item shall be charged to Account 364.

Costs Chargeable To Maintenance:
- Repair and/or replacement of any part of the above RU without replacement of the entire RU shall be charged to expense.
- Addition of any minor item other than a substantial minor item shall be charged to expense.

Retirement – Property Unit Catalog Example

(Gas)

Capital Projects
All Mains

- All new installation and replacement activities that involve adding or retiring pipe footage
- Relocation or offsets that involve adding or retiring pipe footage
- Abandonments or removal without a replacement main installation
- Reinstatement of previously abandoned pipe
- First-time installation of Weld Over Sleeves

Expense Items
All Mains

- Relocation that does not involve adding or retiring pipe footage
- Repairs to mains that do not require adding or retiring pipe footage
- Replacement or addition of clamps, valves, pipe coating, couplings, and supports, unless the work is done as part of a capital project Pipeline Integrity Assessment Costs

General Plant and Miscellaneous Equipment

General Plant and Miscellaneous Equipment purchases, new or replacement, must be greater than $500 and have a useful life of more than one year in order to be capitalized.

Exception: The initial outfitting and equipment of a new facility or vehicle (i.e. a new laboratory, machine shop, office building, service center, truck, etc.) shall be capitalized.