



## **Filing Receipt**

**Filing Date - 2024-06-28 10:18:14 AM**

**Control Number - 56211**

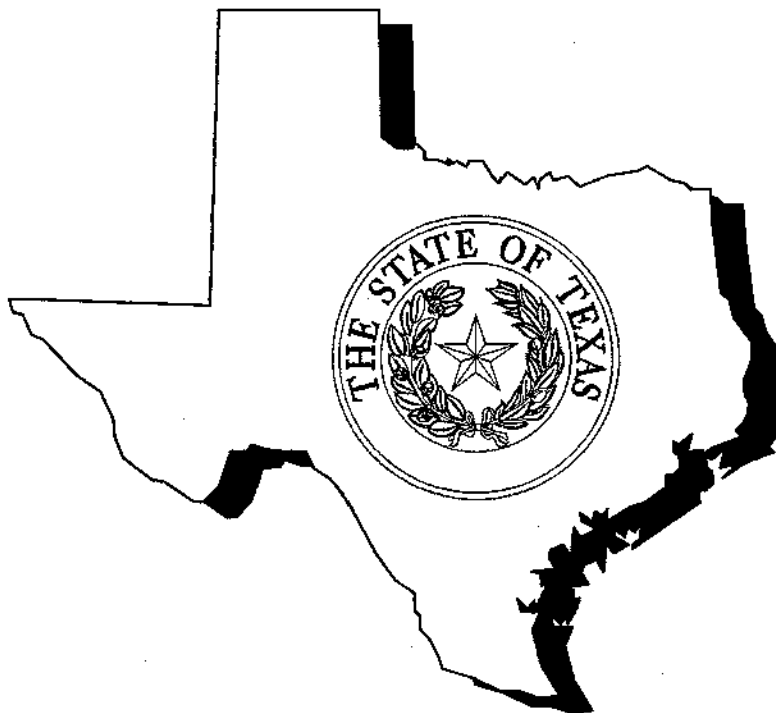
**Item Number - 401**

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

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

**§  
§  
§  
§**

**BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE HEARINGS**



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

**June 28, 2024**

## **Table of Contents**

<b>I.</b>	<b>PROFESSIONAL QUALIFICATIONS .....</b>	<b>3</b>
<b>II.</b>	<b>PURPOSE AND SCOPE OF TESTIMONY .....</b>	<b>4</b>
<b>III.</b>	<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>5</b>
<b>IV.</b>	<b>CLASS COST OF SERVICE STUDY .....</b>	<b>6</b>
<b>V.</b>	<b>WHOLESALE DISTRIBUTION SERVICE .....</b>	<b>7</b>
<b>VI.</b>	<b>TRANSMISSION COST RECOVERY FACTOR.....</b>	<b>9</b>
<b>VII.</b>	<b>CONCLUSION .....</b>	<b>11</b>

### **ATTACHMENTS:**

<b>Attachment AN-RD-1</b>	<b>Class Cost of Service Summary</b>
<b>Attachment AN-RD-2</b>	<b>Staff's Proposed Rates for Retail Service and Wholesale Transmission Service at Distribution Voltage.</b>
<b>Attachment AN-RD-3</b>	<b>Distribution Cost Recovery Factor Baselines</b>

**I. PROFESSIONAL QUALIFICATIONS**

**Q. Please state your name and business address.**

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

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

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

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

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

**Q. Please state your educational background and professional experience.**

A. Attachment AN-RR-1 to my Revenue Requirement Direct Testimony contains a summary of my regulatory experience and educational background.

**Q. Have you previously filed testimony before the Commission?**

A. Yes. Attachment AN-RR-1 to my Revenue Requirement Direct Testimony contains a list of direct testimonies I have filed recently at the Commission.

**II. PURPOSE AND SCOPE OF TESTIMONY**

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

A. My Rate Design Direct Testimony regarding the application of CenterPoint Energy Houston Electric, LLC (CEHE) addresses CEHE's cost allocation and rate design issues. My testimony addresses, in whole or in part, the following issues from the Commission's Preliminary Order issued on November 3, 2023:

45. What are CenterPoint Houston's just and reasonable rates calculated in accordance with PURA and Commission rules? Do the rates comply with the requirements in PURA § 36.003?

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

50. Does CenterPoint Houston provide wholesale transmission service at distribution voltage to any customers? If so, has CenterPoint Houston properly allocated costs to and designed rates for those customers as required under PURA § 35.004(c)?

56. What baseline amounts should be determined in this proceeding for future CenterPoint TCRF, distribution cost recovery factor, or interim transmission cost of service filings? If so, what are the investment and expense components and amounts?

**Q. Please describe your role in this proceeding.**

A. In addition to the specific issues I address further in my testimony, I have prepared Commission Staff's Class Cost of Service Study (CCOSS). Based on Staff's proposed CCOSS, I calculated Staff's proposed retail rates and distribution cost recovery factor (DCRF) baselines. I also prepared the Transmission Cost Recovery Factor Baselines.

**III. SUMMARY OF RECOMMENDATIONS**

**Q. What is your recommendation?**

A. I recommend that:

- CEHE's Staff-adjusted class cost of service study, as seen in Attachment AN-RD-1, be adopted and used to set rates.
- the Commission approve Staff's proposed rates for retail service and wholesale transmission service at distribution voltage as seen in Attachment AN-RD-2.
- the Commission reject CEHE's request to update TCRF rates in this proceeding. The baseline TCRF class allocation factor should be approved for use in updating future TCRFs on the regular TCRF update schedule mandated in 16 TAC § 25.193(b)(1).
- the Commission reject CEHE's proposal to not update the current interim wholesale transmission service at distribution voltage, (wholesale distribution service, or WDS) rates. The interim WDS rates should be updated to reflect the Primary Voltage Service (PVS) base rates that result from this proceeding, consistent with the methodology used to establish the current WDS rates.
- CEHE's WDS tariff should be made available to all potential wholesale distribution service customers, not only energy storage resources.
- the Commission approve the Staff-adjusted distribution cost recovery factor (DCRF) baselines as seen in Attachment AN-RD-3.

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

A. In preparation for my testimony, I reviewed the application submitted by CEHE to the Commission, the testimony of CEHE witnesses, previous Commission orders, and Commission rules.

**IV. CLASS COST OF SERVICE STUDY**

**Q. What is a CCOSS?**

A. Once the overall retail delivery cost of service has been determined, the amount for each line item and function must be allocated based on cost causation among rate classes. The end result of the study is the best approximation of the Test Year costs incurred by the Company to serve each rate class. The resulting class revenue requirement is then used in the rate design phase for each rate class, as rates for each class are designed to recover the costs caused by that class, as determined in the study.

**Q. Have you prepared a Staff-adjusted CCOSS?**

A. Yes. I prepared the Staff-adjusted CEHE CCOSS using the Staff-adjusted retail delivery cost of service. Please refer to Attachment AN-RD-1 for a summary of the Staff-adjusted CEHE CCOSS.

**Q. Did you adjust CEHE's DCRF baselines based on the results of the Staff-adjusted CCOSS?**

A. Yes. Please refer to Attachment AN-RD-3.

**V. WHOLESALE DISTRIBUTION SERVICE**

**Q. Does CEHE currently have any WDS customers?**

A. No. As CEHE witness John R. Durland notes in his direct testimony, CEHE received inquiries from interested entities but currently CEHE does not have WDS customers.<sup>1</sup>

**Q. Is CEHE requesting to update the interim WDS rates in this proceeding?**

A. No. CEHE's current WDS tariff was established in Docket No. 53606. In that docket, parties agreed to adopt interim rates subject to refund or surcharge based on the PVS base rates established in CEHE's then most recent base rate case, Docket No. 49421, until the Commission rulemaking on distribution energy storage resources (DESRs) establishes the costs applicable to DESRs.<sup>2</sup>

**Q. Do you agree with CEHE's proposal to not update WDS rates in this proceeding?**

A. No. Doing so would be unreasonably preferential toward WDS customers and could contribute to unnecessary rate shock in future rate proceedings where WDS rates are set at cost. The Commission's determinations in this proceeding regarding CEHE's cost of service, including items such as rate of return, affect all CEHE's base rates (but not pass-through rates, such as the TCRF). There is no good reason to keep unchanged the rates for one of CEHE's distribution rate classes. Furthermore, this approach conflicts with well-established practice for Texas utilities that provide WDS service. Oncor Electric Delivery Company, LLC (Oncor) updated its WDS rates in every base rate proceeding and DCRF proceeding since unbundling.<sup>3</sup> Sharyland Utilities, L.L.C. also updated its WDS rates in its

---

<sup>1</sup> Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates at Direct Testimony of John R. Durland at 64.

<sup>2</sup> *Id.* at 65

<sup>3</sup> *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Docket No. 53601; *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Docket No. 46957; *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Docket No. 38929; *Application of Oncor*



1 most recent base rate case.<sup>4</sup> CEHE has provided no reasonable basis to depart from this  
2 practice.

3 The current WDS interim rates should be updated to reflect the PVS base rates that  
4 result from this proceeding, subject to refund or surcharge in the event that different WDS  
5 rate treatments are established after the rulemaking concludes. Mr. Durland states that  
6 WDS rates reflect the same charges that would be charged to retail PVS customers because  
7 CEHE expects WTS customers to take Primary service.<sup>5</sup> As stated above, current WDS  
8 interim rates are based on old and stale PVS rates established in CEHE's previous rate case.  
9 Therefore, it makes sense to update the current interim WDS rates to rates that actually  
10 reflect the cost to serve Primary Service Customers.

11 **Q. Do you have any additional recommendations regarding CEHE's interim WDS rate**  
12 **schedule?**

13 A. Yes. Limiting WDS service to battery energy storage system (BESS) customers exclusively  
14 is inappropriate. As an initial matter, WDS service in the ERCOT region is not limited to  
15 wholesale energy storage customers but is available to distribution service providers (DSPs)  
16 as well. In fact, 16 TAC § 25.191(d)(2) obligates CEHE to provide WDS when necessary to  
17 serve a wholesale customer, and 16 TAC § 25.191(d)(2)(C) requires CEHE to file a WDS  
18 tariff with the Commission if the utility is providing WDS service. As WDS service is not  
19 limited to BESS customers, CEHE's WDS tariff should not limit WDS service to such  
20 customers, but rather should offer WDS service to DSPs as well. Such an approach is

---

*Electric Delivery Company LLC for a Distribution Cost Recovery Factor, Docket No. 48231; Application of Oncor Electric Delivery Company LLC to Amend its Distribution Cost Recovery Factor, Docket No. 55525.*

<sup>4</sup> *Application of Sharyland Utilities, L.L.C. for Authority to Change Rates, Docket No. 51611.*

<sup>5</sup> *Id.*

consistent with Oncor Electric Delivery Company, LLC's Commission-approved tariff for Rate XMFR and Rate DLS from Docket No. 53601. Those WDS rate schedules are applicable to both BESS and DSP customers taking wholesale distribution service. Furthermore, as seen in Order No. 40 of Docket No. 22344, with the transition to competition, the Commission has moved towards rate classes that are primarily based on cost-causative factors relevant to type of delivery service being delivered, and not the type of customer.<sup>6</sup> The only exception to this standard customer classification is the Residential and Lighting classes, which are based on customer type due largely to historical metering issues. To establish CEHE's WDS service as applicable only to a particular customer type instead of being applicable to wholesale distribution service in general would be a step backwards, and CEHE's proposal to do so should be rejected.

## **VI. TRANSMISSION COST RECOVERY FACTOR**

### **Q. Is CEHE requesting to update its TCRF rider in this proceeding?**

A. Yes. CEHE witness John R. Durland notes that CEHE recovers all of its retail transmission expense via the TCRF rider and states that the Company will be required to update the TCRF to reflect any changes in wholesale transmission rates and to update the 4CP class allocation factors at the conclusion of this case.<sup>7</sup>

### **Q. Does the TCRF rule require an update to the TCRF rider in this proceeding?**

A. No. 16 TAC § 25.193(b)(1) states:

A DSP . . . shall be allowed to include within its tariff a TCRF clause that authorizes the DSP to charge or credit its customers for the amount of

---

<sup>6</sup> *Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Public Utility Commission Substantive Rule § 25.344*, Docket No. 22344, Order No. 40 at 3 (Nov. 22, 2000).

<sup>7</sup> Direct Testimony of John R. Durland at 34.

wholesale transmission cost changes approved or allowed by the commission to the extent that such costs vary from the transmission service cost utilized to fix the base rates of the DSP. **The DSP shall update its TCRF twice per year** on March 1 and September 1 to pass through the wholesale transmission cost changes billed by a TSP. . . . Within 45 days after a DSP files a request to update its TCRF, the commission shall issue an order establishing the amount of the revised TCRF and suspend the effective date of the revised TCRF as necessary so that the new TCRF charges will take effect on March 1 or September 1, as applicable.<sup>8</sup>

Furthermore, the TCRF allocation factor, "ALLOC", is defined under 16 TAC § 25.193(c) as "the class allocator approved by the commission to allocate the transmission revenue requirement among classes in the DSP's last rate case, unless otherwise ordered by the commission." CEHE is not proposing to use the class allocator approved by the commission from CEHE's last rate case but is instead proposing to update the allocation factor and calculate new TCRF rates in this proceeding.

**Q. Has it been necessary to update TCRF rates in previous base rate proceedings?**

A. Yes. Where a DSP is collecting retail transmission expense in base rates, it is necessary to update a TCRF as part of a base rate proceeding, as authorized by the latter portion of 16 TAC § 25.193(d). However, as noted above, CEHE is not collecting retail transmission expense in base rates because all retail transmission expense is now included in CEHE's TCRF rider, which is updated twice per year and includes a 'true-up' component to ensure that CEHE is able to pass through all of its retail transmission expense to its customers. Thus, the latter portion of 16 TAC § 25.193(d) is not relevant, and the initial portion applies: "A DSP's TCRF charge shall remain in effect until adjusted under this section."<sup>9</sup>

**Q. Will CEHE suffer any harm if the TCRF is not updated in this proceeding?**

---

<sup>8</sup> 16 TAC § 25.193(b)(1) (emphasis added).

<sup>9</sup> 16 TAC § 25.193(d).

A. No. As stated above, 16 TAC § 25.193 includes a ‘true-up’ provision, so any changes to CEHE’s or another TSP’s wholesale transmission rates will be reflected in the normal biannual TCRF updates.

**Q. What is your recommendation regarding CEHE’s TCRF?**

A. I recommend that the Commission reject CEHE’s proposal to update its TCRF as part of the compliance portion of this proceeding. CEHE has not met its burden of proof to show why such an update is necessary under the current circumstances. I recommend that CEHE’s proposed baseline TCRF allocation factor be approved for use in future TCRF updates consistent with the biannual update process contemplated in 16 TAC § 25.193.

## **VII. CONCLUSION**

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

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

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

A. Yes.

The following files are not convertible:

Attachments AN-RD.xlsx

Please see the ZIP file for this Filing on the PUC Interchange in order to access these files.

Contact [centralrecords@puc.texas.gov](mailto:centralrecords@puc.texas.gov) if you have any questions.