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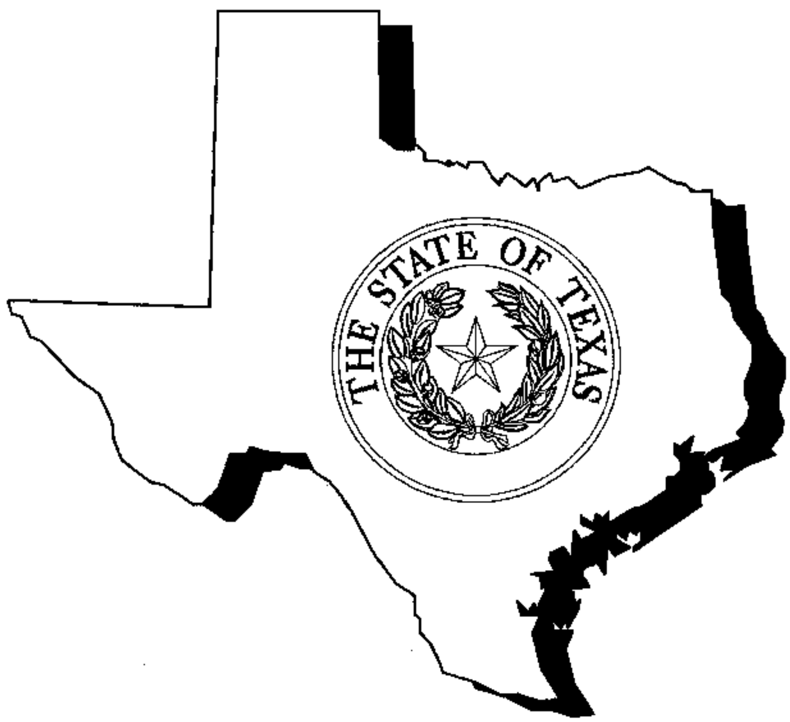
APPLICATION OF CENTERPOINT	§	**BEFORE THE STATE OFFICE**
ENERGY HOUSTON ELECTRIC,	§	**OF**
LLC FOR AUTHORITY TO CHANGE	§	**ADMINISTRATIVE HEARINGS**
RATES	§	



CROSS REBUTTAL TESTIMONY OF

ADRIAN NARVAEZ

RATE REGULATION DIVISION

PUBLIC UTILITY COMMISSION OF TEXAS

July 10, 2024

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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 cross-rebuttal testimony will address the gradualism adjustment proposal by the Houston Coalition of Cities expert witness Kit Pevoto. I will also address the request by Lisa V. Perry on behalf of Walmart that CEHE be required to develop a new EV retail rate specific for public-facing EV chargers. Additionally, I will address the request by Chris Hickman on behalf of the Environmental Defense Fund that single-participant subtractive metering customers should not be subject to an additional fee.

III. SUMMARY OF RECOMMENDATIONS

Q. What is your recommendation?

A. I recommend that:

- The Commission reject HCC's recommendation to set the maximum percentage rate increase for any rate class at two times the system average increase if an overall distribution base rate revenue increase is granted for CEHE in this case. I also recommend that the Commission reject HCC's recommendation that no rate class should be assigned an increase and every rate class should receive a rate decrease if the Commission approves an overall distribution base rate revenue decrease for CEHE in this case.
- The Commission reject Walmart's recommendation that CEHE be required to develop a new EV retail rate specific for public-facing EV chargers and that the Commission approve such rate within six months following the issuance of a final order in this docket.

- The Commission reject the Environmental Defense Fund's recommendation that single-participant subtractive metering customers should not be subject to an additional fee.

IV. HCC GRADUALISM ADJUSTMENT

Q. Please describe Ms. Pevoto's rate moderation, or "gradualism" proposals.

A. Ms. Pevoto proposes to set the maximum percentage rate increase for any rate class at two times the system average increase if an overall distribution base rate revenue increase is granted for CEHE in this case. Additionally, she proposes that no rate class should be assigned an increase and every rate class should receive a rate decrease if the Commission approves an overall distribution base rate revenue decrease for CEHE in this case.

Q. Would it be reasonable to adopt Ms. Pevoto's gradualism proposals?

A. No. Ms. Pevoto's gradualism proposals should be denied because they are discriminatory, inequitable, and in conflict with 16 TAC § 25.234(a). Ms. Pevoto has not shown that any rate increases in this proceeding will rise to the level of "rate shock" sufficient to warrant a good cause exception to the requirement that rates be set at cost. Additionally, her proposals do not conform with the Commission-approved gradualism adjustment methodology as they would result in non-cost-based rates even where rate shock is not a concern and fail to make reasonable movement towards cost.

Q. What is the Commission approved gradualism adjustment methodology?

A. As an initial matter and as discussed further below, the Commission has rejected gradualism methodologies based on some multiple of the system average increase. This stands to reason as "rate shock" is a function of absolute percentage increase in customers' bills, not a relative increase. In other words, a class facing a 3% rate increase where the system average increase is 0.5% cannot be said to be facing rate shock due to facing an increase that is six times the system average increase. Instead, the Commission first determines the level of rate increase that would warrant a rate moderation adjustment. Then, any rate class with an increase at or above the rate ceiling determined by the Commission is capped at the rate ceiling. Finally, any residual revenue deficiencies that result from capping rate increases is allocated proportionally to all the other rate classes that are not subject to the rate cap. However, as discussed below, the Commission considers that setting cost-based rates is particularly important for ERCOT TDUs in order to facilitate competition in the retail market and since the delivery charges at issue do not represent the majority of a typical customer's bill.

The gradualism proposals recommended by Ms. Pevoto represent significant departures from the Commission-approved methodology described above. Furthermore, any gradualism methodology that eliminates any rate increase solely because the Commission approves an overall distribution base rate revenue decrease is arbitrary, unequitable, and inconsistent with Commission precedent. Such a proposal would require other classes subsidizing rate classes that should receive an overall rate increase based on the cost of service study only because Ms. Pevoto has arbitrarily determined that no rate classes should receive a rate increase if the Commission approves an overall distribution base rate revenue decrease for the utility even though 16 TAC § 25.234(a) requires that rates should be based on cost. Ms. Pevoto's proposals, by simply imposing a two-times system average rate increase cap or prohibiting a rate increase for any class, would arbitrarily and unreasonably limit otherwise reasonable movement to cost for certain classes and increase the likelihood that some customers in future rate cases would face large rate increases due to insufficient movement to cost in this rate proceeding in which rate shock is not a concern.

Q. Why is it important for rates to be based on cost?

A. In addition to the requirement in 16 TAC §25.234(a) that rates be based on cost, cost-based rates are equitable and essential in advancing economic efficiency and rate stability. When rates are set at cost, the revenues that a utility collects through these rates recover the costs that customers impose on a utility's system. Cost-based rates will more closely match the costs incurred as customer usage changes over time. When rates are set below cost, the revenues recovered through the below-cost rates will be insufficient to recover the cost to serve that group of customers. Furthermore, setting subsidized rates for some customers requires that the rates for other customers be set above cost. Consequently, maintaining a rate structure based on non-cost-based rates would provide price signals that no longer reflect the actual cost to serve each group of customers, promoting inefficient usage of the utility's system by encouraging usage by customers whose rates are below-cost while discouraging usage by customers whose rates are above-cost. Over time, this can lead to a growing gap between revenue recovery and costs.

Q. What is the most recent Commission precedent with regards to rate increases that warrant a rate moderation adjustment?

A. While 16 TAC § 25.234(a) requires that rates be set at cost, the Commission has found that rate moderation was an appropriate exception to this requirement for certain vertically-integrated utilities not operating within the competitive ERCOT market where movement to cost would result in an increase that is "out of proportion or harsh to a particular class,"[1] or where an increase is "harsh to particular classes and promote[s] rate shock."[2] In Southwestern Public Service Company's (SPS) most recent fully-litigated rate case, SPS and various parties opposed a class revenue distribution based on setting rates at cost and instead proposed gradualism adjustments based on a multiple of the system-average-increase, as Ms. Pevoto does in this case.[3] The Commission, however, citing its preference for cost-based rates, declined to adopt a gradualism adjustment in that proceeding and set the revenue requirement for each class based on cost.[4] In the two most recent fully-litigated rate cases for vertically integrated utilities, the Commission approved a gradualism adjustment in which net revenue increases for individual class were capped at approximately 42.6%.[5] Ms. Pevoto has failed to show that any class would face a total bill increase of this magnitude in this proceeding. Therefore, any rate moderation proposal should be rejected.

Q. Is setting rates at cost particularly important for utilities operating in the competitive ERCOT market region?

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[1] *Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment*, Docket No. 39896, Proposal for Decision at 284 (Jul. 6, 2012).

[2] *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 40443, Redacted Proposal for Decision at 269 (May 20, 2013).

[3] *Application of Southwestern Public Service Company for Authority to Change Rates,* Docket No. 43695, Final Order at 9 (Feb. 23, 2016).

[4] *Application of Southwestern Public Service Company for Authority to Change Rates,* Docket No. 43695, Order on Rehearing at 10 (Feb. 23, 2016).

[5] *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Commission Number Run (Revenue Distribution Schedule) (Dec. 20, 2017); *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 51415, Corrections to Commission Number Run (Revenue Distribution Schedule) (Dec. 13, 2021).

A. Yes. As I discussed above, cost-based rates are equitable and essential in advancing economic efficiency and rate stability. However, compared to ratemaking in areas not subject to competition, setting rates at cost is more important in the competitive ERCOT market and has been an important component of Commission policy since the inception of the competitive market. In determining the standard ratemaking treatments for TDUs in the competitive market, the Commission has stated:

> …the cost causation ought to totally drive this. We ought to be as pure as possible in these rates because if we will continue to perpetuate all these subsidies and cross-subsidization mistakes of the past in the future, that will, I think in the long term, hurt competition. …[6]

Q. Does recent precedent demonstrate that the Commission prefers cost-based rates for ERCOT TDUs?

A. Yes. The Commission has consistently approved cost-based rates for ERCOT TDUs. For example, in CEHE's last fully litigated base rate proceeding, the Commission established rates at cost:

> In allocating costs, CenterPoint followed the principles of cost causation. Each of the retail delivery classes has been allocated revenues in line with the costs those classes generate.[7]

This approach is also consistent with the Commission's decision in the most recent fully litigated rate case, Docket No. 53601:

> 304. Rate moderation-also referred to as gradualism-is a rate-setting tool or methodology to gradually move a customer class's revenue levels towards the class's cost of service when a significant rate increase would otherwise be required to set the class's revenue level equal to its cost of service.

[6] Open Meeting Transcript at 120 – 121 (Jun. 29, 2000).

[7] *Application of CenterPoint Electric Delivery Company, LLC for Authority to Change Rates*, Docket No. 38339, Order on Rehearing at Finding of Fact No. 175 (Jun. 23, 2011).

> 305. When gradualism is used, the increase to the class is set below its cost of service to minimize the impact. The resulting revenue shortfall is then spread across and recovered from other customer classes.
> 306. Rates should be set at cost absent compelling reasons for mitigation. The salient issue is whether the utility's proposed increase is so out of proportion or harsh to a particular class that some form of gradualism should be applied.
> 307. Setting rates at cost is particularly important for transmission and distribution utilities within ERCOT because they operate in a competitive market.
> 308. In evaluating whether a proposed rate increase is out of proportion or harsh to a particular class, or constitutes rate shock, one consideration is the effect of the rate change on the customer' s total bill.
> 309. In its filed case, Oncor requested a system average rate increase of 7.1%. However, the rate impact by rate class varies widely, from a 7.9% decrease for secondary service ≤ 10 kW customers to a 213.3% increase for wholesale DLS customers.
> 310. The primary driver of the disparate proposed rate increases is the calculation of the TCRF rates since Oncor's last base-rate case, which updates each retail class's billing determinants, but not the class allocation factors.
> 311. Oncor's revenue requirement for each rate class should be set at cost.[8]

As stated above, the Commission has determined that when evaluating whether a proposed rate increase is out of proportion or harsh to a particular class or constitutes rate shock, one consideration is the effect of the rate change on the customer's total bill. This is reasonable as the transmission and distribution base rates established in an ERCOT TDU rate case are only a fraction of the total bill being paid by each class. Furthermore, the Commission approved transmission and distribution base rate increases of up to 213.3%. However, Ms. Pevoto has entirely ignored the Commission precedent established in Docket No. 53601 and has ignored the fact that there is no evidence on the record that would support a

[8] *Application of Oncor Electric Delivery Company LLC for Authority to Change Rates*, Docket No. 53601, Order on Rehearing at Findings of Fact Nos. 304-311 (Jun. 30, 2023).

determination of "rate shock" warranting gradualism in this case for any rate class as per the Commission's decision in that case.

Q. What is your recommendation regarding Ms. Pevoto's gradualism proposals?

A. I recommend that the Commission reject Ms. Pevoto's rate moderation proposals and that rates be set at cost.

V. EV RATES

Q. Would it be reasonable to adopt Ms. Perry's proposal that CEHE be required to develop a new EV retail rate specific for public-facing EV chargers and that the Commission approve such rate within six months following the issuance of a final order in this docket.

A. No. Ms. Perry's proposal is discriminatory and contrary to the Commission-approved customer classification for ERCOT TDUs.

Q. What is the standard, Commission-approved customer classification for ERCOT TDUs?

A. In the Commission's unbundling docket, Docket No. 22344, the Commission determined that uniform rate design and customer classification scheme is appropriate for the purposes of standardizing T&D rates in Texas.[9] The Commission also found that cost causation should be a significant factor in developing a uniform customer class configuration.[10] Based on the evidence, briefs, and arguments of the parties in that docket, the Commission

[9] *Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA Section 39.201 and Public Utility Commission Subst. R. 25.344*, Docket No. 22344, Order No. 17 at 2 (Jul. 24, 2000).

[10] *Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA Section 39.201 and Public Utility Commission Subst. R. 25.344*, Docket No. 22344, Order No. 40 at 4 (Nov. 22, 2000).

adopted a generic customer classification and rate design for TDUs composed of six rate classes: Residential, Secondary <10 kW, Secondary >10 kW, Primary, Transmission, and Lighting.[11] The Commission has approved a few exceptions to the standard rates, like the approval of a primary substation class for Oncor in Docket No. 35717. However, exceptions to the standard rate classes, like the primary substation service, are consistent with the cost-causation rationale that underlines the Commission's standard classes in which the customer's manner of connection to the system drives customer classification.

Q. Is Ms. Perry's recommendation consistent with the Commission's findings in Docket No. 22344?

A. No. Ms. Perry's proposal is a departure from the standard customer classification for TDUs based on cost causation. Her proposal would result in EV customers being treated as a separate class based on their end use or usage characteristics instead of the customer's manner of connection to the system. Ms. Perry's proposal entails preferential treatment for EV customers.

Q. Do you share with Ms. Perry's concern that EV customers be billed by the utility under a more traditional rate tariff with a demand charge?

A. No. The delivery costs at issue in this proceeding are driven by demand. Demand charges are the cost-based method of recovering demand costs. As the Commission ordered in Docket No. 22344:

> With respect to a facilities/delivery charge, the Commission finds that the NCP billing determinant should be used for non-IDR metered customers. For those possessing IDR meter capabilities, the transmission per-kilowatt (kW) rate shall be billed according to the Commission's relevant transmission rule, which currently mandates a four coincident peak (4CP) method.

[11] *Id.* at 15.

> The distribution facilities/delivery charge for IDR metered customers shall be billed on the NCP billing determinant.[12]

There is nothing about EV charging service that provides a reasonable basis to depart from the standard Commission-approved cost-based customer classification and rate design. In addition to conflicting with Commission precedent, Ms. Perry's proposal is contrary to cost causation. As discussed above, cost-based rates are equitable and essential in advancing economic efficiency. Cost-based demand charges are important in this matter as they ensure that customers pay for the demand costs that they cause the utility to incur. However, a greater penetration of EV charging stations taking service under Ms. Perry's proposed special treatment for EV customers would potentially result in greater subsidies paid by other customers and greater rate instability for CEHE.

Q. Would it be reasonable to adopt rates for a new rate class after six months following the issuance of a final order in this docket?

A. No. 16 TAC § 25.234(b) requires that rates be determined "using revenues, billing and usage data for a historical test year adjusted for known and measurable changes, and costs of service as defined in § 25.231 of this title (relating to Cost of Service)." To my knowledge, Ms. Perry has not presented a cost of service study that allocates historical test-year costs adjusted for known and measurable changes to a hypothetical EV rate class. Therefore, Ms. Perry's proposed EV base rates would be in violation of 16 TAC § 25.234(b). Ms. Perry's proposal is unreasonably discriminatory in that it would provide significantly different charges for substantially identical usage since a non-EV charger

[12] *Id.* at 6-7.

customer with the exact same load and usage would potentially pay much more than the EV charger customer.

VI. SUBTRACTIVE METERING CHARGE

Q. Would it be reasonable to adopt Mr. Hickman's proposal that the monthly subtractive metering fee not be applied to a single-participating submetering customer?

A. No. It does matter if subtractive metering applies to a second customer taking service behind another customer's parent meter or to single-participating submetering customer. Subtractive metering requires that the utility incur additional costs in order to provide this service. If the utility does not recover these costs from the customers that caused CEHE to incur these costs, CEHE would seek to recover these costs from other rate payers who do not cause those costs to be incurred.

Q. Should the Commission reject Mr. Hickman's recommendation that single-participant subtractive metering customers should not be subject to an additional fee?

A. Yes. Mr. Hickman's proposal is unreasonably preferential, prejudicial, and discriminatory because it would basically amount to a rate subsidy for single-participating submetering customers at the expense of other customers.

VII. CONCLUSION

Q. Does this conclude your cross-rebuttal testimony?

A. Yes.