

CenterPoint Energy Houston Electric
Texas Margin Tax Expense 2021-2023

FERC	GL Account	Acct Description	2021	2022	2023
409.1	717020	Current Inc Taxes Exp-State & Local	\$ (7,363)	\$ 95,576	\$ 5,717,438
408.1	717025	Current Inc Taxes Exp-TX Margin Tax	20,600,510	16,533,761	27,505,545
410.1	717520	Def Inc Taxes Exp-State & Local	2,437,708	(894,743)	5,434,810
411.1	717524	Deferred Inc Tax Ben-State & Loca			(1,437,117)
			<u>\$ 23,030,855</u>	<u>\$ 15,734,594</u>	<u>\$ 37,220,676</u>

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 56211
SOAH DOCKET NO. 473-24-13232
GULF COAST COALITION OF CITIES
REQUEST NO.: GCCC02-20

QUESTION:

Refer to the Direct Testimony of Jennifer K. Story at 56 wherein she addresses the fact that ad valorem tax rates in Texas have been decreasing over the last few years. Refer also to the calculation of ad valorem taxes proforma adjustment on WP II-E-2 Adj 3 and Schedule II-E-2.1.

- a. Describe all known reasons why the ad valorem tax rates have been decreasing over the last few years.
- b. Explain all reasons why the Company did not reflect a 2024 ad valorem tax rate reduction similar to the ad valorem tax rate reductions in all years since at least 2020.
- c. In the same format as the ad valorem tax data for years 2020 through 2023 provided in Schedule II-E-2.1, provide the ad valorem tax data for 2019.

ANSWER:

- a. Ad valorem tax rates have been decreasing over the last several years in Texas due to a number of factors, some of which are more temporary in nature. First, the Texas Legislature in both 2019 and 2023 passed bills (primarily HB3 in 2019 and SB2 in 2023) that compressed or reduced the local school district property tax maintenance & operations (M&O) component of the tax rate by an average of 8% in 2019 and another 20% in 2023. Second, value growth in many taxing jurisdictions has increased at a rate faster than population growth, thus forcing the maximum tax rate that can be set without additional voter approval to lower levels than in prior years.
- b. The Company did not forecast any 2024 ad valorem tax rate reductions for the following reasons: (1) the Company does not control the local ad valorem tax rate setting process, which is product of a combination of both local elected officials and voter approval mechanisms under Texas state law and it would be speculative in nature for the Company to presume a future years' tax rate would differ dramatically from the most recent tax year; (2) much of the decrease in property tax rates over the last few years has come from compression of the maintenance & operations (M&O) portion of the local school property tax rates due to the legislative mechanisms mentioned in the response to part a. above – in the 2024 tax year, the Legislature only appropriated an amount to further compress the tax rate by .0075%, or less than 1 cent. As such, it would be anticipated that school tax rates will flatten out or not decline in 2024 or in years beyond unless the Legislature appropriates funds for additional tax rate compression.
- c. See GCCC02-20 Attachment for the 2019 ad valorem data.

SPONSOR:

Jennifer Story

RESPONSIVE DOCUMENTS:

GGCC02-20 Attachment.xlsx

PUBLIC UTILITY COMMISSION OF TEXAS
 CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
 II-E-2.1 AD VALOREM TAXES AND PLANT BALANCES
 TEST YEAR ENDING 12/31/2023
 DOCKET NO. 56211

Sponsors: Justin Hyland

Line No.	Tax Year	Beginning Book Plant Balance (a)	Taxable Value of Plant Subject to Ad Valorem Tax (b)	Ad Valorem Tax Expense ⁽¹⁾ (c)	Account	Total Taxes Paid in Calendar Year ^{**} (d)	Actual Total Property Taxes Paid on Taxable Value (2)	Effective Tax Rate (Actual Taxes Paid/ Taxable Value)	Reference
1	2023	\$ 15,956,025,163	\$ 5,562,364,257	\$ 112,896,150	722150	\$ 112,317,212	\$ 113,871,590	2.05%	(3)
2									
3	2022	\$ 14,264,822,918	\$ 4,910,110,745	\$ 113,275,221	722150	\$ 101,583,967	\$ 110,848,098	2.26%	(3)
4									
5	2021	\$ 12,869,434,884	\$ 4,250,162,771	\$ 99,737,674	722150	\$ 96,207,397	\$ 101,563,107	2.39%	(3)
6									
7	2020	\$ 12,155,160,207	\$ 3,958,421,790	\$ 97,057,221	722150	\$ 92,295,205	\$ 96,244,496	2.43%	(3)
8									
9	2019	\$ 10,511,274,749	\$ 3,732,144,811	\$ 93,765,572	722150	\$ 88,435,472	\$ 92,561,715	2.48%	
10									

⁽¹⁾ From WP II-E-2.1 (c) ^(SAP)

⁽²⁾ From WP II-E-2.1 (d)

⁽³⁾ Taxes functionalized based upon net plant in service excluding intangibles.

* Ad Valorem tax expense and taxable value excludes non-utility plant and prior period adjustments.

** All ad valorem taxes are paid to jurisdictions within the state of Texas. \$113.7 million of base property tax was paid in January 2024, subsequent to the test year end, for the 2023 tax year.

Notes:

1. Company CWIP is not subject to ad valorem. Tax is not assessed nor paid on CWIP balances at the end of each year.
2. All ad valorem taxes are expensed. None are capitalized.
3. The Company does not pay ad valorem taxes on plant leased to others, if any.
4. The company does not have any ad valorem taxes on investment deemed imprudent by the commission
5. The Company does not have any ad valorem taxes on property which is not used and useful

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PUC DOCKET NO. 56211
SOAH DOCKET NO. 473-24-13232
GULF COAST COALITION OF CITIES
REQUEST NO.: GCCC02-21

QUESTION:

Refer to the Direct Testimony of Jennifer Story at 50:1-4 wherein she concludes that the Texas margin tax must be calculated on a "stand-alone" basis citing as her support for this conclusion PURA § 36.060(a) and stating specifically that "PURA §36.060(a) requires that the Texas margin tax be computed based solely on those items that are contained within the Company's cost of service.

- a. Confirm that CEHE witness Story is not an attorney and that her testimony is not offered as a legal opinion.
- b. PURA § 36.060(a) states: a) If an expense is allowed to be included in utility rates or an investment is included in the utility rate base, the related income tax benefit must be included in the computation of income tax expense to reduce the rates. If an expense is not allowed to be included in utility rates or an investment is not included in the utility rate base, the related income tax benefit may not be included in the computation of income tax expense to reduce the rates. The income tax expense shall be computed using the statutory income tax rates.
 1. Confirm there is no reference to the Texas margin tax in PURA §36.060(a).
 2. Confirm that CEHE witness Story has identified the "expense," as that term is used in PURA § 36.060(a), "allowed to be included in utility rates," as the Texas margin tax expense. If this is not correct, then provide a corrected statement and all support relied on for your response. If confirmed, then identify the "related income tax benefit" that "must be included in the computation of income tax expense to reduce the rates."
 3. Confirm that PURA § 36.060(a) does not require the Public Utility Commission of Texas (Commission) to impose a cost on the electric utility due to the calculation of tax expense on a consolidated tax return basis that includes the expense "allowed to be included in utility rates" by another affiliate utility.
 4. Confirm that PURA § 36.060(a) does not authorize the Commission to impose a cost on the electric utility due to the calculation of tax expense on a consolidated tax return basis that includes the expense "allowed to be included in utility rates" by another affiliate utility.
 5. Confirm that CEHE witness Story considers the Texas margin tax to be an "income tax." Provide all support relied on for your response regardless of whether confirmed or denied.

ANSWER:

a. Confirm. Witness Story is not an attorney, and her testimony is not offered as a legal opinion. Her testimony is based on her credentials and experience in utility income tax accounting and is also consistent with Commission precedent. Please see Docket No. 38339 findings of fact 161 through 165 that conclude that "CenterPoint was required to use the cost-of-goods-sold method and has utilized this method ***applied to stand-alone revenues and expenses*** (emphasis added) reflected in its financial statements to determine its Texas franchise tax for the test year" and that Texas franchise (Margin) taxes are "reasonable and necessary expenses" using that method.

b. 1 Confirm, that there isn't a specific reference to Texas margin tax. There is, however, a reference to income tax expense and the Texas margin tax is an income tax under ASC 740.

b. 2 Deny. The Texas margin tax is an income tax in PURA § 36.060(a). See part b. 5 for support.

b. 3 Confirm. PURA § 36.060(a) does not address the interaction between affiliated utility rates and rates of utilities under its jurisdiction.

b. 4 Deny. PURA § 36.060(a) does not address the interaction between affiliated utility rates and rates of utilities under its jurisdiction.

b. 5 For purposes of financial statement reporting under ASC 740, witness Story considers the Texas margin tax to be an income tax. The Company's independent auditors agree with that conclusion. Please also see GCCC02-21 Attachment for the minutes from the FASB board meeting dated August 2, 2006 that further supports the conclusion.

SPONSOR:

Jennifer Story

RESPONSIVE DOCUMENTS:

GCCC02-21 Attachment.pdf

MINUTES



To: Board Members

From: Project Team—McGrath (ext. 443)

Subject: Minutes of the August 2, 2006 Board Meeting on Potential FSP: Texas Franchise Tax

Date: August 2, 2006

cc: Bielstein, Smith, MacDonald, Leisenring, Polley, Gabriele, Golden, Beswick, Sutay, Carney, Allen, Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic: Potential FSP: Texas Franchise Tax

Basis for Discussion: Board memorandum dated July 28, 2006

Length of Discussion: 10:45 a.m. to 11:00 a.m.

Attendance:

Board members present: FASB: Herz, Batavick, Crooch, Linsmeier, Seidman, and Young

IASB: Leisenring

Board members absent: Trott

Staff in charge of topic: Beswick

Other staff at Board table: Smith, Golden, McGrath

Outside participants: None

Summary of Decisions Reached:

The Board decided not to add a project to its agenda that would provide guidance on whether the recently enacted Texas Franchise Tax is an income tax that should be accounted for in accordance with FASB Statement No. 109, *Accounting for Income Taxes*.

Objective of Meeting:

The objective of this meeting was for the Board to consider whether to add a project to its agenda that would provide guidance on whether the recently enacted Texas Franchise Tax is an income tax that should be accounted for in accordance with Statement 109. This objective was accomplished.

Matters Discussed and Decisions Reached:

1. Mr. Beswick opened the meeting by explaining that on May 18, 2006, the Texas Governor signed into law a Texas Franchise Tax, which restructured the state business tax by replacing the taxable capital and earned surplus components of the tax with a new taxable margin component. The new franchise tax is effective for returns due on or after January 1, 2008. The staff received technical inquiries from constituents requesting the staff's opinion on whether the Texas Franchise Tax was an income tax that should be accounted for under Statement 109. After discussing the issue with constituents, the staff concluded that the Texas Franchise Tax is an income tax because the tax is based on a measure of income.

2. Mr. Beswick stated that the staff received an agenda request from a constituent requesting that the Board add a project to its agenda to provide guidance on whether the Texas Franchise Tax is an income tax that should be accounted for in accordance with Statement 109. The issue was discussed with the TA&I Committee on July 28. At this meeting, the staff reported on the results of the research it had performed during the technical inquiry process and its previous conclusion on the issue. The staff also reported that it had had discussions with the national accounting firms and other interested parties, which had concluded that the Texas Franchise Tax was an income tax. At the meeting,

the Committee concluded that the Texas Franchise Tax was an income tax that should be accounted for under Statement 109 and that there would not be diversity in the conclusions reached by preparers, auditors, and regulators on whether the Texas Franchise Tax was an income tax.

3. The Board unanimously decided not to add a project to its agenda that would provide guidance on whether the recently enacted Texas Franchise Tax is an income tax that should be accounted for in accordance with Statement 109.

4. Mr. Linsmeier expressed concern about whether the Texas Franchise Tax was sufficiently different from the Michigan Single Business Tax. One of the constituents' letters suggested that the Michigan Single Business Tax, which is similar in nature to the Texas Franchise Tax, is not always considered an income tax. Although Mr. Linsmeier agreed that the Board did not need to address the Texas Franchise Tax specifically, he was concerned about diversity of implementation in comparable circumstances.

Follow-up Items:

None.

General Announcements:

None.

CERTIFICATE OF SERVICE

I certify that on April 15, 2024, this document was filed with the Public Utility Commission of Texas in Docket No. 56211, and a true and correct copy of it was served by electronic mail on all parties of record in this proceeding in accordance with the Second Order Suspending Rules issued in Project No. 50664.



The following files are not convertible:

GCCC02-01 Attachment 1.xlsx
GCCC02-01 Attachment 2.xlsx
GCCC02-15 Attachment 1.xlsx
GCCC02-18 Attachment 1.xlsx
GCCC02-19 Attachment c.xlsx
GCCC02-19 Attachment d.xlsx
GCCC02-20 Attachment.xlsx

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

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