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RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

**GUD NO. 10567, consolidated
Proposal for Decision**

**STATEMENT OF INTENT OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A
CENTERPOINT ENERGY ENTEX AND CENTERPOINT ENERGY TEXAS GAS (CENTERPOINT),
TO INCREASE RATES IN THE HOUSTON DIVISION AND TEXAS COAST DIVISION**

PARTIES

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PROCEDURAL HISTORY:

Statement of Intent Filed:	November 16, 2016
Suspension Order:	December 6, 2016
Rate Case Expenses Severed:	January 3, 2017
Consolidation of GUD No. 10574, Petition for Review:	February 17, 2017
Consolidation of GUD No. 10579, Rate Case Expenses:	March 20, 2017
Hearing on the Merits:	March 21, 2017
Heard By:	John Dodson, Administrative Law Judge Dana Lewis, Administrative Law Judge Rose Ruiz, Technical Examiner James Currier, Technical Examiner
Settlement Filed:	April 7, 2017
Consolidation of GUD No. 10620, Petition for Review:	April 25, 2017
Consolidation of GUD No. 10623, Petition for Review:	May 4, 2017
Evidentiary Record Closed:	May 4, 2017
PFD Issued:	May 5, 2017
Statutory Deadline:	June 6, 2017

STATEMENT OF THE CASE

On November 16, 2016, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas ("CenterPoint"), filed with the Railroad Commission a statement of intent to increase gas utility rates in its Houston and Texas Coast Divisions (the "SOI"). The SOI was docketed as GUD No. 10567.

Five parties subsequently intervened, including Commission Staff. After all parties submitted pre-filed testimony, and after extensive discovery and negotiation among the parties, a unanimous settlement was reached that resolved all issues. In the settlement, the parties agree to the following:

- The Houston Division and Texas Coast Division will remain separate divisions;
- An increase of an additional \$16.5 million in annual revenues for CenterPoint—a reduction from CenterPoint's original \$31 million requested increase. This \$16.5 million revenue increase is a "black box" figure and is not tied to any specific expense in the underlying cost of service within CenterPoint's Houston Division or Texas Coast Division;
- Cost of equity set at 9.6 percent—a reduction from CenterPoint's original request of 10.25 percent;
- Depreciation rates;
- CenterPoint's capital investment booked to plant through September 30, 2016, is prudent;
- Rate case expense amounts; and
- Various other terms.

The Commission has both original and appellate jurisdiction in this docket. Original jurisdiction applies to the environs of the Houston and Texas Coast Divisions and to 20 cities that ceded original jurisdiction to the Commission. Appellate jurisdiction applies to 38 cities that denied rate increases at the municipal level.

The Examiners recommend that the Commission approve the settlement with minor, non-substantive changes to certain tariff language and a reduction of rate case expenses by \$17,136.10.

The deadline for Commission action is June 6, 2017.

Included in this consolidated docket are GUD Nos. 10567, 10574, 10579, 10620, and 10623.

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PROPOSAL FOR DECISION**I. INTRODUCTION**

On November 16, 2016, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas ("CenterPoint"), filed with the Railroad Commission of Texas ("Commission") a statement of intent to increase gas utility rates in its Houston and Texas Coast Divisions (the "SOI"). CenterPoint filed its SOI pursuant to Subtitle A (Gas Utility Regulatory Act) ("GURA") of the Texas Utilities Code, Chapter 104 (Rates and Services), Subchapter C (Rate Changes Proposed by Utility). The SOI was docketed as GUD No. 10567.

Five parties subsequently intervened, including Commission Staff. After all parties submitted pre-filed testimony, and after extensive discovery and negotiation among the parties, a unanimous settlement was reached that resolved all issues.¹ A copy of the Settlement, with exhibits, is attached to this PFD as Attachment 1.² In the Settlement, the parties agree to the following:

- The Houston Division and Texas Coast Division will remain separate divisions;
- An increase of an additional \$16.5 million in annual revenues for CenterPoint—a reduction from CenterPoint's original \$31 million requested increase. This \$16.5 million revenue increase is a "black box" figure and is not tied to any specific expense in the underlying cost of service within CenterPoint's Houston Division or Texas Coast Division;
- Cost of equity set at 9.6 percent—a reduction from CenterPoint's original request of 10.25 percent;
- Depreciation rates;
- CenterPoint's capital investment booked to plant through September 30, 2016, is prudent;
- Rate case expense amounts; and
- Various other terms.

The Commission has both original and appellate jurisdiction in this docket. Original jurisdiction applies to the environs of the Houston and Texas Coast Divisions and to 20 cities that ceded original jurisdiction to the Commission. Appellate jurisdiction applies to 38 cities that denied rate increases at the municipal level.³

The Examiners recommend that the Commission approve the Settlement with minor, non-substantive changes to certain tariff language and a reduction of rate case expenses by \$17,136.10. The deadline for Commission action is June 6, 2017.

¹ CenterPoint Ex. 33 (Unanimous Settlement Agreement, filed on April 7, 2017 (the "Settlement")).

² The attached copy of the Settlement excludes receipts and invoices related to rate case expenses.

³ The Commission has neither original nor appellate jurisdiction in this proceeding over the City of Bellaire, which ceded original jurisdiction to the Commission after its municipal regulatory rate increase process already had completed, and whose municipal actions were not appealed.

Included in this consolidated docket are GUD Nos. 10567 (the SOI), 10574,⁴ 10579,⁵ 10620,⁶ and 10623.⁷

II. PARTIES

The parties in this proceeding are Applicant CenterPoint and five intervenors: Staff of the Railroad Commission ("Staff"), Gulf Coast Coalition of Cities ("GCCC"),⁸ City of Houston ("Houston"), Houston Coalition of Cities ("HCOC"),⁹ and Texas Coast Utilities Coalition ("TCUC").¹⁰

CenterPoint (Utility)

CenterPoint is a "gas utility" under GURA Section 101.003 (Definitions).¹¹ CenterPoint filed its SOI with the Commission on November 16, 2016, and contemporaneously filed a statement of intent to increase rates with each municipality retaining original jurisdiction in the Houston and Texas Coast Divisions.¹²

⁴ GUD No. 10574, Appeal of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas, from the Action of the City of Meadows Place, filed on Dec. 22, 2016 (the "GUD 10574 Petition for Review").

⁵ GUD No. 10579, Rate Case Expenses Severed from GUD 10567, Statement of Intent of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas, to Increase Rates in the Houston Division and Texas Coast Division, severed from GUD No. 10567 on Jan. 3, 2017 (the "Rate Case Expense Docket").

⁶ GUD No. 10620, Appeal of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas, from the Actions of the Cities of Angleton, Baytown, et al., filed on April 3, 2017 (the "GUD 10620 Petition for Review").

⁷ GUD No. 10623, Appeal of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas, from the Actions of the Cities of Alvin, Deer Park, et al., filed on April 13, 2017 (the "GUD 10623 Petition for Review").

⁸ GCCC is comprised of the following municipalities: Alvin, Brookshire, Bunker Hill Village, Clear Lake Shores, Deer Park, Dickinson, Friendswood, Fulshear, Hedwig Village, Hilshire Village, Hunters Creek Village, Iowa Colony, Jersey Village, Kemah, La Marque, Lake Jackson, Manvel, Missouri City, Mont Belvieu, Morgan's Point, Nassau Bay, Piney Point Village, Rosenberg, Santa Fe, Seabrook, South Houston, Spring Valley Village, Stafford, Sugar Land, Taylor Lake Village, Texas City, Webster, and Weston Lakes.

⁹ HCOC is comprised of the City of Pasadena.

¹⁰ TCUC is comprised of the following cities: Angleton, Baytown, Clute, Freeport, League City, Pearland, Shoreacres, West Columbia, and Wharton.

¹¹ Tex. Util. Code § 101.003(7) (Definitions) (defining "gas utility" as "a person or river authority that owns or operates for compensation in this state equipment or facilities to transmit or distribute combustible hydrocarbon natural gas or synthetic natural gas for sale or resale in a manner not subject to the jurisdiction of the Federal Energy Regulatory Commission under the Natural Gas Act (15 U.S.C. Section 717 et seq.). The term includes a lessee, trustee, or receiver of a gas utility.").

¹² CenterPoint Ex. 1 (SOI) at 2.

Intervenors: Staff, GCCC, Houston, HCOC, and TCUC

On November 17, 2016, Staff moved to intervene in this docket "to assert its interest in seeing that the rules and regulations of the Railroad Commission of Texas, together with the appropriate statutes, have been followed."¹³ On November 18, 2016, Intervenors Staff and GCCC became parties.¹⁴ On November 29, 2016, Intervenor Houston became a party.¹⁵ On November 30, 2016, Intervenor TCUC became a party.¹⁶ On March 8, 2017, Intervenor HCOC became a party.¹⁷

III. PROCEDURAL BACKGROUND

On November 16, 2016, CenterPoint filed with the Commission its SOI to increase gas utility rates in its Houston and Texas Coast Divisions, and to consolidate these two divisions into a new, single division. Contemporaneously with its SOI, CenterPoint also filed a statement of intent to increase rates with each municipality retaining original jurisdiction in the Houston and Texas Coast Divisions. Subsequently, Staff, GCCC, Houston, HCOC, and TCUC properly intervened. On December 6, 2016, the Commission properly suspended the effective date of CenterPoint's proposed rate change for a period of 150 days pursuant to GURA Section 104.107 (Rate Suspension; Deadline).¹⁸ CenterPoint voluntarily extended this suspension until June 6, 2017. A prehearing conference was held on December 2, 2016, to consider various procedural and pre-hearing issues.

On December 22, 2016, CenterPoint timely filed with the Commission a petition for review from the action of the City of Meadows Place denying CenterPoint's proposed increase in gas utility rates.¹⁹ This appeal was consolidated with GUD No. 10567.²⁰ On January 3, 2017, all municipal parties were aligned for purposes of discovery pursuant to Commission Rule § 1.86 (Alignment of Municipal Intervenors for Purposes of Discovery),²¹ and the rate case expense portion of GUD No. 10567 was severed into a separate docket, GUD No. 10579.²² On January 9, 2017, CenterPoint filed certain errata to its original SOI (the "Errata Filing").²³

¹³ See Staff of the Railroad Commission of Texas' Motion to Intervene, filed November 17, 2016, at 1.

¹⁴ See Examiners' Letter No. 01 (Motions to Intervene by Staff and GCCC), issued November 18, 2016; *see also* Examiners' Letter No. 12 (Supplemental Motion to Intervene by GCCC), issued December 21, 2016.

¹⁵ See Examiners' Letter No. 03 (Motion to Intervene by City of Houston), issued November 29, 2016.

¹⁶ See Examiners' Letter No. 05 (Motion to Intervene by TCUC), issued November 30, 2016.

¹⁷ See Examiners' Letter No. 24 (Houston Coalition of Cities' Motion to Intervene), issued March 8, 2017.

¹⁸ See Tex. Util. Code § 104.107(a)(2) (Rate Suspension; Deadline) ("Pending the hearing and a decision...the railroad commission may suspend the operation of the schedule for not longer than 150 days after the date the schedule would otherwise be effective.").

¹⁹ See CenterPoint Ex. 2 (GUD 10574 Petition for Review).

²⁰ See Examiners' Letter No. 18 (Consolidation of Appeal with GUD No. 10567), issued February 17, 2017.

²¹ See Examiners' Letter No. 13 (Alignment of Municipal Parties), issued January 3, 2017; *see also* 16 Tex. Admin. Code § 1.86 (Alignment of Municipal Intervenors for Purposes of Discovery) ("Municipal parties, whether participating as a single municipality or a coalition of municipalities, are presumed to share a common interest in a proceeding such that alignment of municipal parties as a single party for purposes of discovery is appropriate. The presiding officer shall order alignment of municipal intervenors at the earliest reasonable opportunity so as to avoid unnecessary duplication of effort and to allow aligned parties an adequate opportunity to coordinate discovery efforts in an efficient manner.").

²² See Examiners' Letter No. 14 (Rate Case Expense Docket), issued January 3, 2017.

²³ CenterPoint Ex. 5 (Errata Filing).

From December 18, 2016, through January 8, 2017, CenterPoint published notice to the public of the proposed increase in the *Houston Chronicle*—a newspaper having general circulation in each affected county—in accordance with GURA Section 104.103 (Notice of Intent to Increase Rates).²⁴ The Commission received one comment letter from the public voicing opposition to CenterPoint's proposed rate increase. On January 25, 2017, the public commenter was provided a "Complaint and Statement of Intent to Participate Form" in accordance with Commission Rule § 7.240 (Statement of Intent to Participate).²⁵ No forms were received by the Commission.

On February 23, 2017, the Notice of Hearing was issued, setting the hearing on the merits to commence on March 21, 2017 ("Notice of Hearing").²⁶ On February 28, 2017, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1054*.²⁷ By March 10, 2017, the Notice of Hearing was provided to the governing body of each affected municipality and county in accordance with GURA Section 104.105 (Determination of Propriety of Rate Change; Hearing).²⁸

On March 17, 2017, the parties notified the Examiners that a settlement had been reached.²⁹ On March 20, 2017, the previously severed Rate Case Expense Docket—GUD No. 10579—was consolidated with GUD No. 10567 (the SOI docket). The hearing on the merits was held on March 21, 2017 (the "Hearing"). The evidentiary exhibit list is attached to this PFD as Attachment 2. On April 7, 2017, the parties filed the finalized Settlement.

After the Hearing, CenterPoint timely filed its GUD 10620 Petition for Review and its GUD 10623 Petition for Review. Those appeals were consolidated with the main GUD No. 10567 (the SOI docket) on April 25 and May 4, respectively, after the 20-day response period lapsed for each appeal with no opposition to consolidation filed.³⁰

On May 4, 2017, the evidentiary record closed.³¹

²⁴ CenterPoint Ex. 6 (Affidavit of Publication); see also Tex. Util. Code § 104.103(a)(1) ("The gas utility shall publish, in conspicuous form, notice to the public of the proposed increase once each week for four successive weeks in a newspaper having general circulation in each county containing territory affected by the proposed increase.").

²⁵ Letter from the ALJ to public commenter, dated January 25, 2017 (attaching Complaint and Statement of Intent to Participate Form).

²⁶ See Examiners' Letter No. 20 (Notice of Hearing), issued February 23, 2017 (attaching the Notice of Hearing).

²⁷ See *Gas Utilities Information Bulletin No. 1054*, published by the Railroad Commission of Texas Oversight and Safety Division on February 28, 2017 ("Bulletin").

²⁸ See letters from ALJ to County Judges for the Counties of Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Montgomery, Walker, Waller, and Wharton, each dated February 27, 2017 (attaching the Notice of Hearing), and letters from ALJ to County the governing bodies of the cities ceding original jurisdiction, each dated March 10, 2017 (attaching the Notice of Hearing); see also Tex. Util. Code § 104.105(c) ("The regulatory authority shall give reasonable notice of the hearing, including notice to the governing body of each affected municipality and county.").

²⁹ Letter to the ALJ from Mark A. Santos, counsel for CenterPoint, dated March 17, 2017.

³⁰ See Examiners' Letter No. 30 (Consolidation of GUD No. 10620 Appeal), issued April 25, 2017, and Examiners' Letter No. 32 (Consolidation of GUD No. 10623 Appeal), issued May 4, 2017.

³¹ See Examiners' Letter No. 34 (Close of Evidentiary Record), issued May 4, 2017.

IV. JURISDICTION, BURDEN OF PROOF, AND NOTICE

Jurisdiction

The Commission has jurisdiction over CenterPoint, which is a gas utility as defined in GURA Section 101.003(7). Pursuant to GURA Section 102.001(a), the Commission has exclusive original jurisdiction to set the rates CenterPoint requests for customers in the unincorporated areas of the Houston and Texas Coast Divisions and in the following 20 cities/municipalities that ceded original jurisdiction to the Commission: Clear Lake Shores, Cut and Shoot, Danbury, El Lago, Galena Park, Hillcrest Village, Hitchcock, Jacinto City, Jones Creek, Liverpool, New Waverly, Panorama Village, Pleak, Richwood, Roman Forest, South Houston, Southside Place, West University Place, Weston Lakes, and Willis.

Pursuant to GURA Section 102.001(b), the Commission has exclusive appellate jurisdiction to review the municipal actions of the following 38 cities/municipalities: Meadows Place (GUD 10574 Petition for Review); Angleton, Baytown, Bunker Hill Village, Conroe, Dickinson, Fulshear, Hilshire Village, Houston, Hunters Creek Village, Iowa Colony, Jersey Village, La Marque, Lake Jackson, League City, Manvel, Missouri City, Morgan's Point, Nassau Bay, Pasadena, Pearland, Piney Point Village, Rosenberg, Santa Fe, Seabrook, Shoreacres, Spring Valley Village, Texas City, Webster, and Wharton (GUD 10620 Petition for Review); and Alvin, Deer Park, Friendswood, Hedwig Village, Kemah, Stafford, Sugar Land, and Taylor Lake Village (GUD 10623 Petition for Review).

The Commission has jurisdiction over all matters at issue in this proceeding pursuant to GURA Chapters 102 (Jurisdiction and Powers of Railroad Commission and Other Regulatory Authorities), 103 (Jurisdiction and Powers of Municipality), and 104 (Rates and Services). The statutes and rules involved in this proceeding include, but are not limited to, those contained in GURA Chapters 102, 103, and 104, and Title 16 (Economic Regulation), Part 1 (Railroad Commission of Texas), Chapters 1 (Practice and Procedure) and 7 (Gas Services Division) of the Texas Administrative Code.

Burden of Proof

As the party proposing gas utility rate changes, CenterPoint has the burden of proving that the rate changes are just and reasonable.³²

³² Tex. Util. Code § 104.008 (Burden of Proof) ("In a proceeding involving a proposed rate change, the gas utility has the burden of proving that the rate change is just and reasonable, if the utility proposes the change.").

Notice

Proper notice has been issued in this proceeding in accordance with applicable statutes and rules. From December 18, 2016, through January 8, 2017, CenterPoint published notice to the public of the proposed increase in the *Houston Chronicle*—a newspaper having general circulation in each affected county—in accordance with GURA Section 104.103 (Notice of Intent to Increase Rates).³³ On February 23, 2017, the ALJ issued the Notice of Hearing, which complied with Chapter 2001 (Administrative Procedure) of the Texas Government Code, Part 1 (Railroad Commission of Texas) of Title 16 (Economic Regulation) of the Texas Administrative Code, and other applicable authority. On February 28, 2017, the Commission published the Notice of Hearing in *Gas Utilities Information Bulletin No. 1054*, in compliance with Commission Rule § 7.235 (Publication and Service of Notice).³⁴ Pursuant to GURA Section 104.105 (Determination of Propriety of Rate Change; Hearing), the ALJ provided a copy of the Notice of Hearing to the governing body of each affected municipality and county.³⁵

Proper notice has been issued in this proceeding in accordance with all applicable statutory and regulatory requirements.

V. COMPLIANCE WITH COMMISSION RULES; BOOKS AND RECORDS

CenterPoint presented evidence that it maintains its books and records in accordance with Commission requirements.³⁶ Mary A. Kirk, Director, Financial Accounting for CenterPoint Energy, Inc., testified that CenterPoint complies with Commission Rule § 7.310 (System of Accounts), which requires each gas utility to “utilize the Federal Energy Regulatory Commission’s (FERC) Uniform System of Accounts (USOA) prescribed for Natural Gas Companies subject to the Provisions of the Natural Gas Act (as amended from time to time) (FERC USAO) for all operating and reporting purposes.”³⁷ Ms. Kirk further testified that the information contained within CenterPoint’s books and records, as well as the summaries and excerpts therefrom, qualify for the presumption set forth in Commission Rule § 7.503 (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities).³⁸ Ms. Kirk testified that CenterPoint is in compliance with Commission Rule § 7.501 (Certain Matters to be Submitted in Rate Hearings), which requires the separate presentation in a rate proceeding of evidence related to certain types of financial transactions, and

³³ See CenterPoint Ex. 6 (Affidavit of Publication); see also Tex. Util. Code § 104.103(a)(1) (“The gas utility shall publish, in conspicuous form, notice to the public of the proposed increase once each week for four successive weeks in a newspaper having general circulation in each county containing territory affected by the proposed increase.”).

³⁴ See Bulletin, pp. 4-7 (containing the GUD No. 10567 Notice of Hearing); see also 16 Tex. Admin. Code § 7.235(a)(1)(A) (Publication and Service of Notice) (“The Commission shall publish the notice of hearing in the next Bulletin published after the date of issuance of the notice of hearing.”).

³⁵ Tex. Util. Code § 104.105(c) (Determination of Propriety of Rate Change; Hearing) (“The regulatory authority shall give reasonable notice of the hearing, including notice to the governing body of each affected municipality and county.”).

³⁶ See CenterPoint Ex. 8, Direct Testimony of Mary A. Kirk on Behalf of CenterPoint (“Kirk Test.”), at 5-9.

³⁷ *Id.* at 5-6; see 16 Tex. Admin. Code § 7.310(a) (System of Accounts).

³⁸ CenterPoint Ex. 8 (Kirk Test.) at 6-7; see 16 Tex. Admin. Code § 7.503(a) (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities).

in some cases, exclusion of these costs from rates,³⁹ with Commission Rule § 7.5414 (Advertising, Contributions, and Donations), which states that actual expenditures for advertising will be allowed as a cost-of-service item for ratemaking purposes, provided that the total sum of such expenditures shall not exceed one-half of one (1) percent of the gross receipts of the utility for utility services rendered to the public,⁴⁰ and with Commission Rule § 7.5252 (Depreciation and Allocations), which requires a gas utility in a rate proceeding to book depreciation and amortization on a straight-line basis over the useful life expectancy of the property or facility in question, to fairly and justly apportion certain shared or common items between service areas, and to exclude nonintegral nonutility activities from the utility's cost of service.⁴¹

No party disputes that CenterPoint maintains its books and records in accordance with Commission requirements.

Considering the evidence, the Examiners find that CenterPoint has established that it complied with these Commission rules. Accordingly, CenterPoint is entitled to the presumption set forth in Commission Rule § 7.503 (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities) that the unchallenged amounts shown in its books and records are presumed to have been reasonably and necessarily incurred.⁴²

VI. CENTERPOINT'S ORIGINAL REQUEST

CenterPoint made following main requests in its original SOI:

- Consolidation of the Houston Division and Texas Coast Division into a new, single division;
- An increase of an additional \$31 million in annual revenues;
- Cost of equity set at 10.25 percent;
- Prudence of capital investment through September 30, 2016;
- Depreciation rates; and
- Commission approval of the reasonable rate case expenses associated with this filing through a surcharge on rates.

³⁹ CenterPoint Ex. 8 (Kirk Test.) at 7; see 16 Tex. Admin. Code § 7.501 (Certain Matters to be Submitted in Rate Hearings).

⁴⁰ CenterPoint Ex. 8 (Kirk Test.) at 7-9; see 16 Tex. Admin. Code § 7.5414 (Advertising, Contributions, and Donations).

⁴¹ CenterPoint Ex. 8 (Kirk Test.) at 9; see 16 Tex. Admin. Code § 7.5252 (Depreciation and Allocations).

⁴² See 16 Tex. Admin. Code § 7.503(a) (Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities) ("In any proceeding before the Commission involving a gas utility that keeps its books and records in accordance with Commission rules, the amounts shown on its books and records as well as summaries and excerpts therefrom shall be considered prima facie evidence of the amount of investment or expense reflected when introduced into evidence, and such amounts shall be presumed to have been reasonably and necessarily incurred; provided, however, that if any evidence is introduced that an investment or expense item has been unreasonably incurred, then the presumption as to that specific investment or expense item shall no longer exist and the gas utility shall have the burden of introducing probative evidence that the challenged item has been reasonably and necessarily incurred.").

VII. TERMS OF THE SETTLEMENT

The Settlement resolves all issues in GUD 10567. The Parties—CenterPoint, GCCC, Houston, HCOC, TCUC, and Staff—represent diverse interests and have engaged in significant discovery regarding the disputable issues. All parties agree that the Settlement resolves all issues in a manner consistent with the public interest and that resolution of this docket under the terms of this Settlement will significantly reduce the amount of reimbursable rate case expenses that would, if further litigation is pursued, be allocated to customers affected by this docket.⁴³ The Examiners have reviewed the Settlement and find that its terms and rate elements are just, reasonable, in the public interest, and consistent with the requirements of the Texas Utilities Code and applicable Commission rules. The Examiners recommend that the Settlement be approved with minor, non-substantive changes to certain tariff language and a reduction of rate case expenses by \$17,136.10.

A. Base Rate Increase

Under the Settlement, CenterPoint will receive a \$16.5 million base rate increase for its Houston and Texas Coast Divisions—a reduction of \$14.5 million from CenterPoint's original request. All parties agree to the rates, terms, and conditions reflected in the tariffs and rate schedules attached as Exhibit A to the Settlement.⁴⁴ The \$16.5 million revenue increase is a "black box" figure and is not tied to any specific expense or methodology in the underlying cost of service in CenterPoint's Houston or Texas Coast Divisions.⁴⁵

The Settlement rates are designed to recover annual rate revenues of \$309.6 million from all customers. The environs customers will contribute approximately \$139.2 million, which is 45 percent. Currently, the environs customers contribute 44.6 percent of the adjusted test year revenue.⁴⁶

The base rate increase includes affiliate expenses recoverable consistent with the provisions in GURA Section 104.055 (Net Income; Allowable Expenses).⁴⁷ The parties explain that this treatment is a product of compromise and settlement and is not of precedential value in any other proceeding.⁴⁸

The parties agree that the rates, terms and conditions reflected in the Settlement comply with the rate-setting requirements of GURA Chapter 104 (Rates and Services).⁴⁹ The Texas Utilities Code requires that "the regulatory authority shall establish the utility's overall revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable return on the utility's invested capital

⁴³ CenterPoint Ex. 33 (Settlement), p. 2.

⁴⁴ *Id.* ¶ 1.

⁴⁵ *Id.* ¶ 1. In a "black box settlement," the parties agree to a total amount that the utility may recover in its rates without specifying any of the individual numbers used to calculate the amount. See *Entergy Texas, Inc. v. Pub. Util. Comm'n of Texas*, 03-14-00735-CV, 2016 WL 1406233, at *3 (Tex. App.—Austin Apr. 8, 2016).

⁴⁶ CenterPoint response to Examiners' Letter No. 29.

⁴⁷ See Tex. Util. Code § 104.055.

⁴⁸ CenterPoint Ex. 33 (Settlement) ¶ 22.

⁴⁹ *Id.* ¶ 1.

used and useful in providing service to the public in excess of its reasonable and necessary operating expenses."⁵⁰

Considering the evidence, the Examiners find the overall revenues for CenterPoint in the Settlement to be just and reasonable and consistent with GURA Chapter 104 (Rates and Services).

B. Rate Design

The parties agree to the below monthly customer charges and volumetric rates for both the Houston and Texas Coast Divisions.⁵¹

Class	Customer Charge	Volumetric
Residential	\$15.75	\$0.07431 per Ccf at 14.95 pressure base
General Service – Small	\$18.25	\$0.05839 per Ccf at 14.95 pressure base
General Service – Large	\$180.00	\$0.08296 per Ccf at 14.65 pressure base \$0.08466 per Ccf at 14.95 pressure base

The revenue requirement is recovered from proposed rates as set out in the Settlement. The settled customer charge for the residential customer class is \$1.25 less than CenterPoint's original proposal. The customer charge for the general service-small class is unchanged from CenterPoint's original proposal, and the general service-large class charge is \$110 greater than CenterPoint's original proposal. The settled volumetric charge for the residential customers is \$0.00385/Ccf lower than CenterPoint's original proposal.

The below table shows the current and settled rates for the residential class.

Service Area	Current		Settlement	
	Customer Charge	Volumetric Charge	Customer Charge	Volumetric Charge
Houston, excl. Conroe	\$15.85	\$0.0308	\$15.75	\$0.07431
Houston, Conroe	\$15.85	\$0.0308		
Texas Coast	\$16.17	\$0.0746		

⁵⁰ Tex. Util. Code § 104.051 (Establishing Overall Revenues).

⁵¹ CenterPoint Ex. 33 (Settlement) ¶ 3.

The below table shows the bill impact,⁵² excluding the cost of gas, of CenterPoint's proposed increase and the settled increase on average-usage residential customers.

Service Area	Average CCF	Current	Proposed	Settlement	Settlement Bill Change	Settlement Percent Increase
Houston, excl. Conroe	34	\$16.90	\$19.66	\$18.28	\$1.38	8%
Houston, Conroe	36	\$16.96	\$19.81	\$18.43	\$1.47	9%
Texas Coast	33	\$18.63	\$19.58	\$18.20	\$(0.43)	-2%

Considering the evidence, the Examiners find that the Settlement rates comply with GURA Section 104.003 (Just and Reasonable Rates) because the rates are not unreasonably preferential, prejudicial, or discriminatory, but are sufficient, equitable, and consistent in application to each class of customer. The Examiners also find that the Settlement rates are just and reasonable and comply with GURA Section 104.004 (Unreasonable Preference or Prejudice Prohibited) because the rates do not establish or maintain an unreasonable difference concerning rates of services between localities or between classes of service. Finally, the Settlement rates comply with GURA Section 104.006 (Rates for Area not in Municipality) because the rates for environs customers will not exceed 115 percent of the average of all rates for similar services for all municipalities served by CenterPoint in the same counties.

C. Service Area Consolidation

The parties agree that the Houston and Texas Coast Divisions will remain separate divisions and will not be consolidated in this docket.⁵³

⁵² Bill impacts only include the customer charge and usage charge.

⁵³ CenterPoint response to Examiner RFI 3-04.

D. Tariffs

The parties agree that the rates, terms and conditions reflected in the tariffs attached to the Settlement as Exhibit A comply with the rate-setting requirements of GURA Chapter 104 (Rates and Services).⁵⁴ The tariffs, listed below, are included in Exhibit A of the Settlement.

	Houston Division		Texas Coast Division	
	Incorporated	Environs	Incorporated	Environs
Residential	R-2095-I	R-2095-U	R-2096-I	R-2096-U
General Svc. – Small Volume	GSS-2095-I	GSS-2095U	GSS-2096-I	GSS-2096-U
General Svc. – Large Volume	GSLV-626-I	GSLV-626-U	GSLV-627-I	GSLV-627-U
Rate Case Expense – GUD No. 10567	RCE-11		RCE-12	
Rate Case Expense – GUD No. 10432	N/A		RCE-9.1	
Rate Case Expense - TCUC 9791 Appeal	N/A		RCE-9.2	N/A
Miscellaneous Svc. Charges	Misc.-16		Misc.-17	
Tax Adjustment	TA-13		TA-14	
Franchise Fee Adjustment	FFA-8	N/A	FFA-9	N/A

Houston Division and Texas Coast Division
Purchase Gas Adjustment – PGA-15
General Rules and Regulations

The parties agree to the partial consolidation of certain tariffs, as described below:

- Consolidation of the PGA tariffs within the Houston and Texas Coast Divisions;
- The same initial rates (customer charge and volumetric) for both divisions and the factors identified in Paragraph 5 of the Settlement are established in this proceeding;
- A consolidated Earnings Monitoring Report ("EMR") to be used for the Houston and Texas Coast Divisions in future Interim Rate Adjustment ("IRA") filings that will serve the purpose of GURA Section 104.301(f) and (g) for any IRA in the Texas Coast and Houston Divisions;
- Separate IRA filings will be made in the Houston and Texas Coast Divisions; and
- CenterPoint will provide a summary of IRA filings since GUD No. 10567 in the Texas Coast and Houston Divisions to Houston/HCOG, TCUC, GCCC, and Staff 60 days prior to filing its next Statement of Intent filing in those divisions.

⁵⁴ CenterPoint Ex. 33 (Settlement) ¶ 1.

Considering the evidence, the Examiners find that the Settlement tariffs comply with statutory and Commission requirements. However, for clarification purposes, the Examiners recommend the following minor, non-substantive additions to the language in those tariffs. The Rate Case Expense Surcharge tariff is addressed separately below.

Houston Division	Tariff No.	Section	Examiner Revisions
Residential – Environs And General Service Small	R-2095-U GSS-2095-U	Application of Schedule	List the following ceded Cities - Bellaire, Cut and Shoot, Galena Park, Jacinto City, New Waverly, Panorama Village, Roman Forest, South Houston, Southside Place, West University Place, Willis
Rate Case Expense	RCE - 11	Application of Schedule Monthly Rate Recovery Factor:	Add "GUD No. 10567" after November 16, 2016. Add: effective beginning on or after, May 23, 2017. Add: 12-month recovery period Add: \$ 0.13 per bill to each class

Texas Coast Division	Tariff No.	Section	Examiner Revisions
Residential – Environs And General Service Small	R-2096-U GSS-2096-U	Application of Schedule	List the following ceded Cities - Clear Lake Shores, Danbury, El Lago, Hillcrest Village, Hitchcock, Jones Creek, Liverpool, Pleak, Richwood, Weston Lakes
Rate Case Expense	RCE-9.1	Application of Schedule	Add "GUD No. 10432" after March 27, 2015.
Rate Case Expense	RCE - 12	Application of Schedule Monthly Rate Recovery Factor:	Add "GUD No. 10567" after November 16, 2016. Add: effective beginning on or after, May 23, 2017. Add: 12-month recovery period Add: \$ 0.13 per bill to each class

E. Capital Investment Prudence

The parties agree that CenterPoint's capital investment booked to plant through September 30, 2016 is prudent. This includes CenterPoint's interim rate adjustment ("IRA") filings for the Houston Division from April 1, 2009 through Sept. 30, 2016, and for the Texas Coast Division from October 1, 2014 through Sept. 30, 2016.

Recent IRA Filings

GURA Section 104.301 (Interim Adjustment for Changes in Investment) and Commission Rule § 7.7101 (Interim Rate Adjustments) provide that a gas utility may file with the Commission a request for an IRA. In the rate case a gas utility files or the Commission initiates after the implementation of an IRA under Commission Rule § 7.7101 (Interim Rate Adjustments), any change in investment and related expenses and revenues that have been included in any interim rate adjustment shall be fully subject to review for reasonableness and prudence.⁵⁵

In 2011, CenterPoint filed its first Houston Division GRIP filing, based on investment made since the prior rate case (GUD No. 9902) through calendar year 2010. CenterPoint continued to make annual Houston Division GRIP filings each year, with the most recent GRIP filing addressing investment made during the calendar year 2015. Beginning in 2016, CenterPoint made its first GRIP filing for its Texas Coast Division since its last rate proceeding in GUD No. 10432.⁵⁶ In total, CenterPoint has completed four GRIP proceedings for the Houston Division since GUD No. 9902 and one in the Texas Coast Division since GUD No. 10432, as shown below:

Houston Division Interim Rate Adjustment Filings*

GUD No.	10067	10150	10256	10344	10434	10508
Test Year End	12/31/10	12/31/11	12/31/12	Suspended	suspended	12/31/15

*Applies to the environs of the Houston division and the Cities of Cut and Shoot, Galena Park, Jacinto City, New Waverly, Panorama Village, Roman Forest, South Houston, Southside Place, West University, and Willis which have ceded original jurisdiction.

Texas Coast Division Interim Rate Adjustment Filings**

GUD No.	10511
Test Period***	12/31/15

**Applies to the Environs of the Texas Coast Division and the Cities of Clear Lake Shores, Danbury, el Lago, Hitchcock, Hillcrest Village, Jones Creek, Liverpool, Pleak, Richwood, and Weston Lakes.

***15-month period (September 30, 2014 through December 31, 2015).

⁵⁵ See Tex. Util. Code § 104.301 (Interim Adjustment for Changes in Investment), 16 Tex. Admin. Code § 7.701 (Interim Rate Adjustments).

⁵⁶ CenterPoint Ex. 8 (Kirk Test.) at 56-57.

CenterPoint's Support for its Requested Prudency Determination

In support of its prudency determination request, CenterPoint provided evidence that all the capital investment in the Houston and Texas Coast Divisions is used and useful, was prudent, and reasonably and necessarily incurred to provide a safe and reliable system with an appropriate level of customer service. CenterPoint states the compound annual growth rate was 1.88 percent over the 2009-2015 period in the residential and commercial customer classes for the Houston and Texas Coast Divisions. According to CenterPoint, this growth spurred infrastructure investment as the system must have adequate capacity so that residential and commercial customers are provided natural gas service on a peak day of usage. This necessary capital investment is in service and the customers are benefiting from that investment. Full recovery of the invested capital is required to continue the safe and reliable operation of the system as well as effective and efficient customer service.⁵⁷

GRIP Related Ad Valorem Tax Reconciliation

CenterPoint recovers estimated ad valorem taxes on its incremental capital investment through annual GRIP filings and intends to reconcile estimated ad valorem taxes recovered through GRIP with actual ad valorem taxes paid. The calculated difference, including interest, totals approximately \$540 thousand and will be refunded to customers, subject to the Houston Division GRIP via an itemized, one-time bill credit.⁵⁸ The refund represents a cumulative reconciliation for each GRIP filing by applying the ratio of actual taxes paid over total GRIP gross plant, compared to the incremental GRIP gross plant, and then subtracting the incremental GRIP proposed ad valorem taxes.⁵⁹

The parties agree that CenterPoint will make an IRA "true-up" in the amount of \$651,175 via a one-time refund/bill credit to Houston Division customers and that future ad valorem tax true-ups may occur in IRA filings.⁶⁰

The Company proposes to allocate the \$540,059 refund to customers based on allocation factors used by the Commission as determined in GUD No.9902. The table below shows the calculation of the refund rate per class based on average customer counts for twelve months ending June 2016.⁶¹

Interim Rate Adjustment Refund

The parties agreed to the rate base and plant investment amounts in CenterPoint's rebuttal filing. The rebuttal filing included adjustments to plant in service and accumulated depreciation adjusted for items identified in discovery that were incorrectly assigned or charged. The corrections were to items included

⁵⁷ CenterPoint Ex. 7 (Pryor Test.) at 25.

⁵⁸ CenterPoint Ex. 19 (Lloyd Test.) at 23.

⁵⁹ CenterPoint Ex. 8 (Kirk Test.) at 57.

⁶⁰ CenterPoint Ex. 33 (Settlement) ¶ 9.

⁶¹ CenterPoint Ex. 19 (Lloyd Test.) at 23.

previously in the Houston Division GRIP filings. The parties agreed to a one-time Houston Division refund of \$111,116. The refund per customer is based on the allocation factors used by the Commission as determined in GUD No. 9902. The table below shows the calculation of the refund rate per class based on average customer counts for the twelve months ended June 2016.⁶²

CenterPoint Energy Texas Gulf Division Houston GRIP Filing Ad Valorem and Interim Rate Adjustment Refund Allocation Standard Class Only Revised Exhibit KAL-R-2				
Line				
No.	Description	Ad Valorem Tax Refund (1)	Interim Rate Adjustment Refund (2)	Total Refund
1	Refund including interest	\$ (540,059.00)	\$ (111,116.00)	
2	Allocation Factors per Final Order GUD No. 9902			
3	Residential	0.855216	0.855216	
4	General Service - Small	0.059225	0.059225	
5	General Service - Large Volume	0.085559	0.085559	
6	Total	1.000000	1.000000	
7	Refund per Class			
8	Residential	\$ (461,867.00)	\$ (95,028.00)	
9	General Service - Small	\$ (31,985.00)	\$ (6,581.00)	
10	General Service - Large Volume	\$ (46,207.00)	\$ (9,507.00)	
11	Total	\$ (540,059.00)	\$ (111,116.00)	
12	Customer Count (3)	Avg TME June 2016	Avg TME June 2016	
13	Residential	980,671	980,671	
14	General Service - Small	46,874	46,874	
15	General Service - Large Volume	2,003	2,003	
16	Refund per One-Time Bill Credit			
17	Residential	\$ (0.47)	\$ (0.10)	\$ (0.57)
18	General Service - Small	\$ (0.68)	\$ (0.14)	\$ (0.82)
19	General Service - Large Volume	\$ (23.07)	\$ (4.75)	\$ (27.82)
Notes:				
(1) Per Exhibit MAK-12				
(2) Per Revised Exhibit MAK-R-9				
(3) Counts for Houston and Conroe customers per Direct Exhibit BMD-2				

Examiner Findings and Recommendation

Considering the evidence, the Examiners find CenterPoint's capital investment booked to plant in the Houston and Texas Coast Divisions through September 30, 2016, as described in the Settlement, to be reasonable and prudent.

⁶² Response to Examiners' RFI 3-9.

F. Future IRA Factors

The parties agree that any IRA filing in the Houston and Texas Coast Divisions pursuant to GURA Section 104.301 (Interim Adjustment for Changes in Investment) shall use the following factors until changed by a subsequent general rate proceeding:⁶³

- The capital structure and related components as shown Paragraph 4 of the Settlement;
- For any initial IRA filing, the beginning amount of ad valorem taxes at a Houston Division level is \$9,956,627, and the standard sales service amount is \$9,630,344. For any initial IRA filing, the beginning amount of ad valorem taxes at a Texas Coast Division level is \$2,883,776, and the standard sales service amount is \$2,789,273. Margin tax will be calculated using a 0.75% factor until or unless changed by statute.
- For any initial IRA filing, the rate base amount for standard sales service in the Houston Division is \$512,390,716 and for the Texas Coast Division is \$159,394,412 for calculating the federal income tax on related schedules in the IRA filing.
- For any initial IRA filing in the Houston and Texas Coast Divisions, the Net Investment, which includes detail of Plant in Service amounts by Fixed Capital Account ("FCA") along with the associated depreciation rate for each account, as shown on Exhibit C to the Settlement.
- For any initial IRA filing, the customer charges and volumetric rates as noted in Paragraph 3 above will be the starting rates to apply to any IRA adjustment.
- The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes is as follows:

Residential	General Service – Small	General Service - Large
90.1796%	6.5762%	3.2442%

- The Standard Sales service allocation factor is 96.7230%.

The parties specifically agree that the Settlement does not limit in any way any party's right to raise, in any future proceedings, the appropriate manner by which the calculation required under GURA Section 104.301—related to IRA filings—should be conducted.⁶⁴

⁶³ CenterPoint Ex. 33 (Settlement) ¶ 5.

⁶⁴ *Id.* ¶ 10.

The parties agree that CenterPoint may include amounts in connection with plant investment qualifying for regulatory asset treatment under Commission Rule § 8.209 (j) in its annual IRA filings.⁶⁵

The Examiners find these factors and conditions to be just and reasonable and consistent with statutory and Commission requirements. Accordingly, the Examiners recommend approval of these factors.

G. Cost of Capital

The parties agree to the following capital structure and weighted cost of capital, including the pre-tax return.⁶⁶

	Percent	Cost	Weighted Cost of Capital	Pre-Tax Return
Long-Term Debt	44.85%	6.0853%	2.7293%	2.7293%
Common Equity	55.15%	9.6%	5.2944%	8.1452%
Weighted Average Cost of Capital	100%		8.0237%	10.8745%

The parties agree that the capital structure and related components, as shown above, shall be used in future IRA filings.⁶⁷

Considering the evidence, the Examiners find the rate of return and return on equity in the Settlement to be just and reasonable and consistent with GURA Section 104.052 (Establishing Fair Rate of Return).

H. Depreciation Rates

The parties agree to the depreciation rates reflected in Exhibit C of the Settlement.⁶⁸

Considering the evidence, the Examiners find the depreciation rates reflected in the Settlement are proper and adequate, just and reasonable, supported by the evidence, and are consistent with the requirements in GURA Section 104.054 (Depreciation, Amortization, and Depletion). Accordingly, the Examiners recommend their approval.

⁶⁵ *Id.* ¶ 17.

⁶⁶ *Id.* ¶ 4.

⁶⁷ *Id.* ¶ 4.

⁶⁸ *Id.* ¶ 6.

I. Post-Employment Benefits Expenses

The parties agree that the base year level of pension-related and other post-employment benefits expenses shall be as follows:⁶⁹

Description	Houston	Texas Coast
Retirement Plan - FAS 87	\$6,279,292	\$1,855,496
Benefit Restoration Plan - FAS 87	\$620,257	\$184,214
Postemployment - FAS 112	\$498,986	\$146,618
Postretirement - FAS 106	\$935,217	\$276,435

Considering the evidence, the Examiners find the base year level of pension-related and other post-employment benefits expenses to be just and reasonable and consistent with the requirements in GURA Section 104.059 (Pension and Other Postemployment Benefits).

J. Gas Supply

The parties agree to consolidation of the PGA tariffs within the Houston and Texas Coast Divisions.⁷⁰ The parties also agree to the following regarding the PGA tariffs: 1) CenterPoint's request to recover gas-related bad debt costs through its PGA;⁷¹ 2) CenterPoint may reconcile through its PGA over-recoveries related to surcharges approved to recover rate case expenses; 3) CenterPoint shall provide notice to Staff of any reconciling item to be included in the PGA; and 4) CenterPoint shall clearly identify and include details of any reconciling item in its annual reconciliation report submitted to Staff.⁷²

The parties also agree that CenterPoint "shall seek review and approval" from the Commission for any FERC intervention costs incurred for the benefit of customers prior to their inclusion in the cost of gas calculation. Those costs are limited to reasonable non-employee experts, non-employee attorney fees, and prudently incurred travel expenses.⁷³

Considering the evidence, the Examiners find that these Settlement terms are just and reasonable and comply with Commission Rule § 7.5519 (Gas Cost Recovery).

⁶⁹ See *id.* ¶ 16.

⁷⁰ *Id.* ¶ 2.

⁷¹ *Id.* ¶ 14.

⁷² *Id.* ¶ 15.

⁷³ *Id.* ¶ 16.

K. Affiliate Expenses

CenterPoint requests recovery of certain affiliate expenses. The Commission is required to make specific findings related to affiliate transactions before rates may be adopted.⁷⁴ Those findings include: (1) a specific finding of the reasonableness and necessity of each item or class of items allowed; and (2) a finding that the price to the gas utility is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a non-affiliated person for the same item or class of items.⁷⁵ Staff, which has engaged in significant discovery with CenterPoint, agrees that affiliate expenses included in the black box amount above are recoverable consistent with the provisions in GURA Section 104.055 (Net Income; Allowable Expenses).

During the test-year, services were provided to the Houston and Texas Coast Divisions by certain affiliates: CenterPoint Energy Service Company, LLC, ("Service Company"), CenterPoint Energy Houston Electric, LLC, and other divisions of CenterPoint's gas operations. The Service Company personnel carry out corporate oversight and managerial functions for CenterPoint and its business units. The Service Company functions are comprised of four main groups: Corporate Services, Information Technology, Business Support Services, and Regulated Operations Management.⁷⁶

According to Jane A. George, Manager of Business Services Planning and Performance Management for CenterPoint, these groups provide services such as finance, legal, human resources, executive management, government affairs, corporate communications, audit services, information technology, business support services and regulated operations management that minimize the need for each service to be performed independently.⁷⁷ Ms. George testified further that CenterPoint Energy Resources Corp.'s Gas Operations divisions also provided services to the Houston and Texas Coast Divisions that include billing support, credit and collections, transportation services and technology support.⁷⁸

Considering the evidence, CenterPoint has established that the services provided by its affiliates on behalf of the Houston and Texas Coast Divisions are reasonable and necessary. The affiliate expenses included in CenterPoint's filing are reasonable and necessary costs of providing gas utility service, and the prices charged to the Houston and Texas Coast Divisions are no higher than the prices charged by the supplying affiliate to other affiliates or divisions of CenterPoint, or to a non-affiliated person for the same item or class of items. Accordingly, the Examiners recommend that affiliate expenses be approved.

⁷⁴ Tex. Util. Code § 104.055.

⁷⁵ *Id.*

⁷⁶ CenterPoint Ex 10 (George Test.) at 3-4.

⁷⁷ *Id.* at ES-1.

⁷⁸ *Id.* at 4, 11-12.

L. Other Issues

1. System Safety and Integrity Expenses Regulatory Asset

The parties agree that CenterPoint may establish a regulatory asset to track amounts incurred above or below the \$3,961,864 for the Houston Division and \$771,061 for the Texas Coast Division amount of third-party system safety and integrity expenses identified in base rates and request recovery of the amounts in the asset in a future "statement of intent" filing.⁷⁹

Considering the evidence, the Examiners find this to be reasonable and recommend approval.

2. Regulatory Asset Amortization

The parties agree that CenterPoint shall account for its requested Severance Asset, Deferred Benefit Asset, and Commission Rule § 8.209 Asset using a 5-year amortization period.⁸⁰

The parties agree that for internal audit and external reporting purposes, CenterPoint may establish a regulatory asset for its Unrecovered Post-Retirement Liability and amortize that asset over 5 years. CenterPoint will recognize the annual amortization in the employee expense related reserve in rate base.⁸¹

Considering the evidence, the Examiners find this to be reasonable and recommend approval.

M. Rate Case Expenses

CenterPoint, GCCC, Houston, HCOC, and TCUC request reimbursement and/or recovery of reasonable rate case expenses.⁸² In any gas utility rate proceeding, the utility and municipalities participating in the proceeding, if any, may be reimbursed their reasonable rate case expenses.⁸³ Any gas utility or municipality claiming reimbursement for its rate case expenses shall have the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence.⁸⁴ Each gas utility and/or municipality shall detail and itemize all rate case expenses and allocations and shall provide evidence showing the reasonableness of the cost of all professional services, including but not limited to:

⁷⁹ CenterPoint Ex. 33 (Settlement) ¶ 11.

⁸⁰ *Id.* ¶ 12.

⁸¹ *Id.* ¶ 13.

⁸² See *id.* ¶¶ 18-21, and Exhibit A, p. 14 (RCE-11) and p. 63 (RCE-12).

⁸³ See 16 Tex. Admin. Code § 7.5530 (Allowable Rate Case Expenses) (providing that a utility may be reimbursed its reasonable rate case expenses from certain customers), Tex. Util. Code § 103.022 (Rate Assistance and Cost Reimbursement) (providing that the governing body of a participating municipality may be reimbursed its reasonable rate case expenses from the utility).

⁸⁴ 16 Tex. Admin. Code § 7.5530(a) (Allowable Rate Case Expenses).

- (1) the amount of work done;
- (2) the time and labor required to accomplish the work;
- (3) the nature, extent, and difficulty of the work done;
- (4) the originality of the work;
- (5) the charges by others for work of the same or similar nature; and
- (6) any other factors taken into account in setting the amount of the compensation.⁸⁵

In determining the reasonableness of the rate case expenses, the Commission shall consider all relevant factors including, but not limited to, the above evidence, and the Commission also shall consider whether the request for a rate change was warranted, whether there was duplication of services or testimony, whether the work was relevant and reasonably necessary to the proceeding, and whether the complexity and expense of the work was commensurate with both the complexity of the issues in the proceeding and the amount of the increase sought, as well as the amount of any increase that may be granted.⁸⁶

CenterPoint, GCCC, Houston/HCOG, and TCUC all filed affidavits and supporting evidence for reimbursement of rate case expenses.⁸⁷ The parties' agreed amounts and agreed allocation are treated separately below.

1. Amounts

The parties represent that their reasonable rate case expenses are as follows:⁸⁸

	Actual Invoices Received	Invoices Due and Est. to Completion	Total
CenterPoint	\$1,107,462.44	\$142,732.68	\$1,250,195.12
Houston/HCOG	\$438,716.11	\$30,000.00	\$468,716.11
GCCC	\$135,708.10	\$30,000.00	\$165,708.10
TCUC	\$143,026.08	\$3,500.00	\$146,526.08
TOTAL	\$1,824,912.73	\$206,232.68	\$2,031,145.41

CenterPoint, GCCC, Houston/TCOC, and TCUC each provided evidence showing the reasonableness of the cost of all professional services, including but not limited to: (1) the amount of work done; (2) the time and labor required to accomplish the work; (3) the nature, extent, and difficulty of the work done; (4) the originality of the work; (5) the charges by others for work of the same or similar nature; and (6) other factors taken into account in setting the amount of compensation.

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ See CenterPoint Ex. 33 (Settlement), Exhibit D.

⁸⁸ *Id.* ¶ 18.

The Examiners reviewed the testimony and documentation supporting the rate case expense amounts shown above. Considering the above factors, the Examiners find that the above rate case expense amounts for Intervenor GCCC, Houston/HCOG, and TCUC are reasonable and that these intervenors proved the reasonableness of their respective rate case expenses by a preponderance of the evidence. Accordingly, the Examiners recommend these amounts be approved.

Regarding CenterPoint's requested rate case expenses, the Examiners considered the above factors and recommend a reduction by \$17,136.10. This total amount relates to two separate day-long training sessions⁸⁹—both occurring before the SOI was filed—for first-time CenterPoint witnesses and involved "briefing on the hearing process, testifying under oath, responding to discovery, maintaining records throughout pending litigation, and preparing direct and rebuttal testimony."⁹⁰ Each witness preparation/training session was conducted—and prepared for—by two partner-level attorneys at the same outside law firm, with invoiced hourly billable rates of \$736 and \$831. The total invoiced amount for both witness preparation/training sessions is \$32,923.60. The Examiners find it reasonable that these litigation training sessions occurred, the amount of time spent preparing for and conducting them, and that they were conducted by experienced litigators. The Examiners do not, however, find these hourly billable rates reasonable, given the nature of the general training and comparable attorney rates charged in this rate case. Because litigation expenses in rate cases generally are recovered from customers, attorneys often charge reduced rates. For example, one of the intervenor counsel—a partner-level attorney with significant litigation experience—charged an hourly billable rate of \$375.⁹¹ The Examiners find that an hourly billable rate of \$375 for this type of general witness training/preparation is reasonable, if conducted by experienced attorneys. Applying this hourly billable rate of \$375 to the above two invoices results in a total reduction of \$17,136.10. Accordingly, the Examiners recommend that CenterPoint's above rate expenses be approved, but with its already-incurred expense amount reduced by \$17,136.10, as shown below.

	Actual Invoices Received	Invoices Due and Est. to Completion	Total
CenterPoint	\$1,090,326.34	\$142,732.68	\$1,233,059.02
Houston/HCOG	\$438,716.11	\$30,000.00	\$468,716.11
GCCC	\$135,708.10	\$30,000.00	\$165,708.10
TCUC	\$143,026.08	\$3,500.00	\$146,526.08
TOTAL	\$1,807,776.63	\$206,232.68	\$2,014,009.31

⁸⁹ The first training session was conducted on July 11, 2016 (invoice #1511759, totaling \$16,861.90). The second training session was conducted on October 17, 2016 (invoice #1523807, totaling \$16,061.70).

⁹⁰ See letter to the ALJ from Mark A. Santos, counsel for CenterPoint, dated April 18, 2017 (responding to questioning about these invoices).

⁹¹ See CenterPoint Ex. 33 (Settlement), Exhibit D (Affidavit of Alfred R. Herrera Related to the Rate Case Expenses of The Texas Coast Utilities Coalition of Cities) ¶¶ 1, 9.

2. Allocation and Surcharge

All parties agree that the recovery period for the applicable surcharge to recover rate case expenses shall be 12 months.⁹² The monthly customer surcharge requested is \$0.13 per bill. The parties further agree that equal recovery of all approved rate case expenses on a system-wide basis from incorporated and unincorporated customers in the Houston Division and Texas Coast Division is appropriate, reasonable, and supported by good cause.⁹³

The Examiners find that the parties' litigation expenses were incurred due to participation by the intervenors, and that participation by the intervenors benefitted all customers. Accordingly, good cause exists to recover all approved rate case expenses equally from all customers, including customers within the incorporated and unincorporated areas of the Houston and Texas Coast Divisions, and that doing so is necessary in the interest of justice. The parties engaged in significant litigation and negotiation, resulting in a settlement that benefits all customers in these two divisions.

VIII. CONCLUSION

The Examiners find that CenterPoint's request for a rate increase pursuant to the Settlement is warranted. The recommendations contained herein are just and reasonable, supported by the weight of reliable and probative evidence, consistent with the public interest, and proper under applicable Texas law. Accordingly, the Examiners respectfully recommend that the Commission approve the Settlement with the adjustments explained herein.

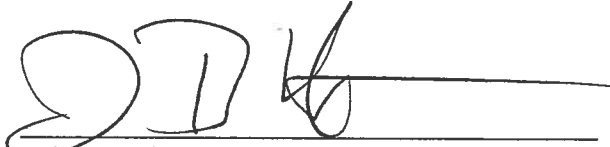
IX. FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Findings of Fact and Conclusions of Law contained in the Proposed Final Order, issued contemporaneously with this PFD, are incorporated herein by reference.

⁹² CenterPoint Ex. 33 (Settlement) ¶ 19.

⁹³ *Id.* ¶ 20.

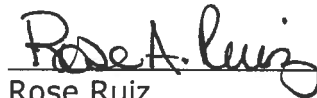
SIGNED May 5, 2017.

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John Dodson
Administrative Law Judge

A handwritten signature in black ink, appearing to be 'Dana L', written over a horizontal line.

Dana Avant Lewis
Administrative Law Judge

A handwritten signature in black ink, appearing to be 'Rose A. Ruiz', written over a horizontal line.

Rose Ruiz
Technical Examiner

A handwritten signature in black ink, appearing to be 'James R. Currier III', written over a horizontal line.

James R. Currier III
Technical Examiner