Susan Johnson
CSR
Exhibit 2
Date: 8-17-2021

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018	)	CAUSE NO. PUD 201900019 ORDER NO. **701439**

HEARING: Hearing on the Merits: June 27 and 28, 2019, in Courtroom B
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105
Before Linda S. Foreman, Administrative Law Judge

Hearing on Exceptions: August 22, 2019, in Courtroom 301
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105
Before the Commission *En Banc*

APPEARANCES: Curtis M. Long and J. Dillon Curran, Attorneys *representing* CenterPoint Energy Resources Corp., d/b/a/CenterPoint Energy Oklahoma Gas
Lauren D. Hensley, Assistant General Counsel *representing* the Public Utility Division, Oklahoma Corporation Commission
Jared B. Haines, Assistant Attorney General, *representing* Office of Attorney General, State of Oklahoma

FINAL ORDER

BY THE COMMISSION:

The Oklahoma Corporation Commission being regularly in session and the undersigned Commissioners being present and participating, there comes on for consideration and action the above-captioned and numbered Application.

I. PROCEDURAL HISTORY

After the close of the record in the evidentiary hearing on the merits held on June 27 and 28, 2019, the Commission's Administrative Law Judge ("ALJ") filed a Report and Recommendation of the Administrative Law Judge ("ALJ Report") on July 26, 2019. The ALJ Report is attached hereto as Attachment 1. The ALJ Report sets out the procedural history of the Cause through the hearing on the merits, and that procedural history is incorporated herein.

On August 9, 2019, the Attorney General of Oklahoma ("Attorney General") timely filed Exceptions to the Report and Recommendation of the Administrative Law Judge and a Motion for Oral Argument. Both matters were noticed for hearing on August 22, 2019.

On August 16, 2019, the Public Utility Division ("PUD") filed its Response to the Attorney General's Exceptions to the Report of the Administrative Law Judge, in opposition to the Exceptions, urging the Commission to accept the recommendations of the ALJ Report.

Also on August 16, 2019, CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint Oklahoma" or the "Company") filed its response to the Attorney General's Exceptions to Report of the Administrative Law Judge. CenterPoint Oklahoma also opposed the Exceptions and urged the Commission to adopt the ALJ Report.

On August 22, 2019, the Exceptions and the Motion for Oral Argument came on for consideration as specified in the Attorney General's notice. The Commission granted the Motion for Oral Argument without objection, heard and carefully considered the arguments of all counsel, and took the matter under advisement.

II. SUMMARY OF EVIDENCE

The Summary of Evidence is set forth in the ALJ Report and is incorporated into this Order.

III. FINDINGS OF FACT AND CONCLUSIONS OF LAW

Based upon a review of the entire record in this Cause, including a thorough review of all the evidence, Exceptions, responses to the Exceptions, and all arguments of counsel, the Commission makes the following findings of fact and conclusions of law:

1. The Commission hereby adopts and incorporates by reference the recommendations set forth in the ALJ Report attached hereto as Attachment 1, except as otherwise expressly stated herein.

2. The Commission finds that Company, Attorney General and PUD all met and conferred on January 30, 2019, to discuss the Attorney General's concerns about whether the PBRC Plan is operating as intended, as directed by the Commission in Order 684379 issued in Cause No. PUD 201800029. Drews Direct 45:2-6.

3. The Commission further finds that the parties to this proceeding have by their testimony filed in this case thoroughly covered the question of whether a Chapter 70 rate case should be required, as directed by the Commission in Order 684379 issued in Cause No. PUD 201800029. All of the evidence so presented has been considered by the Commission.

4. The Commission further finds that CenterPoint Oklahoma should submit to the Director of the Public Utility Division tariffs consistent with the findings set forth herein, and that the rates, charges, and tariffs shall be effective with the first regular billing cycle after such tariffs are approved by the Director of the Public Utility Division.

ORDER

IT IS THEREFORE THE ORDER OF THE OKLAHOMA CORPORATION COMMISSION that the ALJ Report attached hereto as Attachment 1, subject to and as amended or superseded by the findings detailed hereinabove, is hereby adopted and incorporated as if fully set forth, as the order of the Commission.

IT IS FURTHER ORDERED that CenterPoint Oklahoma submit to the Director of the Public Utility Division tariffs consistent with the findings set forth herein, and that the rates, charges, and tariffs shall be effective with the first regular billing cycle after such tariffs are approved by the Director of the Public Utility Division.

CORPORATION COMMISSION OF OKLAHOMA

CONCUR IN PART, DISSENT IN PART
STATEMENT ATTACHED

J. TODD HIETT, Chairman

Bob Anthony

BOB ANTHONY, Vice Chairman

Dana L. Murphy

DANA L. MURPHY, Commissioner

CERTIFICATION

DONE AND PERFORMED by the Commissioners participating in the making of this order as shown by their signatures above this 29 day of August, 2019.

[Seal]

Peggy Mitchell

PEGGY MITCHELL, Secretary

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018	)))))))	CAUSE NO. PUD 201900019

STATEMENT OF CHAIRMAN J. TODD HIETT

I respectfully concur in part and dissent in part in the Final Order No. 701439 entered today ("Final Order"). Although the Final Order results in an outcome I may ultimately support with respect to CenterPoint's cost recovery, I remain of the opinion that a periodic rate case is necessary to ensure the performance based rate change plan ("PBRC") continues to adequately balance the interests of the company and its customers. Since the inception of CenterPoint's PBRC (which began as a pilot program) in 2004, no rate case has been conducted for this company.

During deliberations on October 4, 2018, in CenterPoint's last PBRC proceeding (Cause No. PUD 201800029), I expressed this position—noting I would recommend a rate case be required for the company. A rate case will allow a holistic review of all revenues and expenses, in addition to providing the Commission actual information to assess whether this alternative rate mechanism remains the best approach for both CenterPoint and its customers. A periodic rate review further provides for proper checks and balances in which the Commission can best determine rate recovery for CenterPoint.

As I also expressed today, I continue to assess the treatment of incentive compensation and whether the recovery of short-term and long-term incentives authorized in the Final Order should continue.

Accordingly, for the reasons set forth above and as expressed in prior deliberations, I respectfully concur in part and dissent in part in the Final Order.

J. TODD HIETT, Chairman

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018	)	CAUSE NO. PUD 201900019

HEARING: June 27 and 28, 2019, in Courtroom B
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105
Before Linda S. Foreman, Administrative Law Judge

APPEARANCES: Lauren D. Hensley, Assistant General Counsel *representing* Public Utility Division, Oklahoma Corporation Commission
Jared B. Haines and Katey N. Campbell, Assistant Attorneys General *representing* Office of Attorney General, State of Oklahoma
Curtis M. Long and J. Dillon Curran, Attorneys *representing* CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Oklahoma Gas

REPORT AND RECOMMENDATION OF THE ADMINISTRATIVE LAW JUDGE

This Cause comes before the Corporation Commission ("Commission") of the State of Oklahoma on the Application of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint Oklahoma", "Company" or "Applicant") for Commission approval of its Performance Based Rate Change ("PBRC" or, the "Plan") plan calculations for the twelve months ended December 31, 2018.

I. RECOMMENDATIONS

The Administrative Law Judge ("ALJ") recommends that the Commission adopt a revenue increase of $1,943,367 based on an adjusted Earned Return on Equity ("ER") of 5.76% for the 2018 test year. According to the PBRC plan, the increase shall be applied to Company rate classes as follows:

- Residential (RS – 1)	$1,360,357
- General Service (GS – 1)	272,071
- Commercial Service (CS – 1 & CS-NGV	252,638
- Large Commercial Service (LCS – 1)	58,301

The ALJ further recommends that the Commission reject the Attorney General's recommendations regarding the following:

- Disallowance of $563,825 for short term incentive compensation expense;
- Disallowance of $270,570 for long-term incentive compensation expense;
- Revenue annualization; and
- Requirement CenterPoint Oklahoma file a periodic rate case.

The ALJ further recommends that the Commission find that the calculations for the Test Year as reviewed and amended by the Commission's Public Utility Division ("PUD"), including the revenue and expense adjustments, discussed further below, are just, reasonable and in the public interest and should be approved.

II. PROCEDURAL HISTORY

On March 15, 2019, CenterPoint Oklahoma filed an Application pursuant to 17 O.S. §§ 151 and 152. The procedural history is incorporated herein and is attached hereto as Attachment "A".

III. SUMMARY OF EVIDENCE

A. Documents:

Documents filed in this Cause are contained in records kept by the Court Clerk of the Commission. Testimony was offered at the Hearing on the Merits. Witnesses testifying were Burl M. Drews and Cynthia L. Westcott on behalf of CenterPoint Oklahoma, Todd F. Bohrmann on behalf of the Attorney General of the State of Oklahoma and McKlein Aguirre and Isaac Stroup on behalf of PUD. The entirety of the testimony offered is contained in the transcript of these proceedings. The testimony summaries are included as "Attachment "B" attached hereto and incorporated herein.

B. Exhibits:

1. Exhibit 1, 2019 CenterPoint Oklahoma's Response to Data Request No. AG-CP04-06
2. Exhibit 2, Final Order in Cause No. PUD 201700078
3. Exhibit 3, Arkansas Public Service Commission's Formula Rate Plan Rider
4. Exhibit 4, CenterPoint Oklahoma's Response to Data Request No. AG-CP05-03
5. Exhibit 5, CenterPoint Oklahoma's Payroll Adjustments Chart under PBRC Tariff 2014-2018
6. Exhibit 6, NRRI's Briefing Paper, August 2010
7. Exhibit 7, Final Order in Cause No. PUD 201800029
8. Exhibit 8, Attorney General's Response to PUD's 1st Set of Data Requests, IDS AG-1-1
9. Exhibit 9, Attachment A to Attorney General's 2nd Set of Data Requests to PUD – No. AG-PUD-2

IV. FINDINGS OF FACT AND CONCLUSIONS OF LAW

After consideration of all the evidence in this Cause, the ALJ recommends the Commission adopt the following Findings of Fact and Conclusions of Law:

Jurisdiction

1. The Commission is vested with jurisdiction by virtue of OKLA. CONST. art. IX, §18, 17 O.S. §§ 151 and 152, and provisions for a Performance Based Rate Change review set forth in Order No. 499253, Cause No. PUD 200400187.

Notice

2. Notice is proper in this Cause and in compliance with Order No. 694279 issued April 9, 2019. Notice of the Hearing on the Merits ("Hearing") was prescribed as individual notice by email or US Mail to CenterPoint Oklahoma's utility customers at least ten (10) days prior to the Hearing.

3. On June 24, 2019, CenterPoint Oklahoma filed an Affidavit of Service demonstrating notice in this Cause was provided to the Company's customers as required by Order 694279. The Order concluded that because individual notice would be sent out in all of CenterPoint Oklahoma's customer billings, additional notice by publication would be redundant and unnecessary and should not be required. The language of the individual notice by mail was set out in Exhibit A to Order No. 694279.

Test Year

4. The PBRC calculations in this Cause are based upon the 2018 Test Year with the 12-month period ending December 31, 2018.

Mechanics of the Company's PBRC Plan

5. CenterPoint Oklahoma's PBRC Plan was initially approved by Order No. 499253, issued in Cause No. PUD 200400187, and was most recently addressed in Order Number 684379 issued in Cause No. PUD 201800029. The plan provides for the Commission to make an annual review and adjustment of revenues depending on actual operating results for the most recent calendar year, as measured by Return on Equity ("ROE"). The level of revenue adjustment is dependent upon the revenue requirements determined using certain adjustments to actual operating results. On or before March 15 of each year, CenterPoint Oklahoma is required to file with the Commission, specified calculations and schedules, which are then subject to review and Commission approval. Drews Direct 6:17-21.

6. According to the PBRC Plan, CenterPoint Oklahoma's calculations will reflect an adjusted ARE that is compared to CenterPoint Oklahoma's target Allowed Return on Equity ("ARE") of 10%. If the ER is within a 100-basis point "dead-band" around the AR (50 basis points above and 50 below), revenues do not change. If the calculated ER is below the lower end of the dead-band, base rates increase to target CenterPoint Oklahoma's ARE of 10%. If the ER is greater than the high end of the dead-band, a credit is provided to customers per the applicable rate schedules equal to 75 percent of the earnings in excess of the upper limit of the ROE dead-band. Drews Direct 6:3-14; 5/27/19 Tr.12:17-25; 13:1-3. There is not a prospective rate decrease but a prospective refund assuring customers receive the money they are owed. Drews 5/27/19 Tr. 22:15- 25; 23:1-2.

Benefits of the PBRC Plan

7. Over the life of the PBRC Plan, CenterPoint Oklahoma customers received $4.4 Million due to PBRC Plan earnings sharing. Drews Direct 6:14-16. Of thirteen CenterPoint Oklahoma Causes since 2005, four resulted in refunds to customers, two resulted in no rate

increase and seven resulted in increases to rates totaling approximately $13.2 million. Stroup Responsive 7:14-16.

8. The Company bears the adverse financial impact of a test year in which it under-earns and it is unable to make up those losses. Conversely, in a year of surplus earnings the Company and shareholders receive a share of the surplus. This provides an incentive to the Company to achieve efficient operations. Drews Direct 8:17–23.

9. The yearly performance-based comparison and regular review by PUD, OAG and ultimately the Commission is inherently efficient leading to improvements toward greater efficiency in the public interest. Drews Direct 6:3-21; 7:1-6. Under the PBRC Plan, PUD reviews the Company's costs and activities. In last year's PBRC, 15 analysts reviewed approximately 68 discrete issues. Drews Direct 13:4-7.

10. The PBRC Plan reduces regulatory expenses. CenterPoint Oklahoma incurred costs of approximately $141,000 from the preparation of the filing through the Hearing and ALJ report in Cause No. PUD 201800029. Drews Direct 9:21-22; 10: 1-3. General rate case costs are approximately $1.0 - $1.6 million. Id. at 10: 20-21. Based upon the 2018 average customer count, the minimum cost of a general rate case to each customer would be between $10.16 to $16.26 while a complex PBRC proceeding would cost approximately $1.43 per customer. Drews Direct 11:3-8.

PBRC Requested Revenue Increase

11. The Commission should adopt PUD's recommended $36,434 reduction to CenterPoint Oklahoma's base revenue increase requirement that results in a base revenue increase requirement of $1,943,367. The Commission should also adopt PUD's Amended Revenue Requirement Exhibit, attached hereto as Attachment "C" and incorporated herein.

12. The Company originally requested a base revenue increase requirement in the amount of $1,979,801. Drews Direct 21:14-16. PUD recommended the $36,434 reduction to bring the Company back to midpoint of 10%. Quintero Amended Responsive 5:9-13; 5: Table 2. The base revenue deficiency for the 2018 test year is approximately $2 million. Drews Direct 23:2–3. Approximately 37% of this base revenue increase will be offset by the $726,161 Excess Accumulated Deferred Income Taxes ("EDIT") the Company returned to customers in April 2019. Drews Direct 21:7-20.

13. Mr. Quintero sponsored the PUD's Amended Revenue Requirement Exhibit filed on May 31, 2019, summarizing the PUD's adjustments to the Company's initial calculations and PUD's recommended rate adjustment in this Cause. The Exhibit shows an amended aggregate base revenue increase of $1,943,367, which Mr. Quintero recommended on behalf of PUD. Quintero Amended Responsive 5: 1-13, Table 1. Included in this calculation is the Company's revised and uncontested cost of long-term debt at 5.21 percent. Revenue adjustments were unopposed other than opposition to incentive compensation voiced by Mr. Bohrmann, which Mr.Bohrmann discussed in greater detail on behalf of the Attorney General[1].

[1] See page 11.

Adjustments to Advertising Expenses

14. 17 O.S. § 180.1 governs promotional policies and practices of each utility and limits advertising expenses by a public utility to those advertisements that promote customers' safety, enhance environmental protection, conservation and provide information regarding industrial development. Some of the expenses CenterPoint Oklahoma originally listed did not meet these criteria. McKay Responsive 7: 7-11.

15. The Commission should adopt PUD's recommended disallowance of $4,575 of Advertising Expenses. McKay Amended Responsive 3: Table One.

Adjustment to Dues, Donations, Contributions and Membership Expenses

16. PUD reviewed the Company's Chamber of Commerce ("COC") Membership Expenses in the amount of $64,574 representing dues paid to various municipal COCs which support economic development in Oklahoma benefitting ratepayers and shareholders. PUD reviewed $18,737 related to Administrative and General ("A&G") and Club Membership Expenses. PUD reviewed $23,912 related to Industry Dues and $21,925 related to Sponsorships and Contributions. McKay Responsive 8:1-19.

17. The Commission should adopt PUD's recommended disallowance of $500 of non-recoverable A&G and Club Membership expenses not directly related to the payment of dues. PUD also recommended removal of $13,573 from Sponsorships and Contributions for a total recommended decrease of $14,073. Expenses including donations, events and banquets for specific Chambers of Commerce of which ratepayers may be unaware and from which they receive no direct benefit are not recoverable. McKay Responsive 8:13-22; 9:1, Table 3.

18. The Commission should adopt PUD's recommendation that the balance of COC membership dues be divided equally between ratepayers and shareholders consistent with PUD's treatment of COC dues in previous PBRC causes. This results in an additional adjustment of $7,110, for a total adjustment of $21,183. McKay Responsive 9:1-6.

Adjustments to Plant in Service

19. The Commission should adopt PUD's recommended reduction of Plant in Service by $109,532. The updated Plant in Service amount of $208,052,121 is now listed in amended Schedule B-1. Melvin Supplemental 4:6-12.

20. Initially, CenterPoint Oklahoma reported a balance of $208,161,653 for Oklahoma Plant in Service including additions of $10,935,974, retirements of ($1,869,599) and transfers of ($27,794). Melvin Responsive 6:1-3. PUD reviewed discovery requests and determined Project Management labor was incorrectly charged to Oklahoma on a particular capital addition in Oklahoma and an additional invoice of $11,847 was improperly charged resulting in a Plant in Service decrease of $109,532. Melvin Supplemental 4:14 – 35.

21. Plant in Service additions averaged approximately $9.1M annually prior to 2018. The Company added slightly less than $10.5M of infrastructure in 2018. Primary expense drivers are steel mains being replaced to meet the Company's Distribution Integrity Management Program, main extensions to accommodate growth to new services, government relocation projects, old service replacement as new and replacement main extension enter the area, and addition of house regulators in compliance with 49 C.F.R. § 192.740 ("Farm Tap" rule). PUD determined the need for Plant in Service additions requested were reasonable and typical of other gas utilities. Variances between initial estimates and actual construction costs were due to typical problems such as longer than expected project duration, underestimated footage required, and unforeseen underground obstacles such as hard rock. Melvin Responsive 7:5-20.

<u>Accumulated Depreciation, Operation and Maintenance, Amortization Expense and Construction Work in Progress</u>

22. The Commission should approve Accumulated Depreciation included in net plant in Schedule B-1 of ($128,795,329). The company reported a decrease to rate base of $128,795,329 for Accumulated Depreciation. Melvin Responsive 8:17-18 and 9:1-4. PUD found no discrepancies between schedules, work papers, and general ledger entries. After reviewing trends from previous PBRC Plan test results from 2014 – 2018, the increase in Accumulated Depreciation is less than the overall average increase during the past four years. Melvin Responsive 9:5-11.

23. The Commission should approve Operation Expenses amounting to $27,357,772, Depreciation and Amortization Expense equaling $9,317,709, Construction Work in Progress ("CWIP") amounting to $4,074,939, Accumulated depreciation of $128,795,329, reported distribution system Operation Expenses of $27,357,772, and $9,317,790 in Depreciation and Amortization Expenses. Melvin Responsive 12:6–15.

24. During an on-site audit, PUD verified the amounts included in O&M Expenses matched general ledger entries. Amounts included distribution expenses, customer accounts expenses, customer service and information expenses, sales expenses, administrative and general expenses, maintenance expenses, depreciation expenses, and amortization expenses during the test year ended December 31, 2018. Melvin Responsive 10:14-21.

25. No discrepancies were found in the reported distribution system O&M Expenses. PUD verified the trend from previous PBRC's from 2014 through the 2018 test year which revealed an average increase of 5.21% in distribution operation expenses. O&M Expenses reported in the current Cause decreased from 2017 reported expenses. Depreciation rates used in this Cause were developed during Cause NO. PUD 201700078 and were unopposed in Final Order No. 669205 Melvin Responsive 11:3-11.

26. The Commission should adopt CenterPoint Oklahoma's CWIP amounting to $4,074,939, Accumulated depreciation of $128,795,329, reported distribution system Operation Expenses of $27,357,772, and $9,317,790 in Depreciation and Amortization expense. Melvin Responsive 12:10-15.

<u>Adjustments to Asset Management Agreement</u>

27. The Commission should adopt the recommended reduction of the required base revenue increase in the amount of $410,530 due to the effects of the Asset Management

Agreement ("AMA") and allow the AMA to continue. Aguirre Responsive 13:6-7, 10:6-12. Customers received benefits equaling $410,530 for 2018 review period. Aguirre Responsive 10:3-4.

28. The AMA contract allows CenterPoint Oklahoma to release its gas to the asset manager who has expertise in natural gas trading. Firm Storage Service is not considered a company-owned asset and therefore excluded from rate base, holding down rates. The asset manager engages in beneficial transactions in the gas commodity markets. CenterPoint Oklahoma pays a fee only for the initial injection and subsequent withdrawal of the commodity. The revenue associated with the AMA reduces the Company's revenue requirement collected through base rates from customers. Ratepayers share 50% of the incremental additional revenues generated from the AMA. Aguirre Responsive 5:16-21; 6:1-10. Since 2010, customers have benefitted financially from the AMA. Aguirre Responsive 8:1-23; 9:1-23.

Payroll

29. The Commission should approve CenterPoint Oklahoma's base payroll level adjustment of $451,383 which includes an adjustment for FICA.

30. CenterPoint's base payroll level during the 2018 review period was $6,185,618. The Company's Application, including adjustments, increased the base payroll level to $6,599,356. Aguirre Responsive 10:15-17. The $451,383 adjustment increases the actual review period Payroll Expense amount to the annualized December 2018 Payroll Expense amount as dictated by the PBRC Tariff. *Id.* 10:19; 11:1-6. The Payroll Expense increase allows the Company to provide a competitive salary to attract and retain a skilled workforce. *Id.* 12:6-11.

Energy Efficiency Program

31. The Commission should adopt PUD's recommendation to increase the Conservation Improvement Program ("CIP") incentive by $33,622 to reflect the verified total energy savings and the resulting Net Benefit of the CIPs. Champion Responsive 13:14, 14:1-2.

32. The Commission should adopt PUD's recommendation to remove $2,121,208 from the Operating Revenues and remove $1,864,388 as an adjustment to Operating Expenses consistent with the Company's approved PBRC tariff. Champion Responsive 9:15-20. The Operating Income Statement adjustment is necessary to accurately reflect and not overstate the Company's Operating Income because the Energy Efficiency ("EE") programs are funded separately (Schedule H-2). Champion Responsive 9:15-16.

33. CenterPoint Oklahoma's CIP includes the following Champion Responsive 6:21-26; 7:1-23; 8:1-5, Table.1:

- High Efficiency New Homes Program with inducements to install high efficiency natural gas products in 63 homes;
- The Multi-Unit Market Transformation Program experienced fewer opportunities to successfully encourage use of natural gas equipment in multi-family units;

- Natural Gas Commercial solutions was the Company's most successful program, delivering energy savings of 30,505 Mcf; and

- Home Energy Reports resulted in a net energy savings of 43,010 Mcf through customer education and behavior modification. In 2018, more than 182 customers participated in fuel-switching rebates installing natural gas space heating, water heating equipment, and multi-family programs along with 30 participants who received rebates for natural gas dryers and ranges.

34. The proposed 2019 effective EE rate is made up of four rates. Champion Responsive 10:2-10:

- The projected 2019 EE program budget;

- Utility incentive adjustment, calculated using the results from the performance of the 2018 EE Programs;

- True-up adjustment which accounts for the difference between 2018 EE program revenues collected and the 2018 EE program revenues approved for recovery; and

- True-up for the utility incentive adjustment.

35. The incentive component must meet two goals in order to be paid; it must achieve at least 80% of program energy saving projections and achieve a total resource cost test ratio of greater than one. CenterPoint Oklahoma's filed work papers indicate the 2018 CIP portfolio met the goal ratio and total resource cost/benefit test. Champion Responsive 11:10-14.

36. CenterPoint Oklahoma's budget for the 2019 CIP is $2,832,492, consistent with the budget approved in Cause No. 201600263, Order 657250. The EE program rate is calculated by dividing the 2019 budget for each class by the Company's projected volumes for each class. PUD reviewed this program and found it accurate and recommended approval. Champion Responsive 10:15-19.

37. PUD recommended approval of the 2018 ADP Report and the CIP or EE adjustment to base rates, including the 2019 program budget adjustment and the true-up of previous year amounts. Champion Responsive 13:11-14.

The Need for a Rate Case

38. The Commission should not require the Company to file a Chapter 70 general rate case at this time. A general rate case is unnecessary because the Company's PBRC Plan continues to work as intended by encouraging CenterPoint Oklahoma to achieve greater efficiency and performance by reducing the cost of serving customers through significantly lower regulatory and rate case expenses, accomplishing "gradualism" by providing the opportunity for smaller, but more frequent, rate changes, and resulting in closer supervision of the Company because of the required annual reviews of its financial results and operations. Stroup Responsive 9:8-25; Stroup Rebuttal 8:3-10: Drews Direct 5:5-22.

39. Furthermore, a general rate case is not required because the interests of the Company, its shareholders, and its customers remain substantially aligned due to the unique combination of the Company's PBRC Plan and its AMA. Stroup Responsive 10:1-13; Drews Direct 5:19-22, 9:13-18, 15:3-18, 17:6-10.

40. The Attorney General characterized CenterPoint Oklahoma's PBRC as most closely resembling a formula rate plan. Bohrmann Direct 18:14-17. The Attorney General argued the PBRC Plan is not the best way to balance the utility's ability to earn a fair and reasonable return and also provide low, fair, just, and reasonable rates to the customer. Tr. 6/28/19 45:11-15. Rather, performance based ratemaking allows the utility to recover more revenue from customers sooner, shifts risk to customers, and requires the utility to initiate more frequent and/or more complex regulatory actions and events. Bohrmann Direct 12:17-19.

41. The Attorney General's witness testified the National Regulatory Research Institute ("NRRI") identified eight conditions that a utility's formula rate plan should contain to promote the public interest (Bohrmann Direct 19:3-19) including the following:

- Insufficiency of traditional ratemaking for the utility should be established;
- The formula rate plan must require the utility to meet performance standards;
  The utility's target ROE should account for the reduced business risk attributable to more timely and predictable cost recovery;
  The dead band around the target ROE should be wide enough so that the utility can retain a higher ROE that could come from higher cost performance, or absorb a ROE that could come from lower cost performance;
- The targeted rate of return for rate adjustments should be outside the dead band;
- The formula rate plan should not guarantee earnings;
  The process for rate adjustments should allow ample time and resources for regulators and parties to assess whether the utility acted prudently during the evaluation period; and
  Periodic general rate cases should be conducted to examine whether existing cost allocations, the authorized rate of return, and rate design remain appropriate.

42. The Attorney General's witness testified CenterPoint Oklahoma's PBRC Plan failed to meet NRRI conditions as follows: Bohrmann Direct:20 3-21; 21:1-7:

- The Company is not required to meet performance standards.
- The dead band is insufficiently wide and this does not encourage the Company's exercise of cost discipline.
- The actual ROE is outside of the dead band after current adjustments
- There is insufficient review of the Company's activity based upon NRRI standards.

43. PUD witness Isaac Stroup testified a Chapter 70 general rate case is unnecessary for CenterPoint. Stroup Responsive 10:15-21:

44. A Chapter 70 general rate case would cause an increase in costs for customers. In seven recent Oklahoma rate cases filed by Oklahoma Gas and Electric Company, Oklahoma Natural Gas, and Public Service Company of Oklahoma, the average amount requested in the companies' applications for rate case expense was approximately $886,000. As noted by Mr. Drews in his Direct Testimony, a reasonable estimate for general rate case costs for CenterPoint Oklahoma are approximately $1.0 to $1.6 million. This is a very expensive process, especially considering CenterPoint Oklahoma only has approximately 98,000 customers. In comparison, excluding the exceptions hearing, the cost for the previous year's PBRC filing, Cause No. PUD 201800029, was approximately $141,000. If CenterPoint Oklahoma were to file a rate case, it would greatly increase costs to customers, as it would directly cause an increase in rate case regulatory expenses by as much as 1100%. Stroup Responsive 11:2-12.

45. The PBRC review is the same depth as the review in a general rate case. Everything is subject to review in a PBRC Cause. Past expenses are reviewed for prudence and may be adjusted, and everything else can be changed prospectively. PUD may scope its full review as it would in a general rate case, including intensive reviews such as plant additions, and a sample of projects in order to determine the reasonableness of projects and expenses. This is the same process followed in any rate case. Instead, PUD is able to perform the full review more quickly due to the transparency and familiarity achieved through reviewing the Company's books every year. Stroup Responsive 11:15-20; 12:1-4.

46. A general rate case would not eliminate the need for a rate increase. Mr. Stroup testified that a common reason given in support of the necessity of a general rate case for CenterPoint Oklahoma is the recent history of rate increases calculated and requested by the Company. This is not a good argument, because a general rate case would not remove the need for a rate increase. There are outside factors that cause CenterPoint Oklahoma to under-earn, namely customer attrition and increasing costs. These factors are largely outside of CenterPoint Oklahoma's control, and do not suggest that the PBRC Plan is not working as intended, nor that a general rate case is necessary. Stroup Responsive 12:7-13.

47. A general rate case is not likely to produce significant benefits that could not also be achieved in a PBRC filing. The PBRC process allows for items not fully reviewed every year to be addressed when parties believe it is necessary. Stroup Supplemental 12:16-17.

48. No showing has been made in this Cause that a general rate case would produce any financial benefits for the customers of CenterPoint Oklahoma at this time. The Attorney General's witness did not recommend "that the Commission mandate that the Company file for a general rate case at a specific date." Bohrmann Direct 21:19-22. Instead, Mr. Bohrmann presented the policy notion that CenterPoint Oklahoma should "periodically file a general rate case even though no particular need for such an effort is demonstrated." *Id.* Mr. Bohrmann acknowledged that his opinion regarding CenterPoint Oklahoma's PBRC Plan differs quite a bit from that of PUD and the Commission's decisions. Tr. 6/28/19 45:9-25; 46: 1-9.

49. CenterPoint Oklahoma's operational cost drivers were not disputed and conceded as primarily beyond CenterPoint's control. CenterPoint serves a rural and diffuse territory characterized by inherent customer attrition over which the Company has little control. Cynthia Westcott Direct 2: 8–10. The Company's service area is experiencing negative population growth. *Id* 5: 18 – 20.

Incentive Compensation

50. CenterPoint inadvertently failed to include a cost element when calculating LTI allocated to Oklahoma. CenterPoint's corrected request for LTI is $270,570. Stroup Responsive 13:16–18.

51. The Commission should reject the Attorney General's recommendation to disallow incentive compensation expense. PUD also believes Incentive Compensation encourages employees to find ways to operate more efficiently, increases earnings, and improves financial health. Improved financial health can lower costs by reducing the cost of capital. Additionally, Short-Term Incentive Compensation ("STI") and Long-Term Incentive Compensation ("LTI") are a necessary part of total compensation, and are vital to attract and retain qualified employees. Given the substantial alignment of interests between customers and the Company under the PBRC, customers benefit from the resulting qualified workforce and financially healthy Company that Incentive Compensation helps provide. Further, it is equitable for customers to contribute for compensation earned at the parent company. If CenterPoint Oklahoma did not utilize leadership from the parent company, it would still be required to hire that leadership itself, at greater expense. Additionally, the allocation factor provides a reasonable estimate of the amount of STI and LTI that should be allocated to CenterPoint Oklahoma customers, allowing those customers to pay only an amount reasonably attributable to the time employees spend on CenterPoint Oklahoma. Therefore, PUD continues to recommend the Commission approve recovery of the full amount of LTI and STI requested in this Cause. Stroup Rebuttal 13:4-19

52. Since the inception of the PBRC Plan, the Commission has allowed all Short Term and Long Term Incentive Compensation expenses requested by CenterPoint Oklahoma without exception. Cause No. PUD 201700078 Order No. 669205 p.16, ¶¶5-6. In 2011, the Commission recognized the interests of the Company and its customers are substantially aligned. Because of that alignment of interests, the Commission also began allowing recovery of all Long Term Incentive Compensation expenses requested, and has done so repeatedly and consistently since then. *Id.* at pp. 16-17, ¶8.

53. The Commission, in Cause No. PUD 201800029, Order No. 684379, p.3, paragraph 20 specifically noted:

> *"The principal goal of incentive compensation is employee behavior that promotes safety, operations performance, and financial performance. This behavior is particularly important in years ... where employees must identify and accomplish upgrades to the gas distribution system for safety and reliability and combat customer attrition prevalent in the Company's rural service area, because of factors outside of CenterPoint Oklahoma's control."*

54. No change of circumstances has been demonstrated in this Cause. Mr. Bohrmann could not point to any facts supporting full recovery incentive compensation that have changed since last year. Tr. 6/28/19 98:23–25; 99:1-3.

Revenue Annualization

55. The Commission should reject the Attorney General's recommendation that the PBRC Plan be structurally altered to require annualization of prior revenue increases allowed in prior proceedings. Bohrmann Tr. 6/28/19 76:25; 77:1-4.

56. This proposal would require that in PBRC Plan proceedings conducted in the year following a PBRC Plan rate increase (as in the current case), the Company would be forced to recognize millions of dollars in hypothetical revenue it never received during the Test Year (the previous calendar year). The Company's revenues would be artificially increased by the amount of that hypothetical "annualization" adjustment and the Company will never recover the difference. Drews Rebuttal 8:10-19.

57. If this proposal had been implemented for the 2018 Test Year, Mr. Bohrmann's recommended adjustment would have entirely wiped out the Company's $1.9 Million actual revenue deficiency and replaced it with artificial calculations based on revenue the Company never actually received in the Test Year. Drews Rebuttal 9:9-16.

58. If annualization occurred in addition to denying CenterPoint Oklahoma the opportunity to recover its costs and earn a reasonable rate of return, the Attorney General's proposal would establish a perverse incentive to delay a PBRC Plan review until the end of the year (or longer) so that the Company would receive little to none of the authorized revenue increase, even in the year following the year in which the increase was approved. Drews Rebuttal 10:1-10.

59. Mr. Bohrmann acknowledged that the revenue that CenterPoint Oklahoma would be forced to recognize under his proposal would not be received in the Test Year. Tr. 6/28/19 74:22-75:7. Still, he contended those revenues are not hypothetical because the Company would receive them in the following year. Tr. 6/28/19 10:13-25, 75:1-13.

60. This argument is flawed since the PBRC Plan employs a historical Test Year and not a prospective Test Year. If increased revenues are not received in the Test Year because a rate order did not go into effect until October of that year (which occurred in 2018), that consequent revenue deficiency in fact occurred during that Test Year and represents a real dollar loss to the Company. Under the PBRC Plan, whether the Company receives those revenues in the following year is a matter for the PBRC Plan to consider when that following year is reviewed as a Test Year in a subsequent PBRC Plan proceeding. Drews Tr. 6/27/19 46:22-25; 47:1-19; 48:4-9.

<u>Uncontested Tax Credit Jobs Act ("TCJA") Issues</u>

61. The Commission should approve as compliant with Order No. 684379 (issued in Cause No. PUD 201800029) the Protected and Unprotected EDIT credits arising under the TCJA in the aggregate total of $726,161. These credits were refunded to customers in April 2019, while the Cause was pending, and any under-refunded or over-refunded amounts will be trued-up in April 2020. Drews Direct 42:7- 20; 43:1 - 17.

62. The Commission should also approve the return to customers through CenterPoint Oklahoma's Gas Supply Rate Rider the interest on the deferred liability arising from income tax rate changes under the TCJA accrued after the close of the 2018 Test-Year, from January 1, 2019, through the implementation date of the authorized rate increase in this proceeding related to the change in federal income tax expense deferred liability. Drews Direct 25:7-19; 26:1-5.

PUD's Notice Proposal Clarification

63. The Commission should not require the PBRC Tariff to include the notice of issues provision recommended as a courtesy by PUD witness, Isaac Stroup Tr. 6/28/19 113: 14 – 25;114:1-7.

64. Mr. Stroup testified that while everything is subject to review and prospective change in a PBRC proceeding, not all issues that are reviewed require litigation. As a matter of courtesy if any party plans to raise one of these major issues in a PBRC proceeding, they should notify the Company before it files its application. Responsive 6:2-9. This allows the Company notice so expert witnesses can be hired and pertinent direct testimony written. There was no suggestion to place this requirement in the PBRC Tariff language; thereby potentially prohibiting any party from discovering an issue in the middle of the case and then bringing it up. Tr. 6/28/19 113:17-25; 114:1-7.

Conclusion

65. The resulting rate increase is fair, just and reasonable and consistent with the public interest and CenterPoint Oklahoma's PBRC Plan.

66. The Findings of Fact and Conclusions of Law set out above should be adopted as the Order of the Commission.

67. The Commission's Order should be effective immediately upon issuance, with the rate change to be implemented beginning with the first billing cycle after the Final Order issues.

Respectfully submitted, this 26TH day of JULY, 2019.

LINDA S. FOREMAN
Administrative Law Judge

C:
Chairman J. Todd Hiett
Vice Chairman Bob Anthony
Commissioner Dana L. Murphy
Nicole King
Matt Mullins
Elizabeth A.P. Cates
Ben Jackson
James L. Myles
Curtis M. Long
J. Dillon Curran
Jared B. Haines

Katey N. Campbell
Lauren D. Hensley
Maribeth D. Snapp
Mary Candler
Natasha Scott

ATTACHMENT "A"

PROCEDURAL HISTORY

1. On March 15, 2019, the following documents were filed:

   a. CenterPoint Energy Resources Corp d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint Oklahoma") filed its Application in this Cause;
   b. Direct Testimonies of Burl M. Drews, Cynthia L. Westcott and John D. True on behalf of CenterPoint Oklahoma; and
   c. Motion for Order Prescribing Notice, a Motion for Order Prescribing Procedural Schedule and a Motion for Protective Order, along with Notices of Hearing setting the Motion for Order Prescribing Notice, Motion for Order Prescribing Procedural Schedule and Motion for Protective Order for hearing on March 28, 2019.

2. On March 18, 2019, the Office of the Attorney General of the State of Oklahoma ("Attorney General") filed an Entry of Appearance for Jared B. Haines and Katey N. Campbell.

3. On March 28, 2019, the Motion for Order Prescribing Notice, Motion for Order Prescribing Procedural Schedule and Motion for Protective Order were heard and recommended.

4. On April 9, 2019, the Commission issued Order No. 694278, Order Granting Motion for Protective Order; Order No. 694279, Order Granting Motion for Order Prescribing Notice; and Order No. 694280, Order Granting Motion for Order Prescribing Procedural Schedule.

5. On May 20, 2019, the Responsive Testimonies of Andrew Scribner, Isaac D. Stroup, Kathy Champion, David Melvin, McKlein Aguirre, Richard McKay and Zachary Quintero were filed on behalf of PUD.

6. Also on May 20, 2019, PUD filed its Revenue Requirement Exhibit.

7. On May 21, 2019, the Responsive Testimony of Todd F. Bohrmann was filed on behalf of the Attorney General.

8. On May 31, 2019, the Supplemental Testimonies of David Melvin and Isaac D. Stroup, the Amended Revenue Requirement Exhibit and the Amended Responsive Testimonies of Zachary Quintero, Andrew Scribner and Richard McKay were filed on behalf of PUD.

9. On June 10, 2019, the Rebuttal Testimony of Burl M. Drews was filed on behalf of CenterPoint Oklahoma; Rebuttal Testimony of Todd F. Bohrmann was filed on behalf of the Attorney General; and Rebuttal Testimony of Isaac D. Stroup was filed on behalf of PUD.

10. On June 25, 2019, the Testimony Summaries of Isaac D. Stroup, Andrew Scribner, Zachary Quintero, David Melvin, Richard McKay, Kathy Champion and McKlein Aguirre were filed on behalf of PUD.

11. On June 26, 2019, the following documents were filed:

    a. Summary of Responsive Testimony of Todd F. Bohrmann and the Summary of the Rebuttal Testimony of Todd F. Bohrmann on behalf of the Attorney General.
    b. Exhibit Lists were filed on behalf of the Attorney General and CenterPoint Oklahoma.
    c. Testimony Summaries of Cynthia L. Westcott, Burl Drews and John D. True were filed on behalf of CenterPoint Oklahoma.

12. Also on June 26, 2019, the Hearing on the Merits was continued by agreement of the parties to June 27, 2019.

13. On June 27, 2019, PUD filed its Exhibit List.

14. Also on June 27, 2019, the Hearing on the Merits was heard and continued by agreement of the parties to June 28, 2019.

15. On June 28, 2019, the Hearing on the Merits was taken under advisement.

16. On July 9, 2019, the Notices of Transcript Completion from 6-27-19 and 6-28-19 were filed.

17. On July 12, 2019, Proposed Findings of Fact and Conclusions of Law were filed by CenterPoint Oklahoma, Attorney General and PUD.

Attachment "B"

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018	CAUSE NO. PUD 201900019

SUMMARY TESTIMONY

OF

ISAAC D. STROUP

JUNE 25, 2019

Isaac Stroup is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Senior Regulatory Analyst. On March 15, 2019, CenterPoint Energy Oklahoma Gas ("CenterPoint" or "Company") filed Cause No. PUD 201900019, an Application for approval of its Performance Based Rate Change ("PBRC") plan calculations for the twelve months ended December 31, 2018. Mr. Stroup filed Responsive Testimony on May 20, 2019, Supplemental Responsive Testimony on May 31, 2019, and Rebuttal Testimony on June 10, 2019.

In his Responsive Testimony, Mr. Stroup testified that PUD reviewed the Application, Company Testimony, and the applicable statutes and Commission rules. Mr. Stroup testified that PUD conducted an onsite audit at the Company's headquarters in Houston, Texas, and at the office of the Company's attorney in Oklahoma City, Oklahoma. Mr. Stroup testified that PUD recommended the Commission find that the Company's PBRC is working as intended and that a general rate case is not necessary for CenterPoint for the following four reasons:

1. A Chapter 70 general rate case would cause an increase in costs for customers.
2. The PBRC review provides the same depth of review as a general rate case.
3. A general rate case would not eliminate the need for a rate increase.
4. A general rate case is not likely to produce significant benefits that could not also be achieved in a PBRC filing.

In addition, Mr. Stroup testified that PUD recommended two adjustments to incentive compensation to reduce it to 100% of target level; however, this recommendation was subsequently revised in the Supplemental Testimony discussed below.

In Mr. Stroup's Supplemental Testimony, he testified that he initially relied upon the incorrect premise that the Commission has allowed up to 100% of target compensation in prior CenterPoint PBRC Causes. In fact, the Commission has allowed full recovery of both Short Term Incentive Compensation ("STI") and Long Term Incentive Compensation ("LTI") in prior CenterPoint PBRC Causes. Therefore, Mr. Stroup testified for that reason, and due to the role incentives play in creating a competitive salary package and the unique alignment of interests between CenterPoint's customers and shareholders under the PBRC, PUD recommends full recovery of STI and LTI expense requested by CenterPoint in this Cause.

In his Rebuttal Testimony, Mr. Stroup responded to the Responsive Testimony filed by Oklahoma Attorney General witness Todd F. Bohrmann. Mr. Bohrmann recommended that CenterPoint be directed to periodically file rate cases. Mr. Stroup testified that PUD continues to believe the PBRC Tariff is an effective form of regulation for CenterPoint and promotes public interest, and recommends the Commission reject Mr. Bohrmann's recommendation to direct CenterPoint to periodically file rate cases.

In Mr. Bohrmann's Responsive Testimony, he recommended that a portion of STI be disallowed, and 100% of LTI be disallowed. In Mr. Stroup's Rebuttal Testimony, he testified that PUD continues to believe that, given the substantial alignment of interests between customers and the Company under the PBRC, the Company's Incentive Compensation package is a necessary part of total compensation to attract and retain qualified employees, encourage employees to operate more efficiently, increase earnings, and improve financial health. Therefore, PUD recommends the Commission approve recovery of the full amount of STI and LTI expense requested by the Company in this Cause.

Finally, in Mr. Bohrmann's Responsive Testimony, he recommended that 99% of customer charges after last year's base rate increase be annualized and applied to the Company's PBRC calculation in this Cause. In Mr. Stroup's Rebuttal Testimony, he testified that PUD believes annualizing revenues in a PBRC is an attempt to solve a problem that does not exist, and if implemented, could only create problems. Therefore, PUD recommends the Commission reject Mr. Bohrmann's recommendation to annualize a portion of revenues from the prior test year to the current test year.

CERTIFICATE OF ELECTRONIC SERVICE

I, the undersigned, do hereby certify that on the 25th day of June, 2019, a true and correct copy of the above and foregoing was sent electronically to:

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OKLAHOMA CORPORATION COMMISSION

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A/ CENTERPOINT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018	)))))))	CAUSE NO. PUD 201900019

FILED
JUN 25 2019
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

SUMMARY TESTIMONY

OF

MCKLEIN AGUIRRE

JUNE 25, 2019

On March 15, 2019, CenterPoint Energy Oklahoma Gas ("CenterPoint" or "Company") filed an Application for approval of its Performance Based Rate Change Plan calculations for the twelve months ended December 31, 2018.

McKlein Aguirre testified that he is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as an Energy Coordinator. Mr. Aguirre filed Responsive Testimony on May 20, 2019, to present PUD's recommendations concerning Cause No. PUD 201900019. His Testimony provides recommendations regarding CenterPoint's Asset Management Agreement ("AMA") and Payroll Expense.

Mr. Aguirre testified that PUD reviewed CenterPoint's Application, applicable tariffs, workpapers and testimony filed by CenterPoint witnesses and Final Order No. 684379 in Cause No. PUD 201800029. In addition, Mr. Aguirre testified that PUD issued data requests, reviewed data requests issued by intervenors and the associated responses, and conducted an onsite audit at the Company's headquarters in Houston, Texas, on April 10 and 11, 2019. Mr. Aguirre testified that after the onsite audits and PUD's review of the Application, Company testimony, schedules, responses to data requests, statutes, and rules, PUD recommends the Commission adopt the following:

1. The Company's reduction of the required base revenue increase in the amount of $410,530 due to its participation in the AMA; and
2. The Company's proposed adjustment to increase Payroll Expense in the amount of $451,383.

CERTIFICATE OF ELECTRONIC SERVICE

I, the undersigned, do hereby certify that on the 25th day of June, 2019, a true and correct copy of the above and foregoing was sent electronically to:

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OKLAHOMA CORPORATION COMMISSION

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPIONT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018)

CAUSE NO. PUD 201900019

Summary of the Responsive Testimony of Todd F. Bohrmann
On Behalf of Mike Hunter, Oklahoma Attorney General

Mr. Todd F. Bohrmann submitted pre-filed responsive testimony in the present case on May 21, 2019. The purpose of his testimony was to recommend that the Commission take the following actions regarding the application of CenterPoint Energy Resources Corporation d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint Oklahoma"): 1) disallow 50 percent of CenterPoint Oklahoma's short-term incentive compensation for 2018; 2) disallow 100 percent of the CenterPoint Oklahoma's long-term incentive compensation for 2018; and 3) adopt a prospective change to the Performance Based Rate Change ("PBRC") Plan tariff to adjust the Company's operating revenues by an amount equal to 99 percent of the uncollected revenue from customer charges from the prior test year to the current test year if a rate increase would otherwise occur. This change will have the effect of annualizing the effect of prior years' rate increases in a fair and reasonable manner.

Background

Mr. Bohrmann described CenterPoint Oklahoma's relative size within its ultimate parent company, CenterPoint Energy, Inc. ("Parent") as well as its counterparts within the Parent's Natural Gas Distribution ("NGD") subsidiary. He indicated that the Company's relative size is expected to become smaller in 2019 as the merger between the Parent and Vectren closes. He identified the Company's three major structural challenges within its current business model: 1) a sparsely populated service area; 2) sustained customer attrition; and 3) an increasing cost environment as the Company's gross distribution plant in service has experienced strong growth since 2013.

Mr. Bohrmann testified that the Commission approved CenterPoint Oklahoma's PBRC plan tariff as a five-year pilot program in Cause No. PUD 200400187 following a settlement among the parties in that case. The Commission later made the PBRC tariff permanent in Cause No. PUD 201000030. Under the PBRC tariff, for each calendar year, the Commission shall determine whether the Company's revenues shall increase, decrease, or remain constant. Since 2016, the Commission has authorized CenterPoint Oklahoma an allowed return on common equity of 10.00 percent, with a deadband of 100 basis points around the allowed return. The PBRC tariff does not mandate a periodic comprehensive rate case proceeding. Mr. Bohrmann identified the specific adjustments that the Company may make to its test year operating expenses.

Mr. Bohrmann indicated that the Company earned a 5.76 percent ROE with total operating revenues of $41.6 million and total equity of $34.6 million in 2018. Under the current PBRC tariff, CenterPoint Oklahoma had an earnings deficiency of $1,979,801. However, the Company may annualize salaries and wages, savings plan expense, payroll taxes, and other payroll-related expenses incurred in December as if these expenses had existed during the entire test year. In 2018, CenterPoint Oklahoma made a wage adjustment of over $450,000 which represents nearly 25 percent of its earnings deficiency.

Since the 2005 test year, Mr. Bohrmann testified, CenterPoint Oklahoma customers have experienced four instances of a refund returned over a 12-month period, two instances of no change, and seven instances of a rate increase. Furthermore, the Company has proposed an additional $2.0 million annual rate increase in the current proceeding. He described when the

PBRC tariff indicates that earnings greater than 50 basis points above its allowed return shall be allocated between the Company and its customers on a 25 percent and 75 percent basis, respectively. Under these circumstances, customers would receive a refund of the excess earnings as a bill credit allocated among the several classes. The refund is divided among the customer classes as described previously, and it is returned over a 12-month period. During the past 13 test years, the Company has provided about $4.4 million, cumulatively, in one-time refunds on four occasions to its customers through the PBRC tariff. However, the PBRC tariff indicates that when the Company's earnings are more than 50 basis points below its allowed return, the Company may seek to increase base rates by 100 percent of the amount necessary to restore its return on common equity to its allowed return, currently 10.0 percent. During the past 13 test years, the Company has increased its annual base rate revenues to its customers through the PBRC tariff, with Commission approval, on seven occasions, for a total of approximately $13.2 million in rate increases.

Mr. Bohrmann testified that the PBRC tariff does not impose any quality of service criteria, such as safety, customer satisfaction, or reliability, or productivity mandate on the Company.

Alternative Regulation

Mr. Bohrmann testified that the provision of natural gas to retail customers has long been recognized as having monopoly characteristics because a single provider could offer this service at lower costs than multiple providers could within a defined geographic area. Left unregulated, a single provider would be immune to any market forces to reduce prices and expand output. Therefore, states have exercised their authority to set fair, just, and reasonable rates, terms, and conditions for the provision of safe, reliable, and cost-effective utility service within its jurisdiction. These rates reflect the reasonable, prudently incurred cost of service, including a return of, and on, invested capital. Rates are also dependent upon how these costs are allocated to the several customer groups. Economic regulation is often considered a proxy for the pressures and influence that a competitive market would impose upon a market participant.

Mr. Bohrmann testified that "alternative" regulation refers to any form of economic regulation that differs from traditional cost-based regulation, including but not limited to the following: 1) cost trackers; 2) lost net revenue mechanisms; 3) revenue decoupling; 4) fixed/variable pricing; 5) future test years; 6) multi-year rate plans; and 7) formula rate plans. Most states allow one or more of these alternative regulatory mechanisms for its jurisdictional utilities. He stated that each alternative regulation mechanism allows the utility to recover more revenue from its customers sooner while shifting risk to its customers. Further, most forms of alternative regulation also include more frequent and/or more complex regulatory actions and events.

Mr. Bohrmann testified that CenterPoint Oklahoma's testimony that the PBRC tariff creates greater efficiency and performance is incorrect—CenterPoint Oklahoma's costs have risen more quickly than inflation, increasing the burden on customers over time. CenterPoint Oklahoma's comparison of PBRC proceedings to general rate cases is not appropriate due to the differences between the Company's Oklahoma and Arkansas jurisdictions, and it ignores the actual role of periodic rate cases with PBRC proceedings during intervening years. CenterPoint Oklahoma's testimony regarding greater regulatory scrutiny misses the mark. Lastly, the PBRC tariff does not align the interests of customers and CenterPoint Oklahoma for a variety of reasons. Generally, the PBRC tariff has the characteristics of a formula rate plan, but it does not meet the criteria for a well-functioning formula rate plan in the public interest as explained by Ken Costello from the National Regulatory Research Institute. Generally, the Attorney General is prepared to engage in a constructive process toward reforming the current PBRC tariff when other stakeholders are prepared to engage in reform.

Mr. Bohrmann testified that the Company's and its customers' interests are not aligned. As long as the three structural challenges described earlier exists, he foresees that the Company will continue to seek base rate increases year after year under the current PBRC tariff. In this scenario, the Company would consistently earn less than its authorized ROE, and customers' rates will continue to increase. This scenario in which the Company rarely earns within its deadband, let alone its authorized ROE, does not promote the public interest.

Mr. Bohrmann described CenterPoint Oklahoma's actual performance in 2018 as well as the sources of the need for a base rate increases. In 2018, CenterPoint Oklahoma experienced double-digit percent increases in both total operating revenues and rate base, while keeping operating expenses relatively flat. The Company's rate base increased from $57.0 million to $62.9 million, a 10.4 percent increase, during 2018. Its operating expenses, excluding income tax, remained stable at approximately $37.4 million in 2017 and 2018. Total operating revenue increased from $37.5 million to $41.6 million, or 10.9 percent, between 2017 and 2018. Despite this performance, the Company is seeking a $2.0 million increase to base rates through the PBRC tariff.

In the instant proceeding, Mr. Bohrmann indicated, CenterPoint Oklahoma is requesting a $2.0 million rate increase based on the deficiency between operating income required and actual operating income. To keep rates stable, the deficiency could not exceed 50 basis points of the Company's equity of $34.5 million, or approximately $170,000. To achieve more than a 90 percent decrease in the 2018 deficiency, the Company would have needed to take a combination of the following actions: 1) retire substantial amounts of its plant in service; 2) slash spending aggressively on discretionary expenditures, and 3) grow sustainable revenues.

Incentive Compensation

Mr. Bohrmann testified that market-based incentive compensation is a reasonable and legitimate expense to recruit and retain employees with the requisite skills to create value for the Company. However, the Commission should disallow at least 50 percent of CenterPoint Oklahoma's 2018 short-term incentive compensation and 100 percent of its 2018 long-term incentive compensation, because a well-designed incentive plan should create value for both the Company's shareholders and customers. Mr. Bohrmann provided examples of otherwise reasonable, prudent expenses, such as advertising, that the Commission does not allow recovery, because the value created for the customers by these expenses is minimal to non-existent.

Mr. Bohrmann explained that the Parent sets the criteria and benchmarks at its discretion to determine whether and how much its subsidiaries, including the Company, would incur in incentive compensation. It would be counter-intuitive and counter-factual to suggest that any firm, whether regulated or not regulated, would structure its incentive compensation plan(s) to allow its employees to capture all the efficiencies associated with meeting the benchmarks for a given criterion. Mr. Bohrmann provided an example regarding how the Parent sets a ceiling on the incentive compensation that the Parent would incur once the highest benchmark is met.

Mr. Bohrmann explained that the incentive compensation that the Company pays to its employees is not linked to its performance in Oklahoma exclusively. To the contrary, CenterPoint Energy establishes the benchmarks for the several financial and operational criteria on a Parent-wide basis, and incentive compensation is determined by whether and how well the Parent's actual performance compares with these financial and operational targets. As referenced earlier, the Company's 2018 revenue represents less than one percent of the Parent's total revenue. Furthermore, the Company has little control and the Commission has no authority over the 99 percent of the Parent's revenues that occur outside of its jurisdiction. Notwithstanding that shareholders also benefit from these actions, it would be extremely inequitable for CenterPoint's Oklahoma customers to pay for incentive compensation based on earnings supported by business activities outside its jurisdiction, including unregulated business activities.

Mr. Bohrmann testified that neither the Parent's short-term nor long-term incentive compensation plans limit eligibility to only those employees located in subsidiaries whose economic regulator allows full, or even partial, cost recovery from customers. Also, the Parent has several subsidiaries which operate in a competitive environment with no economic regulator to mandate cost recovery from their customers.

Mr. Bohrmann testified that is the Parent is not obligated to pay incentive compensation to employees each year. The Parent has sole and complete authority and discretion to determine whether incentive compensation will be provided. If the Parent fails to meet the threshold (*i.e.*, minimum performance to qualify for any incentive compensation) for any criteria in a given year, then no employee would receive any incentive compensation for that year, regardless of an employee's or a subsidiary's performance.

Mr. Bohrmann explained that wages and salaries are payment to employees in exchange for their physical and intellectual labor to meet minimum standards for safety, reliability, and value imposed by the Company, industry, a regulatory agency, or customers. When the Company meets these standards, the customers are the primary beneficiaries of safe, reliable, cost effective service, and recovery of these prudently incurred costs from customers is reasonable. When the Company provides safe, reliable, cost effective service, its rates should allow the Company to recover its costs to provide such service, including a reasonable return for its shareholders. However, when employees respond effectively to well-designed incentives to exceed these minimum standards, these incentives create shareholder value beyond a reasonable return as measured by factors, such as higher earnings, lower operating costs, higher ROE values, and, ultimately, higher share prices. Thus, shareholders are the primary beneficiaries when the Company exceeds these minimum standards. The shareholders *choose* to share this incremental value with the Company's employees at intervals and amounts at their sole discretion. To seek cost recovery of incentive compensation in this proceeding, the Company is seeking recovery for costs that already have a funding source.

Mr. Bohrmann indicated that CenterPoint Oklahoma has the right to compensate its employees in a manner the Company believes will maximize its objectives, subject to the constraints the Company faces. However, he does take issue with the Company seeking cost recovery of incentive compensation based on the Parent, of which the Company represents an extremely small portion, exceeding financial criteria that primarily benefits the Parent's shareholders.

Short-term Incentive Compensation

Mr. Bohrmann testified that the Parent uses a combination of financial and operational criteria to determine its short-term incentive compensation paid to its employees. For 2018, its three financial criteria comprise nearly 83 percent of the funding for the Parent's short-term incentive compensation with the two operational criteria - customer satisfaction and safety – comprise the remainder. He indicated that the Company has proposed to recover approximately $1.1 million in short-term incentive compensation incurred by CenterPoint Oklahoma for the 2018 test year. This amount represents 100 percent of the Company's short-term incentive compensation.

Mr. Bohrmann calculated several methods to determine the appropriate pro forma adjustment for short-term incentive compensation. Alternative 1 assumes that the customers receive 50 percent of the benefits derived from the operational criteria and no benefit from the financial criteria. If the Commission adopted Alternative 1, the pro forma adjustment would be $1,030,107. Alternative 2 assumes that the customers receive all of the benefits derived from the operational criteria and no benefit from the financial criteria. If the Commission adopted Alternative 2, the pro forma adjustment would be $932,566. Alternative 3 assumes that the customers receive 50 percent of the benefits derived from the operational and financial criteria. If the Commission adopted Alternative 3, the pro forma adjustment would be $563,825. He recommends that the Commission adopt Alternative 3 which is the most conservative adjustment from the customers' perspective. If the Commission chooses to make an adjustment regarding short-term incentive compensation, an additional adjustment for payroll taxes paid by the Company would also need to be made.

Mr. Bohrmann testified that the Commission has ruled on several occasions regarding the appropriate regulatory treatment of short-term incentive compensation incurred by other jurisdictional utilities, such as Oklahoma Gas and Electric Company ("OGE") and Public Service Company of Oklahoma ("PSO"). Past Commission orders have generally recognized that a 50-50 allocation of short-term incentive compensation between the respective utility and its customers is appropriate because both groups benefit from the efficiencies that employees create while responding to these incentives. Also, Oklahoma Natural Gas ("ONG") reached a settlement with the parties in which ONG agreed to limit cost recovery of short-term incentive compensation to the lesser of the actual short-term incentive compensation incurred or the 100 percent target level. However, OGE, PSO, and ONG continue to provide their employees short-term incentive compensation.

Mr. Bohrmann testified that Oklahoma is the only jurisdiction within CenterPoint's NGD subsidiary that explicitly allows for 100 percent cost recovery of short-term incentive compensation. To the contrary, Arkansas, Louisiana, Minnesota, and Mississippi limit cost recovery of their respective CenterPoint NGD utilities for short-term incentive compensation. Furthermore, the regulatory treatment of short-term incentive compensation is not a determining factor for whether eligible employees earn their respective short-term incentive compensation.

Long-term Incentive Compensation

Mr. Bohrmann testified that the Company's long-term incentive compensation plan awards shares in CenterPoint Energy to certain corporate officers and employees. The Parent determines the level of this long-term incentive compensation based on whether and how well Parent and its subsidiaries meet their financial objectives over a three year period, including: 1) total shareholder return relative to a peer group; and 2) cumulative net income. The Company has proposed to recover approximately $250,000 in long-term incentive compensation incurred by CenterPoint Oklahoma for the 2018 test year. This amount represents 100 percent of the Company's long-term incentive compensation.

Mr. Bohrmann testified that the Company's long-term incentive compensation does not serve its customers' interest. Instead, such compensation is exclusively designed to align management's interests with shareholders. Also, the Parent states that its "long term incentive plan is designed to reward participants for sustained improvements in our financial performance and increases in the value of our common stock and dividends over an extended period." It is abundantly clear that the objective of the Parent's long-term incentive compensation plan is to align the participating employees' goals with its shareholders.

Mr. Bohrmann recommends that the Commission make a pro forma adjustment to reduce the Company's operating expenses by $246,523 to reflect a disallowance of 100 percent of its long-term incentive compensation. Contrary to CenterPoint Oklahoma's belief, its shareholders receive 100 percent of the benefits from the incremental performance on the financial criteria in which long-term incentive compensation is determined. If the Commission chooses to make an adjustment regarding long-term incentive compensation, an additional adjustment for payroll taxes paid by the Company would also need to be made.

Mr. Bohrmann testified that the Commission has excluded the cost of long-term incentive plans from the revenue requirement for OGE, PSO, and ONG. The Commission has ruled to exclude 100 percent of long-term incentive compensation in those instances, because the basis of such incentives are usually entirely financial in nature, designed to increase the utility's earnings, whether or not connected to the provision of utility service. However, all three jurisdictional utilities continue to provide their employees long-term incentive compensation.

Mr. Bohrmann indicated that Oklahoma is the only jurisdiction within CenterPoint's NGD subsidiary that explicitly allows for 100 percent cost recovery of long-term incentive compensation. To the contrary, Arkansas, Louisiana, and Mississippi disallows 100 percent cost recovery for long-term incentive compensation of their respective CenterPoint NGD utilities. In Minnesota, that CenterPoint NGD subsidiary has not requested cost recovery for long-term incentive compensation. Furthermore, the regulatory treatment of long-term incentive compensation is not a determining factor for whether eligible employees earn their respective long-term incentive compensation.

Revenue Annualization

Mr. Bohrmann indicated that the Commission authorized the Company last year to increase its base rate revenues by nearly $5.4 million on an annual basis. However, due to the effective date of October 16, 2018 for this base rate increase, the Company estimates that it had collected only $1.2 million of the $5.4 million authorized base rate revenue increase. Assuming that all other factors had remained unchanged, the Company's 2018 total operating revenues would have increased at the rate of nearly $470,000 for each additional month that the new base rates were effective. Accordingly, CenterPoint Oklahoma's request in this proceeding would have been mitigated by the additional revenue from the earlier effective date.

Mr. Bohrmann proposed, on a prospective basis, to the extent that the Company shows an earnings deficiency for a given test year, CenterPoint Oklahoma would increase its operating revenues in the following manner. For the next four years, the Company would adjust its operating revenues by an amount equal to 99 percent of the uncollected revenue from customer charges from the prior test year to the current test year. For test year 2023 and each year thereafter, the Company shall update its customer attrition rate during the preceding four years to its actual value to adjust its operating revenues. However, the customer attrition rate shall be less than or equal to zero. He indicated that this calculation would only take place if the Company's ROE was less than the minimum value of the deadband. Also, Mr. Bohrmann's proposal does not contemplate that the Company would be required to issue a bill credit due to the revenue imputation. His proposal serves to mitigate a base rate increase, not to transform a base rate increase to a bill credit or exacerbate a bill credit. Finally, he testified that this revenue imputation is consistent with current PBRC tariff language which allows the Company to annualize payroll costs.

CERTIFICATE OF SERVICE

On this 26th day of June, 2019, a true and correct copy of the above and foregoing *Summary of the Responsive Testimony of Todd F. Bohrmann on Behalf of Mike Hunter, Oklahoma Attorney General*, along with the attached exhibits, was sent via electronic mail to the following interested parties:

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BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPIONT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018)

CAUSE NO. PUD 201900019

Summary of the Rebuttal Testimony of Todd F. Bohrmann
On Behalf of Mike Hunter, Oklahoma Attorney General

Mr. Todd F. Bohrmann submitted pre-filed rebuttal testimony in the present case on June 10, 2019. The purpose of his testimony was to respond to Public Utility Division's ("PUD") witness Isaac D. Stroup's responsive testimony filed May 20, 2019 in this cause regarding PUD's belief that a party should inform CenterPoint Energy Resources Corporation d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint Oklahoma" or "Company") of its intention to raise a non-recurring issue in an annual Performance Base Rate Change ("PBRC") proceeding. Also, he updated his calculation of the adjustment for long-term incentive compensation that the Company incurred in 2018 based on a discovery response received subsequent to the date on which Mr. Bohrmann filed responsive testimony.

Mr. Bohrmann testified that PUD believes that if a party plans to raise an issue that is not fully reviewed each year (*i.e.*, non-recurring) in an upcoming PBRC proceeding, the party should notify the Company before the Company makes its annual PBRC filing to allow the Company to retain an expert and file testimony if warranted. However, Mr. Stroup does not provide any example in which a party has problematically raised a non-recurring issue in responsive testimony in a PBRC proceeding. Furthermore, Mr. Bohrmann stated that Mr. Stroup did not provide any details regarding the form and content regarding a party providing notice to the Company of its intent to raise a non-recurring issue in the PBRC proceeding. Also, Mr. Bohrmann indicated that the PBRC tariff allows the Attorney General and PUD to propose test-year adjustments customarily accepted for ratemaking purposes by the Commission on or before May 31 each year.

Mr. Bohrmann indicated that the Attorney General's ability to advocate for the interests of all customers may be substantially impacted if the Company's filings or discovery responses trigger a non-recurring issue that the Attorney General or other parties were not previously aware of. If this contingency should occur with a notice provision required prior to the Company's filing, the Attorney General or other parties would be precluded from raising this issue.

Mr. Bohrmann testified that, as a professional courtesy and in the interest of regulatory comity, the Attorney General would voluntarily endeavor to inform the Company and other parties when he may raise a substantial issue, such as a change to the rate of return on common equity or a change in depreciation rates, in a subsequent PBRC proceeding prior to the Company's annual March 15 filing. However, Mr. Stroup's proposal is too broad and vague to impose a notice mandate on the Attorney General and other parties. The Commission should not take any action to memorialize this belief that additional notice should be required.

Mr. Bohrmann updated the adjustment he had recommended in his responsive testimony regarding the appropriate regulatory treatment for long term incentive compensation. In his responsive testimony, he had recommended that the Commission disallow 100 percent of the Company's long-term incentive compensation. Based on additional information received after he filed his responsive testimony, Mr. Bohrmann recommends that the Commission disallow $270,570 in long term incentive compensation for 2018, or $24,047 more than the amount originally cited. The Company indicated that it had inadvertently omitted a cost center when calculating long-term incentive compensation allocated to the Oklahoma jurisdiction.

CERTIFICATE OF SERVICE

On this 26th day of June, 2019, a true and correct copy of the above and foregoing *Summary of the Rebuttal Testimony of Todd F. Bohrmann on Behalf of Mike Hunter, Oklahoma Attorney General*, along with the attached exhibits, was sent via electronic mail to the following interested parties:

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BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018	)	CAUSE NO. PUD 201900019

FILED
JUN 26 2019
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

SUMMARY OF TESTIMONY

OF

CYNTHIA L. WESTCOTT

VICE PRESIDENT OF REGIONAL OPERATIONS

ON BEHALF OF

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY OKLAHOMA GAS

Cynthia L. Westcott, Vice President of Regional Operations for the states of Oklahoma and Arkansas, testified on behalf of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint Oklahoma" or the "Company"). Ms. Westcott is responsible for the financial and operational integrity for the Company. In her testimony, she discusses aspects of the Company's operations as they relate to the increase in revenues proposed in this case pursuant to the Company's Performance-Based Rate Change Plan ("PBRC Plan"). She describes the Company's generally rural service territory, explains how the Company is using innovative ways to address its customer attrition issues, and gives her perspective on components of the rate increase presented here.

CenterPoint Oklahoma is a local distribution company with approximately 99,613 customers in 2018 in 36 counties in Oklahoma. The largest towns served by CenterPoint Oklahoma are Lawton and Duncan. The Company's rural and diffuse service territory lacks the urban growth prevalent in other areas of Oklahoma and is characterized by inherent customer attrition.

Some of the factors causing the Company's declining billing determinants, such as negative population growth in much of its service territory, are largely beyond the Company's control. Other factors, such as inaccurate perceptions about the benefits of natural gas, developers building beyond the Company's existing infrastructure, and the higher cost to purchase and install natural gas appliances are factors that have been identified as barriers to retention and growth and that are being addressed through the efforts of the Company. In addition to these factors, CenterPoint Oklahoma has struggled to penetrate the multi-family housing market, which typically consists of all-electric units. Declining weather-normalized use per customer[1] is also occurring as customers upgrade their appliances to increasingly more efficient equipment and as they weatherize their homes—practices that are encouraged by the Company's EE programs—and by customers and developers switching to electricity because of the cheaper appliance cost, regardless of the potential for higher operating cost.

The Company has taken steps to address its declining customer count by developing innovative strategies for customer education, retention efforts, and growth efforts. These steps have resulted in some success: already during 2018, the Company lost the fewest number of customers than in the last eight years. This is due in large part to the ongoing, proactive efforts of the. Action items for 2018 included:

- **Identification of possible on-main conversions and added load:** The Company commissioned a study in May of 2018 to identify potential on-main conversions of residents in Lawton, Oklahoma based on their close proximity to existing gas mains. This information was supplemented with internal analysis of existing customers with a heat-only load (single burner tip) that could be encouraged to add natural gas load for other energy needs. A marketing plan is currently being formulated to offer natural gas services to these potential markets.

[1] Residential weather-normalized annual use per customer has declined from 585 Ccf in 2014 to 529 Ccf in 2018.

- **Identification of multiple account holders and inactive meters:** The Company is working to identify and establish relationships with multiple account holders (those with more than one residential or commercial account, including Housing Authorities) to identify issues unique to them and provide them a Company resource to contact when questions or issues arise. CenterPoint Oklahoma personnel also research county assessor records to determine who owns a home when an inactive meter is removed from a rental property. This allows the Company to reach out to the property owners for those accounts and receive feedback on why they left the system.

- **Identification of opportunities for off-system expansion:** CenterPoint Oklahoma continually looks for economic opportunities to expand its infrastructure to serve customers outside of its current footprint. The Company utilizes the waiver provisions within its main extension tariff, Rate Schedule No. 6, Extension of Facilities, to waive contribution in aid of construction when areas with significant growth potential will be served via the extension.

- **Moving meters from property line to building:** The Company looks for opportunities to move meters currently located on the property line to the customer's building or home, where they are less likely to suffer third-party damage and related service interruptions. This action helps improve safety and security for the Company's services, along with reducing the footage of customer owned house lines.

- **Utilization of field personnel to identify sales and retention opportunities:** In addition to training field personnel to look for opportunities to acquire additional customers, the Company utilizes its mobile data system to allow field personnel to identify and track information to identify opportunities listed above. This is known as the Service Tech Attrition Reversal Team ("START") initiative for residential customers.

- **Dealer Circle:** Dealer Circle is a tool offered to CenterPoint Oklahoma customers to assist in locating a plumber or HVAC contractor ("trade allies") when the customer's appliance needs to be serviced or replaced. This free service is available on the Company's website and is promoted by its sales group and service technicians. This tool also benefits the trade ally by serving as a lead-generating service.

As discussed in more detail by Company witness John True, capital expenditures continue to grow due to both an aging infrastructure and increasingly more stringent natural gas pipeline safety and integrity regulations. Several highly publicized gas pipeline incidents in service areas of other utilities have compelled renewed urgency and increased scrutiny of pipeline operators' integrity management programs. While CenterPoint Oklahoma has completed its replacement of obsolete cast iron mains, the company still operates aging steel pipe at low-pressure. The ongoing effort to modernize the gas system includes replacing this low-pressure steel pipe with plastic pipe that will be operated at intermediate pressure.

Given this environment, the Company must continue to invest in its integrity management programs in order to provide safe and reliable service to its customers and to ensure compliance with state and federal regulations. The heightened scrutiny that has been placed on the Company's integrity management programs has a material impact on the cost of these programs. Failure to adequately fund the Company's integrity management programs increases the risk of gas pipeline incidents that can easily lead to catastrophic loss of life, substantial property damage and economic hardship. The cost of replacing aged steel pipe is reasonable, especially when viewed against the consequences of failing to do so. The Company's commitment to safety is its top priority and the costs included in this Cause must be incurred to support these safety and reliability programs.

The Company continues to pursue activities to improve efficiency and reduce costs. In August 2018, the Company modified its collection of meter reading data to minimize the need to send a service technician to read the meter for those times when a customer moves into or out of a premise. The electronic meter reading equipment has the capability to collect and store 40 days of meter reads with each collection cycle. In certain situations, this allows the customer service representative to access the meter reading for the date the customer moved in and activate the account without ever sending a service technician back to the home. This change already appears to be impacting the expense of the order types related to the move-out/move-in process. This new process is also likely to contribute to increased employee safety by reducing travel time and the need to access the customer meter.

The Company's Operations and Maintenance expense has remained relatively flat since last year. In large part, this is due to the efforts of the Company's dedicated employees, who are committed to safely and reliably operating the Company's natural gas system and providing effective and efficient customer service. In order to recruit and retain a talented workforce, CenterPoint Oklahoma should continue to recover its total employee compensation costs, which includes base pay, incentives, and benefits.

Above all, and despite challenges, the Company has continued to provide superior service to its customers. CenterPoint Energy-South, which includes CenterPoint Oklahoma, received the highest ranking from customers for large gas utilities in the South Region in the J. D. Power 2018 Gas Utility Residential Customer Satisfaction Study.SM

The PBRC Plan encourages the Company to continuously seek ways to enhance its efficiency and performance through initiatives such as the series of Asset Management Agreements, consolidation of Oklahoma and Arkansas into a single more efficient division, reduction of bad debt expense, the deployment of automated meter reading equipment, the Customer Vision Program and the latest efficiency related to the move-in and move-out meter reading process.

CERTIFICATE OF SERVICE

I hereby certify that on the 26th day of June, 2019, a full, true, and correct copy of the above and foregoing instrument was served on the following persons by **ELECTRONIC MAIL** to:

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BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE-BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018	)))))))	CAUSE NO. PUD 201900019

FILED
JUN 26 2019
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

SUMMARY OF TESTIMONY

OF

BURL M. DREWS

MANAGER OF RATES

ON BEHALF OF

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY OKLAHOMA GAS

Burl M. Drews, Manager of Rate Design for CenterPoint Energy Service Company, testified on behalf of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint Oklahoma" or "Company"). Mr. Drews is an economist with over 30 years of utility industry work experience. He has previously filed testimony with the regulatory commissions of Minnesota, Texas, Arkansas, and with the Oklahoma Corporation Commission ("Commission").

Mr. Drews testified that the Commission should not require the Company to file a Chapter 70 general rate case at this time. A general rate case is unnecessary because the Company's Performance-Based Rate Change Plan (the "PBRC Plan") is working as intended by encouraging greater efficiency and performance by CenterPoint Oklahoma, reducing the cost of serving customers through significantly lower regulatory and rate case expenses, accomplishing "gradualism" by providing the opportunity for smaller, but more frequent, rate changes, and resulting in closer supervision of the Company because of the required annual reviews of its financial results and operations. Additionally, a general rate case is not required because the interests of the Company, its shareholders, and its customers remain substantially aligned due to the unique combination of the Company's PBRC Plan and its Asset Management Agreement ("AMA").

Mr. Drews explained how the PBRC Plan encourages greater efficiency and performance by the Company primarily in two ways. First, integral to the PBRC Plan is that it is performance-based. If the Company does well, then both the Company and its customers benefit. Per the PBRC Plan, if the Company's Earned Return on Equity ("ER") falls within plus or minus 50 basis points of its Allowed Return on Equity ("AR") of 10.00%, then no change in revenues will be authorized. This ROE dead-band moderates rate changes as the ER fluctuates from year to year by degrees that are not significant. If the Company's ER is above the upper limit of the ROE dead-band, then those earnings above that upper limit will be shared between the Company and its customers, with the Company receiving 25% and its customers 75% of those earnings. The Company thus has a financial incentive encouraging efficiency and performance and customers receive a significant share of the benefit. Over the life of the PBRC Plan, the Company's customers have received $4.4 million due to the PBRC Plan earnings sharing.

Second, this performance-based comparison occurs every year under the PBRC Plan. This regular annual nature of the PBRC Plan is inherently an efficient regulatory process for gas utilities like CenterPoint Oklahoma. The Company's revenues, expenses, investment, and activities are reviewed every single year. In its annual review, the PUD gains close familiarity with the Company's performance and can consistently, regularly and carefully track and review costs and revenues, easily identify financial, performance, and policy changes from year to year, and focus a scope of review to identify particular areas that need special attention. This annual review ensures the level of revenues, expenses, investment and the activities of the Company are necessary, reasonable, and in the public interest. The PBRC Plan allows PUD to work with the Company throughout the year to identify major drivers and issues to be reviewed while also reducing the amount of time required for such review.

Mr. Drews provided examples of efficiencies and enhanced performance achieved by the Company under the PBRC Plan. These improvements have been factored into the customer rates arising from each annual PBRC Plan review, encouraged by the Plan itself. The Commission recognized in its Order No. 588757 in Cause No PUD 201100056 that the efforts of CenterPoint Oklahoma management to economize, to innovate, to achieve efficiencies, and to enhance revenue from off-system sources "have been of substantial benefit to CenterPoint Oklahoma's customers."

In a prior PBRC Plan proceeding, the Company has proposed, and the Commission has approved programs to combat customer attrition and encourage the addition of new customers to the Company's distribution system. The Company has also deployed automated meter reading equipment thus greatly increasing accuracy and reducing meter reading costs, and it has implemented its Customer Vision Program creating a more transparent and smoother customer interaction.

Mr. Drews explained how these improvements have been encouraged by the PBRC Plan. Under the Plan, the Company bears all the adverse financial impact of a test-year in which it under-earns, and it is never able to make up those losses. In a year with surplus earnings, the Company and its shareholders receive at least a share of the surplus. This mechanism provides a clear and unambiguous incentive for the Company to achieve efficiencies in its operations. The results of this incentive have benefited both the Company and its customers in every year since the PBRC Plan was first implemented.

All of the improvements implemented in past years have been maintained year to year and continue to provide financial benefits to customers that are reflected in the Company's rates. Mr. Drews also referred to the current efforts at efficiency encouraged by the PBRC Plan, as discussed in the testimony of Ms. Cynthia L. Westcott presented in the Cause. Also, on April 1, 2018, the Company with Commission approval implemented its fourth AMA that in combination with the PBRC Plan will save the Company's customers significant dollars annually in the 2018 Test-Year and thereafter. The customer's savings result from gas-in-storage being removed from rate base and an off-system revenue stream. The total 2018 Test-Year savings to customers from the AMAs are $410,530.

Mr. Drews also described how the PBRC Plan reduces regulatory and rate case expense. The external costs incurred by the Company in last year's PBRC Plan Cause No. PUD 201800029, beginning with preparation of the filing through the hearing on the merits and the Administrative Law Judge ("ALJ") Report, but excluding activity caused by the OAG filing of exceptions to the ALJ Report, were approximately $141 thousand. This cost is on the high side for a PBRC Plan proceeding because of the complexity and litigation of the tax issues caused by the Tax Cuts and Jobs Act of 2017. Nevertheless, this cost for a complex PBRC Plan proceeding was still much cheaper than the costs for a general rate case. For comparison, Mr. Drews presented evidence that a reasonable minimum range of general rate case external costs are approximately $1.0-$1.6 million, far in excess of the cost of a PBRC Plan review.

Going forward, a requirement of a general rate case instead of a PBRC Plan review would significantly increase the Company's regulatory expense. The 2018 Test-Year average number of Oklahoma customers was 98,404. Hence, the minimum cost of single general rate case to each CenterPoint Oklahoma customer would be between $10.16 to $16.26 versus approximately $1.43 per customer for a complex PBRC Plan proceeding. Any issue considered in a general rate case can be considered, and many have, in the annual PBRC Plan proceeding. Therefore, the cost of a general rate case produces no benefit to customers under these circumstances and should not be required.

The proposed PBRC Plan calculations show an adjusted net income of approximately $2 million and an adjusted earned return on equity of 5.76% for the 2018 Test-Year. As a result, CenterPoint Oklahoma seeks to implement a base revenue increase in the aggregate amount of $1,979,801. In 2019, approximately 37% of this base revenue increase will be offset by the EDIT credit of $726,161 returned to customers in April 2019. The Company's AMAs in effect during the 2018 Test-Year saved customers money by reducing the Company's base revenue requirements by $410,530. The base revenue increase is to be allocated 70% or $1,385,861 to the Residential (RS-1) class, 14% or $277,172 to the General Service (GS-1) class, 13% or $257,374 to the Commercial Service (CS-1 and CS-NGV) classes, and 3% or $59,394 to the Large Commercial Service (LCS-1) class.

Mr. Drews described the primary drivers of the increase: (1) lower than authorized base revenues; (2) a higher rate base; and (3) increases in expenses for operations and taxes other than income. The primary cause of lower base revenue was regulatory lag. The Company did not receive much of the $5.4 increase the Commission approved last year because the revenue increase was implemented with only two and a half months left in the year. Nevertheless, all other costs considered, the Company's financial performance was still better than anticipated.

Customer attrition also improved in the 2018 Test-Year. The Company lost the fewest number of customers during 2018 than in the last eight years. The Company gained commercial and industrial customers and lost just 152 or 0.2% of its residential customers.

With respect to the increase in rate base, the Company continues to make significant investments in its Oklahoma distribution system for maintenance and system improvement in order to continue to provide safe and reliable natural gas service to its customers. During 2018, the Company added or replaced approximately $3.4 million of distribution mains, with approximately $3.0 million of that amount related to system maintenance/rehabilitation and public improvements. The Company's investment in its Oklahoma infrastructure benefits customers because it results in more efficient, safe, and reliable natural gas service throughout its Oklahoma service area.

Adjusted operations expenses increased only 1.4% in 2018. This is less than the annual rate of inflation of 1.9% as measured by the Consumer Price Index.

The Company's overall level of employee compensation, including its Short-Term Incentive ("STI") Plan and Long-Term Incentive ("LTI") Plan expenses, is reasonable, market-based, and necessary to attract, retain, and motivate qualified employees required to provide safe and reliable natural gas service. Moreover, full recovery of the STI and LTI expenses should be approved because of the substantial alignment of interest between the Company, its shareholders, and its customers due to the unique combination of the Company's PBRC Plan and Asset Management Agreement.

The Company conducted a comprehensive review of the Company's cost of long-term debt pursuant to the Commission's order in Cause No. PUD 201800029. The review results in the revised cost of long-term debt of 5.21% that is used in the Company's PBRC Plan calculations.

The Company returned credits of $726,161 to customers in April 2019 due to the EDIT credits resulting from the Tax Cuts and Jobs Act of 2017. This amount, comprised of the Protected and Unprotected EDIT annual amortization and the true-up of the 2018 Unprotected EDIT refund, are allocated to the rate classes in the following amounts:

- RS-1 $508,312 or $5.79 per customer
- GS-1 $101,663 or $10.60 per customer
- CS-1 & CS-NGV $94,401 or $93.46 per customer
- LCS-1 $21,785 or $947.17 per customer

According to the Company's PBRC Plan, certain EE rate adjustments are to be implemented in connection with the Company's annual PBRC Plan filing. The Company presents its annual True-up Adjustment and a Utility Incentive Adjustment. These adjustments result in changes to base rates in the amount of $(0.0196)/Ccf for the Residential class, $(0.0426)/Ccf for the General Service class, $(0.0166)/Ccf for the Commercial Service class sales service customers, $(0.1586)/MMBtu for the Commercial Service class transportation service customers, and $0.1275/MMBtu for the Large Commercial Service customers who choose to participate in the energy efficiency program. The EE rate adjustments are not applicable to the Commercial NGV rate class nor the Large Commercial Service sales customers.

In his rebuttal testimony, Mr. Drews explained that the Company agrees with and recommends approval of the amended aggregate base revenue increase of $1,943,367, the resulting rate class base revenue, customer charge, and first block volumetric rate increases recommended by PUD, as contained in the PUD Amended Revenue Requirement Exhibit filed on May 31, 2019. He also explained that the Company agrees with and recommends for approval the EE adjustment to base rates discussed in PUD witness Kathy Champion's responsive testimony and shown in the Appendix 2 of the PUD Amended Revenue Requirement Exhibit filed on May 31, 2019.

Mr. Drews rebutted the recommendation of Mr. Bohrmann on behalf of the Oklahoma Attorney General ("OAG") regarding the Company's incentive compensation. He explained that the Commission should reject the OAG's recommendation to disallow incentive compensation expense because (1) the Company's unique combination of its PBRC Plan and its AMA, (2) the Company's overall level of compensation is reasonable, market-based, and required to attract, retain, and motivate qualified employees, (3) the Company's STI and LTI plans promote safety, operations performance, and financial performance, and (4) the interests of the Company's shareholders, employees, and customers remain substantially aligned.

Mr. Drews also explained why the Commission should reject Mr. Bohrmann's recommendation to adjust PBRC Plan operating revenues by effectively annualizing any customer charge increases from the prior test-year in those years in which the Company requires a PBRC Plan base revenue increase. This is a variation of the OAG's proposals in the 2017 and 2018 PBRC Plan proceedings to annualize authorized base revenue changes and should be rejected as were those prior proposals. Mr. Bohrmann's recommendation is unsound regulatory policy because it would force the Company to recognize potentially millions of dollars in hypothetical revenues that the Company never receives and never will receive. That result would deprive the Company of a reasonable opportunity to earn a fair return. His proposal is also contrary to the PBRC Plan goal of regulatory efficiency.

Mr. Drews also testified that Mr. Bohrmann's conclusion regarding the Company's efficiency through the years relies on uninformed and faulty analysis and attacks the Commission's prior PBRC Plan decisions and orders. As a result, his analysis and conclusion are invalid and should be rejected.

Lastly, Mr. Drews generally agreed with PUD witness Isaac D. Stroup's proposal regarding items not reviewed every year pursuant to the PBRC Plan. Mr. Drews explained that if a party proposes to review a rate element that is not reviewed annually under the PBRC Plan, such as return on equity or depreciation rates, then that party should raise the issue for consideration during the previous year's PBRC Plan proceeding.

CERTIFICATE OF SERVICE

I hereby certify that on the 26th day of June, 2019, a full, true, and correct copy of the above and foregoing instrument was served on the following persons by **ELECTRONIC MAIL** to:

Brandy L. Wreath
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OKLAHOMA CORPORATION COMMISSION
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Curtis M. Long

Attachment "C"

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP D/B/A CENTERPOINT ENERGY OKLAHOMA GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018	)	**CAUSE NO. PUD 201900019**

FILED
MAY 31 2019
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

GREAT SEAL OF THE STATE OF OKLAHOMA
1907

PUD AMENDED REVENUE REQUIREMENT EXHIBIT

MAY 31, 2019

PREPARED BY:
ZACHARY QUINTERO

CenterPoint Energy Oklahoma Gas
Index to PUD's Amended Revenue Requirement Exhibit
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

Sch. A-1

CenterPoint Energy Oklahoma Gas
PUD Total Company Revenue Requirement (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

Line No.	Description	(A) Company Amount	(B) PUD Adjustments	(C) PUD PBRC Amount
1	Rate Base	$ 62,915,290	$ (109,532)	$ 62,805,758
2	Rate of Return	7.84%		7.84%
3	Operating Income Required (Line 1 x Line 2)	$ 4,932,559		$ 4,923,971
4	Actual Operating Income	$ 3,462,337	$ 18,468	$ 3,480,805
5	Return Excess (Deficiency) (Line 4 - Line 3)	$ (1,470,222)		$ (1,443,166)
6	Income Tax Gross-Up Factor	1.3466		1.3466
7	Calculated Base Rate Revenue (Deficiency)	$ (1,979,801)		$ (1,943,367)
8	PBRC Distribution to Ratepayers (75%) + AMA Revenue			
9	PBRC Distribution to Company (25%)			
	Revenue Requirement			
10	Return Requirement (Line 3)	$ 4,932,559		$ 4,923,971
11	Income Tax Gross Up (Line 5 - Line 7)	$ 509,579		$ 500,201
12	Expenses	$ 38,101,816	$ (18,468)	$ 38,083,348
13	Base Rate Revenue Requirement (Line 10 + 11 + 12)	$ 43,543,954		$ 43,507,520

Sch. B-1

CenterPoint Energy Oklahoma Gas
PUD Rate Base (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

Line No.	(A) Description		(B) Company Rate Base		(C) PUD Adjustments		(D) PUD Adjusted Rate Base
	Plant in Service:						
1	Plant in Service	$	208,161,653	$	(109,532)	$	208,052,121
2	Construction Work in Progress	$	4,074,939		-		4,074,939
3	Less: Accumulated Depreciation	$	(128,795,329)		-		(128,795,329)
4	Net Plant	$	83,441,263	$	(109,532)	$	83,331,731
	Other Rate Base Investments:						
5	Prepayments - Gas	$	157,587	$	-	$	157,587
6	Materials & Supplies	$	432,088		-		432,088
7	Current Gas in Storage	$	1,674,868		-		1,674,868
8	Other Regulatory Assets	$	-		-		-
9	Total Investment	$	85,705,808	$	(109,532)	$	85,596,274
	Deductions:						
10	Customer Deposits	$	(2,095,648)	$	-	$	(2,095,648)
11	Customer Advances	$	-		-		-
12	ACC Deferred Income Tax	$	(12,125,294)		-		(12,125,294)
13	Other Regulatory Liabilities	$	(8,569,574)		-		(8,569,574)
14	Total Rate Base	$	62,915,290	$	(109,532)	$	62,806,758

Sch. B-2

CenterPoint Energy Oklahoma Gas
PUD Adjustments to Rate Base (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

	(A)	(B)	(C)	(D)	(E)
Line No.	Description	Company Rate Base	PUD Adjustment No. 1	Total Adjustments	PUD Rate Base
	Plant in Service:				
1	Plant in Service	$ 208,161,653	$ (109,532)	$ (109,532)	$ 208,052,121
2	Construction Work in Progress	4,074,939	-	-	4,074,939
3	Less: Accumulated Depreciation	(128,795,329)	-	-	(128,795,329)
4	Net Plant	$ 83,441,263	$ (109,532)	$ (109,532)	$ 83,331,731
	Other Rate Base Investments:				
5	Prepayments - Gas	$ 157,587	$ -	$ -	$ 157,587
6	Materials & Supplies	432,088	-	-	432,088
7	Current Gas in Storage	1,674,868	-	-	1,674,868
8	Other Regulatory Assets	-	-	-	-
9	Total Investment	$ 85,705,806	$ (109,532)	$ (109,532)	$ 85,596,274
	Deductions:				
10	Customer Deposits	$ (2,095,648)	$ -	$ -	$ (2,095,648)
11	Customer Advances	-	-	-	-
12	ACC Deferred Income Tax	(12,125,294)	-	-	(12,125,294)
13	Other Regulatory Liabilities	(8,569,574)	-	-	(8,569,574)
14	Total Rate Base	$ 62,915,290	$ (109,532)	$ (109,532)	$ 62,805,758

Sch. B-3

CenterPoint Energy Oklahoma Gas
Explanation of PUD Adjustments to Rate Base (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

			(A)	(B)
			Impact on Rate Base	
Adj. No.	Witness	Adjustment Description	Increase	(Decrease)
B-1	Melvin	Remove Non-Jurisdictional Costs from Plant in Service		$ (109,532)
		Total	$ -	$ (109,532)

Sch. F-1

CenterPoint Energy Oklahoma Gas
Capital Structure (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

Line No.	(A) Description	(B) Capitalization Ratios	(C) Cost of Capital	(D) Weighted Cost of Capital	(E) Income Tax Gross Up Factor	(F) Weighted Cost of Capital with Income Tax
I	Stipulated Allowed Return on Equity based on PUD 201600094					
1	Long Term Debt	45.00%	5.21%	2.34%	1.00000	2.34%
	Equity:					
2	Equity Units	0.040%	4.90%	0.00%	1.34660	0.00%
3	Common Stock	54.96%	10.00%	5.50%	1.34660	7.41%
4	Total	100.00%		7.84%		9.75%
II	Maximum Allowed Return on Equity based on PBRC Tariff					
1	Long Term Debt	45.00%	5.21%	2.34%	1.00000	2.34%
	Equity:					
2	Equity Units	0.040%	4.90%	0.00%	1.34660	0.00%
3	Common Stock	54.96%	10.50%	5.77%	1.34660	7.77%
4	Total	100.00%		8.11%		10.11%
III	Calculation of Earned Return on Equity (ER)					
1	Long Term Debt	45.00%	5.21%	2.34%	1.00000	2.34%
	Equity:					
2	Equity Units	0.040%	4.90%	0.00%	1.34660	0.00%
3	Common Stock	54.96%	5.87%	3.23%	1.34660	4.34%
4	Total	100.00%		5.57%		6.68%

Sch. H-1

CenterPoint Energy Oklahoma Gas
PUD Operating Income Statement (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2016

Line No.	(A) Description	(B) Company Adjusted Operating Income	(C) PUD Adjustments	(D) PUD Adjusted Amounts	(E) PUD Recommended Rate Change	(F) PBRC Results
	Operating Revenues:					
1	Residential	$ 27,235,408	$ -	$ 27,235,408	$ 1,380,357	$ 28,615,765
2	Commercial/Industrial	$ 10,321,394	-	10,321,394	583,010	10,904,404
3	Transportation Revenues	$ 2,667,681	-	2,667,681	-	2,667,681
4	Sub Total	$ 40,224,483	$ -	$ 40,224,483	$ 1,963,367	$ 42,187,850
	Other Utility Revenues:					
5	Gas Forfeited Discounts	$ 281,841	$ -	$ 281,841	$ -	$ 281,841
6	Gas Misc Service Revenue	$ 852,240	-	852,240	-	852,240
7	Other Gas Revenues	$ 205,589	-	205,589	-	205,589
8	Sub Total	$ 1,339,670	$ -	$ 1,339,670	$ -	$ 1,339,670
9	Total Operating Revenue	$ 41,564,153	$ -	$ 41,564,153	$ 1,963,367	$ 43,527,520
	Operating Expenses					
10	Cost of Gas	$ -	$ -	$ -	$ -	$ -
11	Operations Expenses	$ 25,694,329	$ (25,758)	25,668,571	-	25,668,571
12	Depreciation and Amortization Expense	$ 9,317,307	$ -	9,317,307	-	9,317,307
13	Taxes Other Than Income Taxes	$ 2,200,365	$ -	2,200,365	-	2,200,365
14	Income Tax	$ 689,615	$ 7,290	662,525	500,223	1,162,748
15	Total Operating Expenses	$ 38,101,816	$ (18,468)	$ 38,068,768	$ 500,223	$ 38,568,991
16	Operating Income:	$ 3,462,337	$ 18,468	$ 3,495,385	$ 1,443,144	$ 4,938,528
17	Interest Cost	1,472,218	(2,583)	1,469,655	-	1,469,655
18	Net Operating Income	$ 1,990,119	$ 21,031	$ 2,025,730	$ 1,443,144	$ 3,468,873
19	Total Equity	$ 34,578,243		$ 34,518,045		$ 34,518,045
20	Return on Equity (Line 18 / Line 19)	5.76%		5.87%		10.05%

CenterPoint Energy Oklahoma Gas
PUD Operating Income Statement Adjustments (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2019

Line No.	(A) Description	(B) Company Adjusted Op. Inc.	(C) PUD Adjustment No.1	(D) PUD Adjustment No. 2	(E) Total Adjustments	(F) PUD Adjusted Op. Inc.
	Operating Revenues:					
1	Residential	$ 27,235,408			$ -	$ 27,235,408
2	Commercial/Industrial	10,321,394			-	10,321,394
3	Transportation Revenues	2,667,681			-	2,667,681
4	Sub Total	$ 40,224,483			$ -	$ 40,224,483
	Other Utility Revenues:					
5	Gas Forfeited Discounts	$ 281,841			$ -	$ 281,841
6	Gas Misc Service Revenue	852,240			-	852,240
7	Other Gas Revenues	205,589			-	205,589
8	Sub Total	$ 1,339,670			$ -	$ 1,339,670
9	Total Operating Revenue	$ 41,564,153			$ -	$ 41,564,153
	Operating Expenses					
10	Cost of Gas	$ -			$ -	$ -
11	Operations Expenses	25,894,329	(4,576)	(21,183)	(25,758)	25,868,571
12	Depreciation and Amortization Expense	9,317,307			-	9,317,307
13	Taxes Other Than Income Taxes	2,200,365			-	2,200,365
14	Income Tax	689,815			7,290	697,105
15	Total Operating Expenses	$ 38,101,816			$ (18,468)	$ 38,083,348

Sch. H-3

CenterPoint Energy Oklahoma Gas
Explanation of PUD Adjustments to the Operating Income Statement (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

			(A)	(B)
			Impact on Net Operating Income	
Adj. No.	Witness	Adjustment Description	Increase	(Decrease)
H-1	McKay	Remove Advertising Expenses		$ (4,575)
H-2	McKay	Remove Dues, Donations, Contributions, and Membership Expneses		(21,183)
		Total	$ -	$ (25,758)

Sch. J-1

CenterPoint Energy Oklahoma Gas
PUD Calculation of Review Period Taxable Income (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

Line No.	(A) Description	(B) Company Adjusted Tax	(C) PUD Adjustments	(D) PUD Adjusted Tax	(E) Recommended Increase	(F) Adjusted Tax After Increase
1	Operating Income Before Income Taxes	$ 4,152,152	$ 25,758	$ 4,177,910	$ 1,943,367	$ 6,121,277
2	Increase (Decrease) in Taxable Income Interest on Long Term Debt	$ (1,472,218)	$ 2,563	(1,469,655)	-	(1,469,655)
3	Subtotal	$ 2,679,934	$ 28,321	$ 2,708,255	$ 1,943,367	$ 4,651,622
4	Taxable Income	$ 2,679,934	-	$ 2,708,255	$ 1,943,367	$ 4,651,622
5	State Effective Tax Rate	6.00%		6.000%	6.000%	6.000%
6	State Income Tax (Line 4 * Line 5)	$ 160,796	$ 1,699	$ 162,495	$ 116,602	$ 279,097
7	Federal Taxable Income (Line 4 - Line 6)	$ 2,519,138		$ 2,545,760	$ 1,826,765	$ 4,372,525
8	Federal Tax Rate	21.00%		21.000%	21.000%	21.000%
9	Federal Income Tax (Line 7 * Line 8)	$ 529,019	$ 5,591	$ 534,610	$ 383,621	$ 918,230
10	Total Income Taxes (Line 6 + Line 9)	$ 689,815	$ 7,290	$ 697,105	$ 500,223	$ 1,197,327
11	Plus: Amortization	$ -	$ -	$ -	$ -	$ -
12	Total Income Taxes (Line 10 + Line 11)	$ 689,815	$ 7,290	$ 697,105	$ 500,223	$ 1,197,327

Sch. J-2

CenterPoint Energy Oklahoma Gas
Interest Synchronization Calculation (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

Line No.	(A) Description		(B) Company Amount
1	Rate Base	$	62,805,758
2	Weighted Cost of Debt		2.34%
3	Interest on Debt (Line 1 * Line 2)	$	1,469,655

CenterPoint Energy Oklahoma Gas
Calculation of Over/(Under) Earnings (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

Line No	(A) Description		(B) Amount
1	Maximum Revenue requirement	$	43,507,520
2	Adjusted total Revenues	$	41,564,153
3	Over/(Under) Earnings (line 2 less line 1)	$	(1,943,367)
4	Removal of AMA Revenues to Customer (Account 443013) if line 3 is > 0	$	-
5	PBRC Over/(Under) Earnings (line 3 less line 4)	$	(1,943,367)
6	PBRC distribution to Ratepayers (75%) (line 5 * .75)		
7	PBRC distribution to Company (25%) (line 5 *.25)		
8	Over/(Under) Earnings (line 6 + line 7)	$	-
9	Addition of AMA Revenues to Customer (Account 443013)		-
10	Total distribution (PBRC + AMA) to Ratepayers (line 6 + line 9)	$	-
	Allocation to Rate Customer Classes:		
11	Residential 70% (-line 3 *.70)	$	1,360,357
12	GS 14% (-line 3 * .14)	$	272,071
13	CS 13% (-line 3 * .13)	$	252,638
14	LCS 3% (-line 3 * .03)	$	58,301
15	Total Increase to Ratepayers	$	1,943,367
	Commercial / Industrial Allocation	$	583,010

CenterPoint Energy Oklahoma Gas
Tariff Calculation (Amended)
Cause No. PUD 201900019
Twelve Months Ended December 31, 2018

	(A)	(B)	(C)	(D)	(E)	(F)
Line No	Description	Residential RS-1	General Service GS-1	Commercial Service CS-1, CS-NGV, &TSO	Large Commercial Service LCS-1	Total
1	Change based on 2017 Test Year	$ 1,360,387	$ 272,071	$ 252,638	$ 58,301	$ 1,943,387
2	50% in Monthly Customer Charge (Line 1 * 50%)	$ 680,179	$ 136,036	$ 126,319	$ 29,151	$ 971,685
3	# of Bills	1,053,352	115,096	12,120	276	
4	Increase per bill (Line 2 / Line 3)	$ 0.6500	$ 1.1800	$ 10.4200	$ 105.6200	
5	Effective Increase - Customer Charge (Line 3 * Line 4)	$ 684,679	$ 135,813	$ 126,290	$ 29,151	$ 975,034
6	Remaining Customer Charge Amount to be Collected through 1st Block (Line 2 - Line 5)	$ (4,500)	$ 223	$ 29	$ (0)	$ (4,249)
7	50% in Commodity Rate of 1st Block (Line 1 - Line 2 + Line 6)	$ 675,678	$ 136,258	$ 126,348	$ 29,150	$ 967,433
8	Applicable Ccf in 1st Block	8,787,852	4,945,288	341,484	4,781,873	
9	Increase per Ccf in 1st Block (Line 7 / Line 8)	$ 0.0769	$ 0.0278	$ 0.3700	$ 0.0061	
10	Effective Increase - 1st Block (Line 8 x Line 9)	$ 675,788	$ 136,490	$ 126,349	$ 29,046	$ 967,673
11	Total Rate Increase Proof (Line 5 + Line 10)	$ 1,360,467	$ 272,303	$ 252,639	$ 58,197	$ 1,943,607
12	Excess/(Deficient) Revenue (Line 11 - Line 1)	$ 110	$ 232	$ 1	$ (104)	$ 240

	Commercial
Sales rate increase	$ 0.3700
mcf rate	3.7
Btu factor	1.05
MMBtu rate increase	3.5238

CenterPoint Energy Oklahoma Gas
Excess ADIT Credit Appendix 1 (Amended)
Cause No. PUD 201800016
Twelve Months Ended December 31, 2018

Line No	(A) Description	(B) Reference	(C) Residential		(D) GS		(E) CS		(F) LCS		(G) Total	
1	Approved PBRC Revenue Allocation	CenterPoint Tariff - Sheet No. 3-5.3/21		70%		14%		13%		3%		100%
2	Estimated Protected Excess ADIT*	Drews Direct Testimony - Page 42	$	(352,746)	$	(70,549)	$	(65,510)	$	(15,116)	$	(503,921)
3	Unprotected Excess ADIT*	Drews Direct Testimony - Page 42	$	(155,568)	$	(31,114)	$	(28,891)	$	(6,667)	$	(222,240)
4	Total Estimated Amortization	Line 1 + 2	$	(508,313)	$	(101,663)	$	(94,401)	$	(21,785)	$	(726,161)
5	# of Bills / 12	2018 Filing Schedules - Tariff Calculation		87,779		9,591		1,010		23		
6	Estimated Annual Credit	Line 4 / Line 5	$	(5.79)	$	(10.60)	$	(93.47)	$	(947.17)		

CenterPoint Energy
Oklahoma Division
PUD Adjusted Energy Efficiency Appendix 2 (Amended)
Test Year Ended December 31, 2018

Line No.	(A)	(B) TOTAL	(C) Res	(D) GS-1	(E) CS-1	(F) LCS-1
1	Budgeted Energy Efficiency Program Costs - Current Period	$ 2,832,492	$ 1,916,558	$ 452,841	$ 410,171	$ 52,921
2	Projected Volumes - Ccf		$ 48,455,827	$ 11,935,102	$ 20,233,374	
3	Projected Volumes - MMBtu				$ 2,105,294	$ 1,238,325
4	Current Year Unadjusted Rate - $/Ccf		$ 0.0413	$ 0.0379	$ 0.0203	
5	Current Year Unadjusted Rate - $/MMBtu				$ 0.1947	$ 0.0427
6	PUD Adjusted Utility Incentive	$ 231,549	$ 147,803	$ 31,946	$ 22,824	$ 28,976
7	New Incentive Rate - $/Ccf		$ 0.0032	$ 0.0027	$ 0.0011	$ -
8	New Incentive Rate - $/MMBtu				$ 0.0108	$ 0.0234
9	Prior Incentive Rate - $/Ccf (Informational Only)		$ 0.0042	$ 0.0046	$ 0.0026	$ -
10	Prior Incentive Rate - $/MMBtu (Informational Only)				$ 0.0244	$ 0.0105
11	Incentive True-up (Over)/Under	$ 112,125	$ 82,370	$ (50,648)	$ 80,401	
12	New (Over)/Under Incentive Rate - $/Ccf		$ 0.0018	$ (0.0042)	$ 0.0040	
13	New (Over)/Under Incentive Rate - $/MMBtu				$ 0.0382	$ -
14	Prior (Over)/Under Incentive Rate - $/Ccf (Informational Only)		$ 0.0025	$ 0.0028	$ 0.0037	
15	Prior (Over)/Under Incentive Rate - $/MMBtu (Informational Only)				$ 0.0358	$ -
16	Program Costs True-up (Over)/Under	$ (1,342,347)	$ (1,063,404)	$ (98,154)	$ (331,946)	$ 151,158
17	New (Over)/Under Program Costs Rate - $/Ccf		$ (0.0220)	$ (0.0082)	$ (0.0164)	
18	New (Over)/Under Program Costs Rate - $/MMBtu				$ (0.1576)	$ 0.1221
19	Prior (Over)/Under Program Costs Rate (Informational Only) - $/Ccf		$ (0.0053)	$ 0.0203	$ (0.0023)	
20	Prior (Over)/Under Program Costs Rate (Informational Only) - $/MMBtu				$ (0.0215)	$ 0.0100
21	Total Recoverable Energy Efficiency Amount	$ 1,833,819	$ 1,093,328	$ 335,987	$ 161,452	$ 233,052
22	New Total Effective Energy Efficiency Rate - $/Ccf		$ 0.0234	$ 0.0282	$ 0.0080	$ -
23	New Total Effective Energy Efficiency Rate - $/MMBtu				$ 0.0881	$ 0.1882
24	Prior Total Effective Energy Efficiency Rate - $/Ccf (Informational Only)		$ 0.0425	$ 0.0704	$ 0.0255	$ -
25	Prior Total Effective Energy Efficiency Rate - $/MMBtu (Informational Only)				$ 0.2432	$ 0.0573
26	Energy Efficiency Rate Adjustment to Base Rates - $/Ccf		$ (0.0191)	$ (0.0422)	$ (0.0165)	$ -
27	Energy Efficiency Rate Adjustment to Base Rates - $/MMBtu				$ (0.1571)	$ 0.1309

CERTIFICATE OF ELECTRONIC SERVICE

I, the undersigned, do hereby certify that on the 31st day of May, 2019, a true and correct copy of the above and foregoing was sent electronically to:

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