Susan Johnson
CSR
Exhibit 3
Date: 8-17-2021

BEFORE THE CORPORATION COMMISSION 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, 2016	)	CAUSE NO. PUD 201700078 ORDER NO. 669205

FINAL ORDER

HEARINGS: Hearing on the Merits: June 29, 2017
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma
Before Ben Jackson, Administrative Law Judge

Hearing on Exceptions: October 3, 2017, in Courtroom 301
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105
Before the Commission *En Banc*

APPEARANCES: Curtis M. Long, Attorney *representing* CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Oklahoma Gas
Patrick Ahern, Assistant General Counsel, *representing* the Public Utility Division, Oklahoma Corporation Commission;
Dara M. Derryberry, Deputy Attorney General and Jared B. Haines, Assistant Attorney General, *representing* the Office of Attorney General, State of Oklahoma

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 29, 2017, the Commission's Administrative Law Judge ("ALJ") filed a Report of the Administrative Law Judge ("ALJ Report") on August 4, 2017, and appended hereto as Attachment 1. The ALJ Report sets out the procedural history of the Cause through the hearing on the merits.

On August 18, 2017, the Attorney General timely filed Exceptions and a Motion for Oral Argument. Both matters were noticed for hearing October 3, 2017.

On August 18, 2017, CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint Oklahoma") filed its Request for Corrections to Report of the Administrative Law Judge, setting out corrections to scrivener's errors CenterPoint Oklahoma identified in the ALJ Report. No party objected to these corrections.

On August 25, 2017, the Public Utility Division 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.

On August 30, 2017, without objection, CenterPoint Oklahoma 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, subject to the corrections set out by its Request for Corrections previously filed.

On October 3, 2017, the Exceptions and the Motion for Oral Argument came on for consideration as specified in the notice. The Commission granted the Motion for Oral Argument and considered the arguments of counsel.

II. <u>SUMMARY OF EVIDENCE</u>

The Summary of Evidence is set forth in the ALJ Report as Appendix "A."

III. <u>FINDINGS OF FACT AND CONCLUSIONS OF LAW</u>

Based upon a review of the entire record in this Cause, including a thorough review of the evidence, Exceptions, responses to the Exceptions, and the arguments of counsel, the Commission finds and concludes as follows:

The Commission should and hereby does adopt and incorporate herein by reference the ALJ Report, *as modified and corrected below*:

a. The ALJ Report is hereby corrected as set out in the Request of CenterPoint Oklahoma filed August 18, 2017, to wit:

<u>Page 4 of 36</u>

Table D

- Residential Adjustment should be \$0.0069 (Ccf) instead of \$0.069 (Ccf)
- CS-NGV should be (MMBtu) instead of) MMBtu) -- backwards parenthesis.

Table E

- GS-1 Total Recoverable EE rate should be \$0.0486 (Ccf) instead of \$0.00486 (Ccf)
- CS-NGV Total Recoverable EE rate should be \$0.2470 (MMBtu) instead of \$0.02470 (MMBtu)

Page 5 of 36

Table F

- CS-1 increase should be $3.3684 per MMBtu instead of $3.4442 per MMBtu
- Number of customers in the middle of the page should be 98,784 instead of 100,204.

Page 19 of 36

Table H

- CS-1 and CS-NGV 1st Block increase should be $0.3555 (Ccf) and $3.3684 (MMBtu)

Table I

- Residential EE adjustment should be $0.0069 (Ccf) instead of $0.069 (Ccf)

Table J

- GS-1 Total Recoverable EE rate should be $0.0486 (Ccf) instead of $0.00486
- CS-NGV Total Recoverable EE rate should be $0.2470 (MMBtu) instead of $0.02470 (MMBtu)

Table K

- CS-1 rate per MMBtu should be $3.3684 instead of $3.4442

b. The Commission further finds that CenterPoint Oklahoma's PBRC Plan process is governed by the tariff approved by this Commission, and not by 17 OKLA. STAT. §152(B)(4) relating to interim rates. The 180-day period specified by the statute does not apply in this Cause. The Commission therefore rejects the discussion on page 6 of the ALJ report under the heading "180 Day Deadline."

c. The Commission declines to adopt the second full sentence on page 20 of the ALJ Report. Further, the Commission reaches its decision in this Cause fully aware of the periodic general rate case filings required for Oklahoma Natural Gas Company as stipulated in Cause No. PUD 201500213 and approved by the Commission in Order No. 648326. The stipulated result in that Cause does not bind the Commission in resolving this Cause and the Commission reaches its decision herein by relying on the record as applicable to CenterPoint Oklahoma.

ORDER

IT IS THEREFORE THE ORDER OF THE OKLAHOMA CORPORATION COMMISSION that the ALJ Report, as modified and corrected above, is adopted as the Order of the Commission.

IT IS FURTHER ORDERED that CenterPoint Oklahoma submit to the director of the Public Utility Division a tariff consistent with the findings and conclusions herein. Upon approval of the tariff by the director of the Public Utility Division, the tariff shall become effective immediately, and the authorized rates and charges therein may be implemented beginning with the first regular billing cycle thereafter.

CORPORATION COMMISSION OF OKLAHOMA

Dana L. Murphy

DANA L. MURPHY, Chairman

J. TODD HIETT, Vice Chairman

Bob Anthony

BOB ANTHONY, Commissioner

DONE AND PERFORMED by the Commissioners participating in the making of this order as shown by their signatures above this 19th day of October 2017.

Seal

Peggy Mitchell

PEGGY MITCHELL, Commission Secretary

ATTACHMENT 1

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF	)	
CENTERPOINT ENERGY RESOURCES CORP.,	)	
D/B/A CENTERPOINT ENERGY OKLAHOMA	)	CAUSE NO. PUD 201700078
GAS, FOR APPROVAL OF ITS PERFORMANCE	)	
BASED RATE CHANGE PLAN CALCULATIONS	)	
FOR THE TWELVE MONTHS ENDED	)	
DECEMBER 31, 2016	)	

REPORT OF THE ADMINISTRATIVE LAW JUDGE

TABLE OF CONTENTS

Hearing Date and Appearances of Counsel

On June 29, 2017, Administrative Law Judge Ben Jackson ("ALJ") conducted a full evidentiary hearing on the Application. The hearing occurred in the Oklahoma Corporation Commission's ("Commission") Courtroom B, Jim Thorpe Building, Oklahoma City, Oklahoma. At the hearing, the following attorneys appeared: Curtis M. Long for CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint" or "Company"); Deputy Attorney General Dara M. Derryberry and Assistant Attorney General Jared B. Haines for Oklahoma Attorney General Mike Hunter ("AG"); and Assistant General Counsel Patrick M. Ahern for the Commission's Public Utility Division ("PUD"). Being fully advised of the premises, the ALJ finds:

Summary

The CenterPoint Application asks for the annual rate review of gas distribution services set by CenterPoint's Rider Schedule No. 5, entitled *Performance Based Rate Change Plan* ("PBRC"). The current proceeding involves a 2016 calendar year Test Year and considers PBRC calculations, resulting base rate increases, approval of CenterPoint's Energy Efficiency ("EE") rate adjustment, and adoption of new depreciation rates. In 2004, the Commission conducted the last general rate case and set up PUD's pilot program for the PBRC, which shifted regulation from the traditional cost of service/rate of return method to price cap regulation with financial incentives to control costs. Since 2010, when the PBRC became permanent, the annual review orders resulted from either settlements or ALJ report with limited protests. The current proceeding centers on two issues; namely incentive compensation and whether the Commission should require a general rate case next year or possibly the following year. Although CenterPoint and PUD propose one hundred percent recovery of short-term and long-term incentive compensation, the AG contends that CenterPoint should receive only one-half of short-term incentive compensation ("STI") and no long-term incentive compensation ("LTI"). Adjusted for payroll taxes, the STI disallowance amounts to \$443,884, and LTI is \$196,363, for a total disallowance of \$640,247. In support of the disallowance, the AG relies on a legal argument that he presented unsuccessfully in several prior annual reviews. In essence, the AG contends that incentive compensation has increased rates, does not reduce costs and fails to match Company performance. Based on the Commission's reasoning in prior performance based rate orders, the ALJ rejected the AG's argument on incentive compensation, because the Company met the PBRC goals for cost control, safety, reliability and customer service.

Next, the AG asks for a general rate case to commence during either calendar year 2018 or 2019. The PBRC does not provide for periodic general rate cases. In support of his proposal for a general rate case, the AG relies on the testimony of his accounting witness Edwin C. Farrar, CPA, who contends that the parties need a general rate case to get an accurate, comprehensive review of costs and the opportunity to understand why the Commission needs to abandon profit based incentives, which Mr. Farrar claims work against the ratepayers.

The ALJ finds that the AG emphasizes advantages of traditional regulation but fails to address its disadvantages discussed in Navarro, *The Simple Analytics of Performance-based Ratemaking: A Guide for the PBR Regulator*, 13 Yale Journal of Regulation 105, 108 (1996). According to Navarro, the premise for PBR is that under traditional, cost-plus, rate base regulation, utility managers not only fail to minimize costs but are encouraged to conceal the firm's true minimum cost curve. This is because rate base regulation creates perverse incentives which encourage managers to inflate the firm's operation and maintenance expenses, "gold plate" or over-invest in capital, avoid optimal risk–taking, and otherwise operate inefficiently.

The ALJ also finds that here a general rate case would be an unnecessary expense. The Commission has refined the PBR formula and process over twelve years. PUD conducts a full audit annually, and PUD performs a true-up annually. If the Company over-earns during any calendar year, the Commission cuts back earnings at the next annual review. The Commission set up the annual PBR review so that any party or intervener could raise any issue at any annual review. If the AG has any issue in addition to incentive compensation, he could have raised it during the current Application, or the AG can raise it in the next annual review. The AG asks the Commission to require the ratepayers to fund $1.6 million dollars for a general rate case, when the AG has not used the current procedure, which costs $176,000.

In any event, Table A below shows the positions of the parties on major issues. Tables B-E below show the proposed rate increases by customer class.

Table A
Final Position of Parties

Parties	CenterPoint	PUD	Attorney General	Attorney General Alt.	CenterPoint E/E	PUD E/E
Rate Base	$54,060,576	$54,060,576	$54.060.576	$54,060,576	See Tables D & E	See Tables D & E
Rate of Return	8.56%	8.56%	8.56%	8.56%		
Operating Income Required	$4,627,585	$4,627,585	$4,627,585	$4.627.585		
Actual Operating Income	$3,312,206*	$3,312,205	$3,898,622**	$3,952,452***		
Return Deficiency	($1,315,379)	($1.315,380)	($728,963)	($675,133)		
Income Tax True Up	1.6367	1.6367	1.6367	1.6367		
Calculated Rate Base Deficiency	($2.152,881)*	($2.152.881)	($1,193,094)**	($1,104,990)***		

* CenterPoint accepted three PUD adjustments removing a total of $53,830 in expenses.
** AG removed $640,247 total in expenses for short-term, long-term incentives and payroll.
*** If AG also accepts PUD adjustments in addition to AG recommendations.

Table B

Revenue Distribution by Customer Class

Residential (RS-1)	$1,507,017
Commercial (GS-1)	$ 301,403
Commercial (CS-1 & CS-NGV)	$ 279,875
Large Commercial (LCS1)	$ 64,586
TOTAL	**$2,152,881**

Table C

Increase To Base Rates

Customer Charge	1st block
$0.7100	$0.0828 (Ccf)
$1.34	$0.0354(Ccf)
$9.69	$3.442 (Mmbtu)
$117.00	$0.0071(Mmbtu)

Table D

Energy Efficiency Base Rate Adjustment

Residential (RS-1)	$0.069 (Ccf)
Commercial(GS-1)	$0.0311(Ccf)
Commercial(CS-1)	$0.0001(Ccf)
Commercial (CS-NGV)	$0.0010)Mmbtu)
Large Commercial (LCS-1)	$0.0021(Mmbtu)

Table E

Total Recoverable E/E rate

$1,942,876	$0.0402 (Ccf)
$ 493,753	$0.00486 (Ccf)
$ 571,088	$0.0261 (Ccf)
	$0.02470(Mmbtu)
$75,775	$0.0659 (Mmbtu)
TOTAL	**$3,083,492**

Table F shows the increase in base rates by customer class.

Table F
Increases in Base Rates by Customer Class

	Increase in Charges		
	Customer Charge	1st block CcF	Mmbtu
Residential	$0.7100	$0.0828	
GS-1	$1.34	$0.0354	
CS-1	$9.69	$0.3555	$3.4442
LCS-1	$117.00		$0.0071

Jurisdiction and Notice

The CenterPoint Application is the annual review of local distribution rates under CenterPoint's PBRC seen in Appendix B to this report. CenterPoint is an electric and natural gas utility, operating an electric transmission and distribution system in the Houston metropolitan area as well as natural gas distribution systems in Arkansas, Louisianan, Minnesota, Mississippi, Oklahoma and Texas. CenterPoint's Application involves rates for gas distribution in Oklahoma, where CenterPoint is the second largest gas utility serving approximately 100,204 end-use customers across northern, southwest and southeast Oklahoma. In the conduct of its business, CenterPoint owns, operates or manages plant and equipment for public use, to furnish natural gas to the public. As such, CenterPoint is a public utility as defined by 17 O.S. 2011 §151. CenterPoint's Application arises under Ok. Const. Art. IX, §§18,19 and 17 O.S. §§151 & 152, since it involves review and adjustment of rates for a public utility. In that regard, the Commission has jurisdiction of the subject matter and persons. Notice was given as required by law and Order No. 662564 (issued April 6, 2017), which set notice requirements for this Cause. After a full evidentiary hearing, the Commission has jurisdiction to issue a final order in this Cause.

Rate Increase Request

In its pleadings, CenterPoint proposed a rate increase of $2,201,633, which represents a six percent increase in base revenues, resulting in a bill increase of $1.46 per month for an average residential customer. During the current proceeding, CenterPoint agreed to PUD's adjustments which lowered the rate increase request to $2,152,881. The AG is the only party currently protesting the CenterPoint Application and the AG seeks to limit the rate increase to $1,512,634, based on the AG's proposed disallowance of $640,247 in incentive compensation.

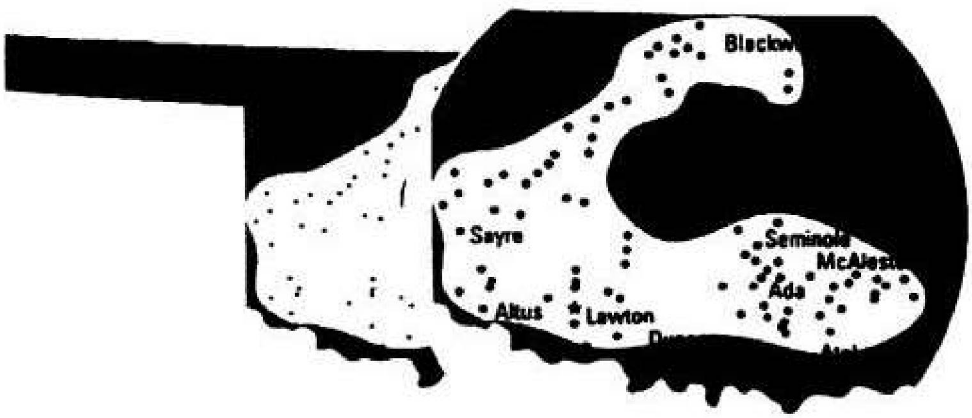
180 Day Deadline

Under 17 O.S. 2011 §152 B.4., CenterPoint may implement interim rates 180 days after filing of the Application. CenterPoint filed its Application (Exhibit No. 1) on March 15, 2017. The ALJ finds that the 180 day period ends on September 15, 2017.

Service Territory and Communities Served

Figure I below is a map of CenterPoint's service territory in Oklahoma, including a list of the communities that CenterPoint serves.

Figure 1
CenterPoint Service Territory Map



Ada	Hitchcock
Adamson	Hominy
Allen	Hunter
Altus	Hydro
Ames	Kingston
Apache	Kiowa
Arapaho	Krebs
Atoka	Lamont
Berlin	Lawton
Blackwell	Lehigh
Blair	Mangum
Bowlegs	Marlow
Braman	Martha
Burns Flat	Maud
Butler	McAlester

Byng
Cache
Canton
Canute
Centrahoma
Cheyenne
Chickasha
Coalgate
Comanche
Cromwell
Cushing
Custer City
Deer Creek
Delhi
Drummond
Duke
Duncan
Earlsboro
Elgin
Fairview
Fay
Fittstown
Fletcher
Francis
Garber
Geronimo
Gowen
Haileyville
Hammon
Hartshorne
Hinton
Medford
Nardin
Okeene
Olustee
Phillips
Pittsburg
Pocasset
Pond Creek
Sasakwa
Savanna
Sayre
Seminole
Sterling
Stonewall
Stratford
Stringtown
Stuart
Sweetwater
Talihina
Temple
Thomas
Tonkawa
Tupelo
Vance Air Force Base
Wardville
Watonga
Weatherford
Wilburton
Wolf
Wynona

Procedural History

On March 15, 2017, CenterPoint commenced this Cause by filing its Application (Exhibit No. 1). The Application and accompanying testimony of Mr. Burl M. Drews presented the PBRC Plan calculations for the Test Year which ended December 31, 2016. In its initial filing, CenterPoint also included the testimony of electrical engineer Dane A. Watson, in which Mr. Watson presented a depreciation study and recommended new depreciation rates for the Company.

Also on March 15, 2017, CenterPoint filed three motions: a Motion for Order Prescribing Notice, a Motion for Protective Order, and a Motion for Order Prescribing Procedural Schedule. Each motion was set for hearing before the ALJ on March 23, 2017, and each was heard and recommended on that date.

On March 20, 2017, the AG filed his Entry of Appearance.

On April 4, 2017, the Commission issued its Protective Order, Order No. 662416. On April 6, 2017, the Commission issued its Order Prescribing Procedural Schedule, Order No. 662563, in which the hearing on the merits was set for June 29, 2017, before the ALJ. Also on April 6, 2017, the Commission issued its Order Prescribing Notice of Hearing, Order No. 662564.

On May 19, 2017, the AG filed the Responsive Testimony of Edwin C. Farrar, CPA. Also on May 19, 2017, PUD filed the responsive testimonies of Geoffrey M. Rush, Elbert D. Thomas, David A. Melvin, McKlein Aguirre, Kathy Champion, Kiran Patel, Sharhonda N. Dodoo, James E. Mitschke, Amy Taylor and Robert C. Thompson, together with the PUD Accounting Exhibit.

On June 2, 2017, CenterPoint filed the Rebuttal Testimony of Burl M. Drews and his supporting exhibits.

On June 15, 2017, the parties filed summaries of the testimony of their respective witnesses. Also on June 15, 2017, the parties each filed their respective Exhibit Lists.

On June 29, 2017, the ALJ conducted a full evidentiary hearing on the record. At the close of the hearing, the ALJ took the matter under advisement and asked the parties to submit proposed Findings of Fact and Conclusions of Law by July 14, 2017. On July 14, 2017, each of the parties filed proposed Findings of Fact and Conclusions of Law.

Ratemaking Method

Ratemaking for a gas utility is done on two tracks: one for the company's margin (base rates) and another for its purchased gas costs and pipeline demand charges. The CenterPoint Application concerns only base rates, which are set by a formula in the price-cap plan. Unbundling of services is also a part of the regulatory scheme. CenterPoint's Transportation Services offer qualifying end-use commercial and industrial customers a choice for their natural gas supply. When enrolled in Transportation Services, end-use customers may select from a list of active, competitive natural gas suppliers, who use CenterPoint's natural gas distribution system to ship natural gas to the end-use customer's facility. This unbundling of commercial and industrial services is sometimes referred to as "partial gas restructuring".

Test Year

The annual review addresses operation of the PBRC for a Test Year described as calendar year 2016.

Legal Standards

17 O.S. §152 grants the Commission the power to fix rates and prescribe rules requiring the utility to furnish adequate service, without unjust discrimination and at lowest reasonable rates consistent with the public interest. *State v. Ok. Gas & Elec. Co.*, 1975 OK 40 ¶20, 536 P.2d 887 (1975).

Major Issues

The AG is the only party currently protesting the Application. PUD only asked for three adjustments totaling $48,752 for civic dues, advertising and customer deposits, and no one opposed any of those adjustments. There is no participation from any commercial or industrial stakeholder, presumably because of partial gas restructuring. Meanwhile, the AG's protest centers on two issues, namely, incentive compensation and whether a general rate case is needed to review CenterPoint's costs and operation of the PBR formula.

Summary of the Evidence

At the evidentiary hearing, the witnesses adopted their pre-filed testimony and gave trial testimony, all under oath. Appendix A contains the summaries of that testimony.

Public Comment

No one offered public comment.

Operation of the PBRC

1. Appendix B contains the tariff for the PBRC as last amended. The revenue requirement and customer survey appear in Exhibit BMD-1, attached to the Direct Testimony of Burl M. Drews.

2. The PBRC arose in Order No. 499253, the last general rate order, issued on December 28, 2004, in Cause No. PUD 200400187. That order is based on a Joint Stipulation and Settlement Agreement attached to the order. The order set up the pilot program for the PBRC. The pilot program lasted from December 29, 2004 (effective date of the Tariff) through 2009. The PBRC became permanent in 2010.

3. CenterPoint's hearing exhibits contain copies of the annual reviews for Test Years 2006-2014. The final orders include Order Nos. 528372, 541049, 556392, 568883, 576698, and 635795. Order No. 654461 was the annual review order for Test Year 2015, which resulted in a unanimous Joint Stipulation and Settlement Agreement.

4. In any event, the PBRC is a mechanism approved and supervised by the Commission, providing for an annual review and adjustment of rates depending on actual

operating results, with certain specified adjustments, as measured by return on equity ("ROE") for the most recent calendar year or Test Year. Any rate adjustment is dependent upon the revenue requirement determined using limited prescribed adjustments to actual operating results for the previous calendar Test Year. According to the PBRC, CenterPoint must file on or before March 15 of each year, calculations in specified format on schedules prescribed by the Commission, which are then subject to rigorous review by PUD and the AG. Upon review of the Company's calculations, PUD, the AG and any participating intervenors may propose adjustments customarily accepted for ratemaking purposes by the Commission. The final calculations and any rate change must be approved by the Commission.

5. According to the PBRC, the Company's calculations will result in an actual Earned Return on Equity ("ER") that is then compared to the Company's target Allowed Return on Equity ("AR") of 10.00 percent. If the ER is within a 100 basis point "dead-band" around the AR (50 basis points above and 50 basis points below), then rates do not change. If the calculated ER is below the lower limit of the dead-band, then base rates increase to prospectively target the Company's AR. If the ER is greater than the upper limit of the dead-band, then a credit is provided to customers, representing 75 percent of the earnings in excess of the allowed dead-band.

6. CenterPoint and its customers have all benefitted from the streamlined regulation of the PBRC Plan and the resulting cost efficiencies. Specifically, the PBRC encourages greater efficiency and performance by the Company due to revenue sharing for amounts earned above the upper limit of the dead-band. The PBRC also reduces the cost of serving customers through significantly lower rate case and regulatory expenses, thereby reducing rates below what customers would otherwise pay. The PBRC also accomplishes the regulatory goal of gradualism by providing the opportunity for more frequent but generally smaller changes in rates. The PBRC also results in closer supervision of CenterPoint by PUD and the Commission because the Company's financial performance is reviewed annually.

7. A very significant benefit of the PBRC arises from the return of credits to customers when the Company's earnings exceed the allowed ROE dead-band. The annual nature of the PBRC review provides assurance that all such surplus earnings will be shared by the Company with its customers, with customers receiving 75% of the earnings above the upper limit of the dead-band. The PBRC provides a mechanism to ensure that customers will receive the full amount of the credits. Under the traditional general rate case regimen, a utility may

economize and cut expenses immediately after the test year and to the extent the company is able to earn more than its allowed ROE, it will keep all those surplus earnings and share none of them with its customers. The PBRC prevents this from occurring because of the annual review of the Company's performance prescribed by the PBRC. As a result, all surplus earnings will be identified and shared by the Company with its customers through direct credits.

8. According to the undisputed evidence in this Cause, since the PBRC was first approved for CenterPoint, the Company has made four substantial PBRC refunds to its Oklahoma customers totaling approximately $4.4 million, representing the customers' 75 percent share of earnings above the allowed ROE dead-band. These funds are refunded to customers through direct credits. These refunds would not have been paid, but for the PBRC. *See*, Order No. 528372 in Cause No. PUD 200600062 ($877,039 refund); Order No. 556393 in Cause No. PUD 200800062 ($430,145 refund); Order No. 588757 in Cause No. PUD 201100056 ($1,243,673 refund); and Order No. 598447 in Cause No. PUD 201200036 ($1,856,433 refund).

9. Unlike the retrospective rate refunds provided to customers pursuant to the PBRC, rate increases are prospective only and CenterPoint can never recover the lost earnings when its ER is below the Allowed ROE. Even where the Commission authorizes a revenue increase, CenterPoint can never recover the lost earnings experienced during the Test Year. This is because any revenue increase required to bring the ER to the level of the AR is on a prospective basis and because the revenue increase is not effective until authorized by the Commission, normally in the second half of the year following the Test Year. The PBRC thus provides a disincentive for rate increases because the only basis for a rate increase is for the Company to under-earn during the Test Year, and the Company can never recover those losses. For example, in this Cause, the Company under-earned during the 2016 Test Year by approximately $2.15 million. The Company will never recover that loss.

10. Based on the uncontested calculations presented by PUD in this Cause, the ALJ finds that in the 2016 Test Year, the Company experienced an adjusted Earned Return on Equity of 5.58%, a return that was below the 9.50% lower limit of the ROE dead-band.

11. The ALJ further finds that the aggregate amount necessary to prospectively restore the Earned Return on Equity to the Allowed Return on Equity is $2,152,881. This revenue change incorporates all the adjustments proposed by PUD in this Cause.

12. The Performance Based Rate Change recommended here should be implemented prospectively, beginning with the first billing cycle after a Final Order issues in this Cause. As

required by Section 5.3.5 of the PBRC Plan, this aggregate revenue change should be allocated 70 percent to the Residential (RS-1) customer class, 14 percent to the General Service (GS-1) customer class, 13 percent to the Commercial Service (CS-1) customer class (including the subset of CS-NGV commercial service customers), and 3 percent to the Large Commercial Service (LCS-1) customer class in the following amounts: Residential (RS-1) $1,507,017; General Service (GS-1) $301,403; Commercial Service (CS-1, CS-NGV and TSO) $279,875; and Large Commercial Service (LCS-1) $64,586.

13. The PBRC base revenue increase recommended in this Cause represents an increase of less than six percent in base revenues and an average monthly increase for the average residential customer of less than $1.46. This estimate is based on the calculations initially proposed by CenterPoint and the adjustments recommended here by the ALJ reducing the increase in revenue from that originally sought by the Company.

14. The primary drivers of this increase are an increase in investment in plant, increases in depreciation and amortization expense associated with increased investment in plant, and a decrease in revenue. The Company continues to make significant investments in its distribution system for maintenance and system improvement in order to continue to provide safe and reliable natural gas service to its customers. During the 2016 Test Year, the Company added or replaced approximately $4.2 million of distribution mains, with approximately $3.6 million of that amount related to system maintenance/rehabilitation and public improvements. These investments by the Company benefit customers and the local economy by improving and maintaining the efficiency, safety, and reliability of the distribution system.

15. Moderating the effects of the rate increase to a material degree is the Company's innovative and voluntary Asset Management Agreement ("AMA").[1] No party disputed the financial benefits of the AMA to CenterPoint's customers. These benefits arise from both "off-system" revenue the Company shares with customers and a significant reduction in the Company's rate base because of the removal of the cost of gas in storage. The evidence is undisputed that the financial benefits from the AMA decreased the Company's revenue requirement (and the amount of the revenue increase) in this Cause by a total of $510,282. Since

[1] The AMA is a contract under which CenterPoint releases upstream pipeline natural gas transportation and storage capacity to a third party to manage gas storage, supply and delivery arrangements when the released capacity is not needed, to maximize the value of the upstream capacity. Gas in storage is removed from rate base and CenterPoint receives revenue from the third party, which the Company shares with its customers. The AMA was most recently approved by the Commission in Order No. 635795, issued in Cause No. PUD 201400291 on January 29, 2015.

first approved by the Commission in 2009, CenterPoint AMAs have resulted in aggregate savings to customers of more than $5.5 million.

16. No other rate-regulated utility in Oklahoma has implemented an AMA comparable to that of CenterPoint. The Company's combination of both the AMA and the PBRC Plan is unique in Oklahoma. The record evidence does not support the notion that other utilities are unable to implement such an agreement, as suggested by the witness for the AG. Regardless, the benefits to the Company's customers would be no less significant, even if CenterPoint were the *only* utility able to implement such an agreement. The evidence is clear that the AMA is voluntary, and that CenterPoint has not been and cannot be required to implement an AMA. The financial benefits resulting from this voluntary agreement are strong evidence that the interests of the Company and its customers are aligned.

17. The AMA with its financial benefits to customers is unique to CenterPoint, but is not the only example of the Company's efforts being beneficial to customers and the alignment of the interests of the Company and its customers. The Commission has approved other programs initiated by the Company to cut costs and improve the efficiency, safety and reliability of its services and to combat customer attrition and promote efficient use of natural gas. For example, Order No. 646583 entered in Cause No. PUD 201500118 (adopting ALJ Finding No. 23), approved programs to encourage the addition of new customers to the Company's system. *See also*, Order No. 657250 entered in Cause No. PUD 201600263, approving the Company's latest Energy Efficiency Plan. Other examples include the Commission's recognition of the Company's deployment of automated meter reading (reducing meter reading costs and increasing accuracy) and it's Customer Vision Program (creating more transparency and smoother customer interaction). *See*, Order No. 646583 entered in Cause No. PUD 201500118, ALJ Finding No. 10 adopted by the Commission. The Commission has also recognized the beneficial savings resulting from the Company's consolidation of its Oklahoma management and operating divisions. *See*, Order No. 588757 entered in Cause No. PUD 201100056, ALJ's Finding No. 9 adopted by the Commission. These efforts are encouraged by the PBRC Plan itself because surplus earnings from efficient operations with lower costs and increased revenue are shared between the Company and its customers.

Revenue Requirement

When CenterPoint filed its Application and Direct Testimony, it reported an adjusted return on equity of 5.48 percent and requested a rate increase of $2,201,633 to restore its return on equity to 10.00 percent. Drews, Direct Testimony pg. 6 lines 22–27, pg. 7 lines 10–16. No party disputed that CenterPoint is entitled to a rate increase, but PUD and the AG recommended adjustments reducing the magnitude of the rate increase.

Civic Dues, Advertising and Customer Deposits

Several PUD witnesses asked for adjustments to reduce the rate increase. First, McKlein Aguirre proposed disallowance of expenses related to civic dues, memberships, and donations in the amount of $41,534. Aguirre, Responsive Testimony pg. 6 lines 10– pg.7 line 18. This adjustment included sharing of some civic dues and disallowances of others depending on the purposes of the civic dues. No other party rebutted this adjustment, and CenterPoint's witness Burl M. Drews testified that CenterPoint did not oppose the adjustment. Drews, Rebuttal Testimony, pg. 35 lines 8–11. Second, Mr. Aguirre proposed disallowance of advertising and marketing expenses prohibited by Oklahoma law. Aguirre, Responsive Testimony pg. 8 lines 8–pg. 10 line 2. The amount of this adjustment reduced the rate increase by $6,518. No other party rebutted this adjustment, and CenterPoint's witness Mr. Drews also testified that CenterPoint did not oppose the adjustment. Drews, Rebuttal Testimony, pg. 35 lines 8–11. Third, Elbert D. Thomas proposed an increase to customer deposits in the amount of $5,778. Thomas, Responsive Testimony pg. 8 lines 11–13. Mr. Thomas stated that PUD independently calculated a thirteen-month average balance for customer deposits using Company data and found that CenterPoint had understated the balance by $5,778. Thomas, Responsive Testimony pg 7 lines 18–19. No other party rebutted this adjustment, and Mr. Drews stated CenterPoint did not oppose the adjustment. Drews, Rebuttal Testimony pg. 35 lines 13–16. An increase in customer deposits offsets rate base, reducing customer rates. The adjustments are supported by competent evidence and were not rebutted or opposed by any party, including the Company. These adjustments cumulatively reduce the rate increase from CenterPoint's initial request by $48,752 to $2,152,881. *See* PUD Accounting Exhibit, Sched. A-1, (C)(7). The ALJ recommends that the Commission adopt the foregoing adjustments proposed by PUD.

Incentive Compensation

1. Through accounting witness Edwin C. Farrar, the AG proposed two adjustments: (1) disallow half of Short Term Incentive ("STI") Compensation in the amount of $443,884 (including the resulting reduction in payroll tax); and (2) disallow all Long Term Incentive ("LTI") Compensation expense, which totaled $196,363. Mr. Farrar explained that CenterPoint's proposed rate increase included $826,754 in short-term incentive compensation

expenses and $196,363 in long-term incentive compensation expenses. Farrar, Responsive Testimony, pg. 3 lines 4–5, pg. 7 lines 5–6. Mr. Farrar recommended that the short-term incentive compensation expenses be shared between ratepayers and shareholders to represent the disallowance of profit-based incentives. Farrar, Responsive Testimony, pg. 6 lines 1–7. Disallowance of 50 percent of short-term incentive compensation expenses, along with a reduction in related payroll taxes, would result in an adjustment reducing CenterPoint's rate increase by $443,884. Farrar, Responsive Testimony, pg. 6 lines 14–15. Disallowance of all long-term incentive compensation would reduce the rate increase by $196,363. Farrar, Responsive Testimony pg. 10 lines 9–10. Mr. Farrar recommended reducing the STI for two reasons: first, STI as a profit based incentive has not shown to be effective for ratepayers, because it does not cover its cost or either reduce or eliminate rate increases, since rates have increased annually since 2012. Farrar, Responsive Testimony, pg. 4, lines 9-15. Second, the annual rate increases mean that CenterPoint did not meet its profit goals, and so the incentive should be reduced to match Company performance. Farrar, Responsive Testimony, pg. 5, lines 10-15. Mr. Farrar recommended disallowing all LTI, because stock-based incentive creates incentives to increase rates, to create riders that increase revenue outside the rate case context, and to generally shift business risk to utility customers. Farrar, Responsive Testimony pg. 8, lines 12-16.

2. CenterPoint's witness Burl M. Drews disagreed with Mr. Farrar's proposed adjustment. Mr. Drews contended that the financial interests of CenterPoint's ratepayers and shareholders are aligned due to the PBRC and CenterPoint's Asset Management Agreement. Drews Rebuttal Testimony, pg. 3 lines 20– pg. 4 line 5. Drews contended that both of these arrangements share high earnings with ratepayers. Drews, Rebuttal Testimony, pg. 4 lines 7-16, pg. 5 lines 1-11. Mr. Drews also contended that the Commission has regularly allowed full recovery of both long-term incentive compensation and short-term incentive compensation for several years based on the alignment of shareholder and ratepayer interests. Drews, Rebuttal Testimony, pg. 3 lines 3–18. Finally. Mr. Drews noted that CenterPoint uses market-based surveys to set its total compensation package. Drews, Rebuttal Testimony pg. 3 lines 18–21.

3. Mr. Farrar responded to Mr. Drews through surrebuttal testimony. Mr. Farrar stated that the interests of ratepayers and shareholders are not aligned at this point, as evidenced by CenterPoint's history of rate increases for several years. He also stated that CenterPoint's

failure to update the cost of debt indicates a change of circumstances from prior cases in which an alignment of interests was found to have occurred.

4. Further, Mr. Drews acknowledged during cross-examination that, as was apparent from his Rebuttal Testimony, the earnings-based incentives used by CenterPoint are tied to Company-wide earnings, not just the earnings of the Oklahoma utility. *See* Drews, Rebuttal Testimony pg. 12 lines 13–23, pg. 16 lines 1–4. The Oklahoma utility is a small part of CenterPoint Energy, Inc., and many of the costs incurred by the Oklahoma utility are affiliate expenses passed through from other subsidiaries of CenterPoint Energy, Inc. CenterPoint's incentive compensation program is not significantly linked to earnings reported under the PBRC plan, as evidenced by the accounting in this case. CenterPoint is requesting both its largest rate increase in the last four years and its largest request for long-term incentive compensation expenses for the last four years. Farrar, Responsive Testimony pg. 7 line 7, Drews, Rebuttal Testimony pg. 10.

5. The ALJ observes that Mr. Farrar unsuccessfully proposed similar adjustments for incentive compensation in each year in which he has filed testimony on behalf of the AG (Cause Nos. PUD 201100056, PUD 201300033, PUD 201400070, PUD 201500118, and PUD 201600094). However, the Commission has never adopted Mr. Farrar's positions on incentive compensation in any CenterPoint PBRC Plan review.

6. The Commission has allowed the requested expense of the Company's Short Term Incentive in every CenterPoint annual PBRC Plan proceeding since the 2006 Test Year and in no CenterPoint PBRC Plan proceeding has the Commission ever denied full recovery of requested STI expense. The STI plan is broad-based compensation plan for all employees. The goals of STI are to promote safety, customer satisfaction, operations performance and financial performance. Achieving or exceeding these goals benefits both the Company and the customer. The Commission has never adopted the position advocated by the AG's witness and no evidence suggesting any change of circumstances in the Company's pursuit of these beneficial goals has been presented. The ALJ can find no support in the record for the disallowance of any portion of these expenses, particularly after the Commission has consistently allowed them in CenterPoint's PBRC Plan proceedings for more than ten years.

8. The Commission allowed the Company's LTI expense in the Company's 2011 PBRC Plan proceeding specifically because the Commission found the interests of the Company's shareholders and its customers were substantially aligned. *See*, Order No. 588757 in

Cause No. PUD 201100056. Since then, the Commission has consistently allowed recovery of all LTI expense in the Company's annual PBRC Plan proceedings. In the 2012, 2013, 2014 and 2015 PBRC Plan proceedings (Order No. 598447 in Cause No. PUD 201200036, Order No. 614541 in Cause No. PUD 201300033, Order No. 627433 in Cause No. PUD 201400070 and Order No. 646583 entered in Cause No. PUD 201500118), the Commission allowed full recovery of all LTI expense and found that no changes of circumstances have occurred since the 2011 proceeding.[2]

9. Based on the circumstances presented in this Cause, the interests of the Company and its customers continue to be substantially aligned. No evidence in this Cause supports a finding that the interests of the Company and its customers have become misaligned. The ALJ finds no evidence in the record that benefits to customers under the AMA are no longer material; nor evidence that the Company does not continue to aggressively promote and maintain efficient natural gas services on its distribution system; nor evidence that the Company has failed to maintain the efficiencies achieved in the past few years.

10. The ALJ finds that under the circumstances presented in this Cause, and guided by the Commission's findings adopted in the Company's past PBRC Plan proceedings, incentive compensation expense for STI and LTI is reasonable and should be allowed. The ALJ recommends that the Commission allow recovery of one-hundred percent of both STI and LTI.

Depreciation Rates

CenterPoint's engineering witness Dane A. Watson presented his depreciation study for CenterPoint's utility assets. Watson, Direct Testimony, pg. 3 lines 12–15. CenterPoint proposed that the new depreciation rates be adopted prospectively for use in the 2018 PBRC filing relying on 2017 test year data. Drews, Direct Testimony, pg. 13 lines 10–13. The depreciation study and the new depreciation rates were unopposed, and PUD's witness Robert C. Thompson endorsed the use of the new depreciation rates. Thompson, Responsive Testimony pg. 6 lines 9–pg. 7 line 4. The ALJ finds that the new depreciation study with new depreciation rates are fair, just and reasonable, and consistent with the public interest. The ALJ recommends adoption of these new depreciation rates beginning with the 2017 test year.

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[2] In CenterPoint's 2016 PBRC Plan review, Cause No. PUD 201600094, the Commission approved a unanimous stipulation of no rate change and entered no finding relating to incentive compensation.

Cost Estimating Process

PUD's witness David A. Melvin noted that the final costs of many capital projects ultimately exceeded CenterPoint's projections, warranting a review of CenterPoint's cost estimating processes. Melvin, Responsive Testimony, pg. 8 lines 5–6. No party or witness rebutted Mr. Melvin's recommendation, and CenterPoint's witness Burl M. Drews testified that CenterPoint was agreeable to the recommendation. Drews, Rebuttal Testimony, pg. 35 lines 18–21. The ALJ recommends that CenterPoint be required to conduct a review of its cost estimating process and provide a report to PUD and the Attorney General before March 15, 2018, identifying any problem(s) identified as well as solutions and improvements CenterPoint will implement to improve its cost estimating process.

Energy Efficiency

CenterPoint's witness Burl M. Drews presented the results of CenterPoint's energy efficiency calculations for program year 2016. Drews, Direct Testimony pg. 12 lines 3–10. Mr. Drews recommended the following adjustments to base rates:

RS-1 $.0069 per Ccf

GS-1 $.0311 per Ccf

CS-1 $.0001 per Ccf Sales Service

CS-1 $.0010 per MMBtu Transportation Service

LCS-1 $.0021 per MMBtu

PUD's witness Kathy Champion reviewed CenterPoint's energy conservation programs and the true-up calculations presented by Mr. Drews. *See* Champion, Responsive Testimony pg. 6 lines 4–17. Ms. Champion testified that CenterPoint's programs experienced "both growth in program participation and an increase in energy savings." Champion, Responsive Testimony, pg. 8 lines 3–4. Ms. Champion also addressed CenterPoint's request to change its rates, noting that the changes provide for a 2017 program budget of $2,630,442 and a utility incentive for 2016 performance in the amount of $406,312. Champion, Responsive Testimony, pg. 12 lines 5–6, 10–11. She stated that PUD reviewed the calculations and found them consistent with CenterPoint's tariffs. Champion, Responsive Testimony pg. 14 lines 10–12.

No other party or witness rebutted the true-up calculations presented by Ms. Champion and Mr. Drews, and the calculations are supported by competent evidence showing them to be just, reasonable, and in the public interest. The ALJ recommends that the Commission accept the energy efficiency true-up calculations proposed by CenterPoint and PUD.

Revenue Distribution

The overall rate increase for CenterPoint resulting from all of the adjustments noted above is $2,152,881. Under the tariff, the rate increase is allocated to the customer classes in the following way: seventy percent to residential customers, fourteen percent to general service customers, thirteen percent to commercial service customers, and three percent to large commercial service customers. Champion, Responsive Testimony, pg. 14 line 16–18. Tables G – K below show how rate increase affects customer bills.

Table G

Revenue Distribution by Customer Class

Residential (RS-1)	$1,507,017
Commercial (GS-1)	$ 301,403
Commercial (CS-1 & CS-NGV)	$ 279,875
Large Commercial (LCS1)	$ 64,586
$0.0071(MMBtu)	
TOTAL	**$2,152,881**

Table H

Increase To Base Rates

Customer Charge	1st block
$0.7100	$0.0828 (Ccf)
$1.34	$0.0354(Ccf)
$9.69	$3.442 (MMBtu)
$117.00	

Table I

Energy Efficiency Base Rate Adjustment

Residential (RS-1)	$0.069 (Ccf)
Commercial(GS-1)	$0.0311(Ccf)
Commercial(CS-1)	$0.0001(Ccf)
Commercial (CS-NGV)	$0.0010)MMBtu)
Large Commercial (LCS-1)	$0.0021(MMBtu)

Table J

Total Recoverable E/E rate

$1,942,876	$0.0402 (Ccf)
$ 493,753	$0.00486 (Ccf)
$ 571,088	$0.0261 (Ccf)
	$0.02470(MMBtu)
$75,775	$0.0659 (MMBtu)

TOTAL $3,083,492

Table K
Increases in Base Rates by Customer Class

	Increase in Charges		
Charge	**Customer CcF**	**1st block**	**Mmbtu**
Residential	**$0.7100**	**$0.0828**	
GS-1	**$1.34**	**$0.0354**	
CS-1	**$9.69**	**$0.3555**	**$3.4442**
LCS-1	**$117.00**		**$0.0071**

General Rate Case Proposal

1. The AG asks for a general rate case to commence during either calendar year 2018 or 2019. This is an unusual request inasmuch as none of the PBRCs for Oklahoma gas utilities have provisions for periodic general rate cases beyond the end of the pilot program for the utility's PBRC. The AG's request is based on the Responsive Testimony and trial testimony of the AG's accounting witness Edwin C. Farrar, CPA. During the current proceeding, Mr. Farrar only asked for downward adjustments for incentive compensation, but Mr. Farrar contended that other issues not raised in the current docket warrant a general rate case. First, he contends that the Commission allows the stakeholders to propose piecemeal updates, but a particular cost may not be updated for long periods of time. Farrar, Responsive Testimony, pg. 10, lines 16-21, pg. 11 lines 1 & 2. Mr. Farrar contends that the average cost of long term debt is too high, because the Commission has not reviewed long term debt since 2004. Mr. Farrar submits that the average long-term debt should be 6.05 percent instead of 6.79 percent. Farrar, Responsive Testimony pg. 11, lines 5-15, pg. 12 lines 4-14. Next, Mr. Farrar wants the Commission to review the PBR formula, because he does not like earnings-based incentives in the tariff. Farrar, Responsive Testimony, pg. 13, lines 7-16. In addition, Mr. Farrar believes that it is unfair to the ratepayers to allow the Company to carryover to the next test year any unrecovered amount of a rate increase. Farrar, Responsive Testimony, pg. 14, lines 11-16. Meanwhile, PUD did not offer any testimony on the need for a general rate case, but CenterPoint rebutted Farrar's testimony through pp. 28-34 of the Rebuttal Testimony of Burl M. Drews, Manager of Rates for CenterPoint Energy Service Company.

2. Mr. Drews' testimony rebuts Mr. Farrar's testimony point-by-point. First, a general rate case is not needed, because PUD conducts a full audit annually, and there is an annual true-up. Drews, Rebuttal Testimony, pg. 29 lines 3-6. Second, a general rate case would cost $1.9 million dollars compared with $176,000 for PBRC annual review. Drews, Rebuttal Testimony pg. 29 lines 11-19. Third, a general rate case is redundant with the annual reviews and provides no material benefit to the public. Drews, Rebuttal Testimony pg. 30 lines 1 & 2. The annual review allows review of any issue that a stakeholder wants to raise. Drews, Rebuttal Testimony pg. 31 lines 23-26, pg. 32 lines 1-8. The annual review can adequately address adjustment of long-term debt. Drews, Rebuttal Testimony pg. 32 lines 13-20. The Company does not receive a windfall when it requests base revenue increases in consecutive years. Drews, Rebuttal Testimony pg. 33 lines 4-10. Mr. Drews contends that Mr. Farrar has never accepted

the efficiencies of the PBRC in any of the seven proceedings in which he has testified and that Mr. Farrar prefers the traditional general rate case model and ignores the benefits of a streamlined procedure. Drews, Rebuttal Testimony pg. 33 lines 21-22, pg. 34 lines 1-16.

3. The ALJ submits that a general rate case is an unnecessary expense for ratepayers and the Company. Mr. Farrar apparently wants to harvest some savings that no one else is complaining about. Be that as it may, Mr. Farrar asks the Commission to require the ratepayers to fund $1.6 million dollars or more for a general rate case, when the AG has not fully used the current procedure that costs ten times less.

4. The AG accuses the Commission of single issue ratemaking, but the AG fails to explain why the stakeholders' proposed adjustments to the revenue requirement during annual reviews make the process unfair and unreasonable.

5. Mr. Farrar contends that only a general rate case can assure that all costs are accurately reflected in the Company's rates. Mr. Farrar dwells on what he believes to be positive aspects of traditional regulation but fails to acknowledge the disadvantages discussed in Navarro, *The Simple Analytics of Performance-based Ratemaking: A Guide for the PBR Regulator*, 13 Yale Journal of Regulation 105, 108 (1996). According to Navarro, the basic premise motivating performance based ratemaking is that under traditional, cost-plus, rate base regulation, utility managers not only fail to minimize costs but also attempt to conceal the firm's true minimum cost curve. This is because rate base regulation creates perverse incentives which encourage managers to inflate the firm's operation and maintenance expenses, "gold plate" or over-invest in capital, avoid optimal risk–taking, and otherwise operate inefficiently. As a result, a general rate case is not the gold standard for ratemaking.

6. Mr. Farrar gave examples of certain matters not routinely covered by the annual PBRC Plan review, pointing to a customer cost of service study, a cost of capital study, and a depreciation study as matters which should be taken up in a general rate case. However, in recent years, the Commission has required the Company to conduct and present these very studies for evaluation in its annual PBRC Plan review. The Company has complied and the results of the studies – for the most part uncontested – have been applied in the ensuing PBRC Plan calculations: (1) A Depreciation Study was ordered in Cause No. PUD 201600094 and presented in this Cause without objection, and this ALJ is recommending that the new depreciation rates should be applied in the PBRC Plan calculations presented next year for the 2017 Test Year ending December 31, 2017; (2) A Customer Class Cost of Service Study was

ordered in Cause No. PUD 201400070 and presented in Cause No. PUD 201500118 without objection. Because that study showed results that were "nearly identical to the percentages of the class cost of service study" presented in CenterPoint's 2004 rate case, no changes to rate structures were proposed or made; (3) Support and testimony for the Company's Capital Structure and Cost of Capital was ordered in Cause No. PUD 201500118, and presented in last year's PBRC Plan proceeding. The parties agreed to a Capital Structure and Cost of Capital for the Company in a unanimous stipulation that was approved by the Commission in Cause No. PUD 201600094 and implemented in this year's Cause. The Company's Return on Equity was also revised in its 2007 PBRC Plan review, Cause No. PUD 200700076.

7. Based on this record, the ALJ finds no benefit in repeating any of these recent studies in a general rate case.[3] The ALJ further finds that for components of rates that are not routinely reviewed in PBRC Plan proceedings, recent experience has proven the PBRC Plan to be sufficiently flexible to accommodate an accurate review of such matters and the application of results to the Company's rates.

8. Mr. Farrar proposes that a general rate case is necessary to study the cost of long-term debt for the Company, asserting that cost of debt imbedded in current PBRC Plan calculations is inaccurate. Mr. Farrar raised this very issue in the Company's 2016 PBRC Plan review, but the parties reached a unanimous stipulation establishing the cost of long-term debt for the Company, which was applied in this Cause. *See*, Order No. 654461 entered in Cause No. PUD 201600094 p. 8. This only confirms that long-term debt can be – and has been – considered in annual proceedings and that the PBRC Plan is sufficiently flexible to accommodate such a review. The ALJ can find no basis for incurring the cost of a general rate case as a forum to study an element of rates that has only last year been raised and resolved by unanimous stipulation in a PBRC Plan proceeding.

9. On cross examination, Mr. Farrar asserted that annual PBRC Plan reviews do not afford him sufficient time to review the calculations and that a general rate case is necessary for him to conduct an adequate review. The ALJ finds that if Mr. Farrar needs more time, he should make a proposal for a change.

10. Based on the foregoing findings, the ALJ finds that a general rate case is not necessary at this time.

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[3] In oral testimony at the hearing, Mr. Farrar conceded that not all of these studies would need to be repeated so soon. The ALJ agrees, but Mr. Farrar's concession provides even less reason to order a general rate case, not more.

Conclusion

The ALJ recommends that the Commission issue a final order based on the foregoing Findings of Fact and Conclusions of Law, because they consider the entirety of evidence in the record, serve the public interest, and provide a fair, just, and reasonable resolution to the proceeding.

Respectfully submitted,

Ben Jackson

BEN JACKSON
Administrative Law Judge

Date: 8/4/2017

XC:
Dana L. Murphy
J. Todd Hiett
Bob Anthony
Teryl Williams
Nicole King
Joseph Briley
Curtis M. Long
Dara M. Derryberry
Patrick M. Ahern
Maribeth D. Snapp
Mary Candler
Court Clerk
Commission Records

APPENDIX "A"

SUMMARY OF TESTIMONY

CENTERPOINT ENERGY RESOURCES CORP.

BURL M. DREWS

Burl M. Drews testified on behalf of Applicant, CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Oklahoma Gas ("CenterPoint Oklahoma" or "Company"). Mr. Drews is Manager of Rates for CenterPoint Energy Service Company, LLC. He provided his educational and professional background, which includes Bachelor of Science and Master of Arts degrees in Economics from the University of Houston in 1985 and 1987, respectively. Mr. Drews has held positions in various areas within the Company, its predecessors and affiliates since 1988. He assumed his current position in 2013 and is responsible for research regarding economic, regulatory, legislative, and rate issues, conducting financial analyses, class cost of service studies, billing determinant forecasts, and rate design. He has filed testimony before the Minnesota Public Utilities Commission, the Railroad Commission of Texas, the Oklahoma Corporation Commission ("Commission") and the Arkansas Public Service Commission.

Mr. Drew summarized the Performance Based Rate Change ("PBRC") Plan set out in Rider Schedule No. 5 PBRC Plan in the tariff. He presented the Company's PBRC Plan calculations based upon the 2016 Test-Year, which is the twelve-month period ending December 31, 2016. Mr. Drews also presents in this proceeding the Company's annual Energy Efficiency ("EE") True-Up Adjustment and Utility Incentive Adjustment. Mr. Drews also noted that pursuant to the Joint Stipulation and Settlement Agreement approved by the Commission in last year's PBRC Plan proceeding (Order No. 654461), the Company has completed a depreciation study covering its Oklahoma rate base assets, presented in this Cause by Mr. Dane Watson.

Mr. Drews testified that the PBRC Plan provides for calculation of an earned return on equity ("ER") that is compared to the Company's allowed return on equity ("AR") of 10.00%. If the ER is within a 100 basis point dead-band around the AR, i.e. between 9.50% and 10.50%, then rates do not change. If the calculated ER is less than 9.50%, then rates increase to prospectively target the Company's AR of 10.00%. If the ER is greater than 10.50%, then a credit is provided to customers on the applicable rate schedules. The aggregate amount of the credits provided to customers is equal to 75% of the amount of earnings greater than 10.50%. According to the PBRC Plan, any rate increase or credit resulting from the calculations must be apportioned 70% to the Residential (RS-1) class, 14% to the General Service (GS-1) class, 13% to the Commercial Service (CS-1 and CS-NGV) classes, and the remaining 3% to the Large Commercial Service (LCS-1) class.

Mr. Drews testified that PBRC Plan calculations presented here are based upon the per book amounts for the twelve-months ending December 31, 2016. These amounts were adjusted as specified in the tariff for adjustments customarily made for ratemaking purposes and for amounts being collected through separate riders. According to the calculations he presented, the unadjusted net operating income is $1,443,135 and the corresponding ER is 4.86%. After making certain adjustments as provided for in Rider Schedule No. 5 to the 2016 per books Test-Year operating results, the adjusted net operating income is $1,628,484 and the adjusted ER is 5.48%.

The adjusted ER is below the 9.50% lower limit of the ROE dead-band. In this instance, the PBRC Plan specifies that base rates for the applicable rate classes will be increased for the amount necessary to prospectively restore the ROE to the AR. As shown on the calculations presented by Mr. Drews, the Company had a revenue deficiency for the 2016 Test-Year and a base rate revenue increase in the amount of $2,201,633 is required to restore the ROE to the AR of 10.00%.

This represents an increase of approximately 6% in base revenues. The aggregate base revenue increase of $2,201,633 will result in an average monthly increase of $1.46 per residential customer excluding all of the EE rate adjustment.

Mr. Drews testified that the primary factors driving the need for this revenue increase are an increase in operations and depreciation and amortization expenses, and a decrease in revenues. 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 2016, the Company added or replaced approximately $4.2 million of distribution mains, with approximately $3.6 million of that amount related to system maintenance/rehabilitation and public improvements. This investment benefits the Company's customers because it results in more efficient, safe and reliable natural gas service throughout the Oklahoma service area.

Mr. Drews testified to the beneficial effect of the Company's Asset Management Agreement ("AMA") to customers. The Company's customers received direct financial benefits from the AMA worth a total of $510,282 for the 2016 Test-Year. These benefits arise from two components of the AMA. First, in 2016 the AMA contributed to the PBRC Plan revenues and decreased the size of the required base revenue increase. Second, as a result of the AMA, the amount of gas-in-storage included in rate base has been reduced during the 2016 Test-Year, thereby decreasing the Company's revenue requirements at the AR, and thus decreasing the amount to be collected from customers.

The benefits of the PBRC Plan to both the Company and its customers remain the same as presented to the Commission in Cause No. PUD 201000030. In that Cause, the Commission approved the PBRC Plan as a permanent feature of the Company's tariff, after several years as a pilot program. In doing so, the Commission found as follows:

> After five years as a pilot program, the Company and its customers have all benefitted from the PBRC Plan through streamlined regulation and cost efficiencies, as well as through changes in effective rates. Specifically, the PBRC Plan encourages greater efficiency and performance by the Company due to revenue sharing for amounts earned above the upper level of the ROE dead-band. The PBRC Plan reduces the cost of serving customers through lower rate case and regulatory expenses, thereby reducing rates below what customers would otherwise pay. The PBRC Plan also accomplishes the regulatory goal of

gradualism by providing the opportunity for more frequent but generally smaller changes in rates and rate design.

Mr. Drews pointed out that there have been no subsequent changes to the PBRC Plan or its implementation that would invalidate the Commission's finding or reduce the benefits to both customers and the Company from the PBRC Plan.

Mr. Drews also demonstrated that the Company's residential customers value the Company's customer service. CenterPoint Energy-South was named a 2016 Utility Customer Champion by Cogent™ Energy Reports according to their Engaged Customer Relationship ("ECR") score and had the third highest ECR score of the 38 natural gas utilities ranked. The ECR index is a composite score based upon over 50,000 residential customer interviews of the 130 U.S. electric and natural gas utility companies based on residential customer count, taking into account Brand Trust, Operational Satisfaction, and Product Experience.

Mr. Drews also testified that the interests of the Company's shareholders and customers remain substantially aligned. There have been no changes in circumstances since that finding that would cause the interests not to be aligned.

Mr. Drews also presented an adjustment to base rates for the EE true up and an EE incentive adjustment. These adjustments by rate class are as follows:

- RS-1 $0.0069 per Ccf
- GS-1 $0.0311 per Ccf
- CS-1 $0.0001 per Ccf Sales Service
- CS-1 $0.0010 per MMBtu Transportation Service
- LCS-1 $0.0021 per MMBtu

Mr. Drews pointed out that the Company applied net-to-gross adjustments ("NTG") to these calculations based on the NTG in the Company's CenterPoint Energy Efficiency Program Portfolio Annual Report for the 2015 Program Year, as filed in Arkansas Public Service Commission Docket No. 07-181-TF. Because Oklahoma-specific adjustment factors are not yet available, this use of Arkansas NTG for the program year 2016 was expressly authorized by this Commission in last year's PBRC Order No. 654461 issued in Cause No. PUD 201600094.

Mr. Drews recommended the Commission approve (1) the Company's PBRC Plan calculations and the resulting performance-based base rate increases; (2) the proposed base rate adjustments due to its EE true-up adjustment and its EE incentive; and (3) the new depreciation rates recommended by Dane A. Watson in this Cause should be effective in the first full month following the date on which the Commission approves the new rates, for application in the PBRC Plan calculations presented for the 2017 Test-Year, ending December 31, 2017.

Mr. Drews also testified on rebuttal in opposition to the recommendations of the Attorney General's witness Edwin C. Farrar (1) to disallow from recoverable expenses $413,377 in Short-Term Incentive ("STI") expense; (2) to disallow from recoverable expenses $196,363 in Long-Term Incentive Compensation ("LTI") expense; and (3) that the Commission require the

Company to file a general rate case in 2018 based on a 2017 calendar year test-year and his related criticisms of the PBRC Plan.

Mr. Farrar has repeated the same objections to incentive compensation since the Company's 2011 PBRC proceeding, but the Commission has consistently rejected Mr. Farrar's contentions as contrary to the public interest. Since the Company presented its first PBRC Plan in 2006, the Commission has never disallowed any STI expense presented for recovery. Since the interests of the Company and its customers were first recognized to be in alignment in the 2010 Test-Year, the Commission has never disallowed any LTI expense. No circumstances have changed and Mr. Farrar makes no effort to show that they have changed. The incentives inherent in incentive compensation still benefit both the Company's shareholders and its customers, based on the unique combination of the revenue sharing mechanisms of the Company's PBRC Plan and its AMA.

Elaborating on the revenue-sharing aspects of the PBRC Plan, Mr. Drews testified that when earnings exceed the dead-band for allowed earnings in any given test-year, the PBRC Plan requires that seventy-five percent of the surplus revenue be credited back to customers. Customers have received $4.4 million in refunds under the PBRC Plan. These funds would not have reached customers but for the PBRC Plan and the operational efficiencies imposed by Company management.

Elaborating on the revenue-sharing aspects of the AMA, Mr. Drews testified that under the AMA, the Company's customers receive more than 80% of the net benefit. The Company's implementation of the AMA has been totally voluntary and is unique to CenterPoint Oklahoma among Oklahoma gas utilities. The AMA reduced the 2016 Test-Year base revenue increase by $510,282. The aggregate savings to customers from the reduction in base revenue requirements from the Company's AMA beginning with the 2010 Test-Year has been approximately $5.5 million. The Company's customers would have seen none of these benefits absent the AMA.

Mr. Drews explained how CenterPoint Oklahoma occupies a unique position in Oklahoma as a utility that successfully maintains both a PBRC Plan and an AMA designed to encourage revenue sharing directly with customers. No other Oklahoma utility has done this. Incentive compensation expenses are justified as allowable expenses in their own right, but because the Company maintains alignment of the interests between its customers and its shareholders based on this unique combination of the PBRC Plan and an AMA, both of which benefit customers, the justification for allowing these incentive compensation costs is particularly strong for CenterPoint Oklahoma.

Mr. Drews further explained that Mr. Farrar makes the same arguments for disallowing LTI and STI expenses that he presented and that the Commission rejected in previous PBRC Plan proceedings. In Cause No. PUD 201500118, Mr. Farrar argued that the financial performance portions of LTI and STI expenses should be disallowed in years when a PBRC Plan rate increase is required because, he said, rate increases are an indication of misalignment of the interests of the Company and its customers. The Commission and its ALJ considered these arguments and in Order No. 646583 rejected "the contention of the Attorney General's witness that alignment of the interests of the Company and its customers no longer exists and that LTI and portions of STI expense should be denied in years when a PBRC rate increase is required." According to the ALJ's recommendation adopted by the Commission, "the rate increase requested in this Cause does not constitute a change in circumstances, and that incentive compensation should be allowed here." In the previous years, the Commission found that the interests of the Company's shareholders and its customers were aligned – whether or not a rate refund resulted from the PBRC Plan calculations. The Commission has never based its approval of LTI on contemporaneous refunds to customers.

Circumstances have not changed since these findings were made. The Company continues to make significant investments in its distribution system for maintenance and system improvement in order to continue to provide safe and reliable natural gas service to customers. These investments benefit customers because they promote safe, reliable and efficient service.

Mr. Drews further explained that under the Company's PBRC Plan, the only way a rate increase can be granted is if the Company's earnings are deficient. If that happens, the Company never recovers any of the revenue lost during the test-year and during the time it takes for the rate increase to go into effect. There simply is no incentive for the Company to lose money. The Commission has recognized this explicitly in Order No. 646583 (Finding of Fact 19) issued in Cause No. PUD 201500118.

Mr. Drews demonstrated that Mr. Farrar's table of results under the PBRC Plan is grossly inaccurate and misleading, overstating the cumulative revenue increase by 2.7 times. Mr. Farrar's first mistake is to include the revenue increase from Cause No. PUD 200400187, which was not a PBRC Plan proceeding, but the general rate case immediately before implementation of the PBRC Plan. Correcting for this mistake alone reduces Mr. Farrar's cumulative revenues by $42 million or almost 60%. His second mistake is to assume that the Company actually received a full year of the revenue increase in the year that the increase was approved. This is wrong because the increases typically became effective in July or August of the year in which the increase was approved, several months after the test-year. Correcting this mistake removes approximately $3.6 million more. So, while Mr. Farrar presents a cumulative revenue increase net of credits to customers of $72 million, the actual cumulative additional revenues received by the Company through the PBRC Plan is no more than $26.5 million.

The Company's incentive compensation plans continue to be necessary components of a competitive market-based compensation program. They are essential for the recruitment and retention of employees needed to provide safe and reliable services to customers. Furthermore, the level of total compensation expense for the Company is reasonable. The Company continually reviews its compensation expense to maintain it at a level that is market-based and competitive with peer companies.

Mr. Drews presented the compensation philosophy of CenterPoint Oklahoma's parent company, CenterPoint Energy, Inc. ("CNP"). That philosophy is to maintain the competitiveness of its compensation plans and levels as measured from a "total compensation" perspective. That is, CNP measures the value of all of the components that make up employees' total compensation and compares that value against peer companies to ensure that its compensation plans and levels are sufficient to recruit and retain the workforce needed to serve customers. The Company's compensation philosophy states that a portion of total compensation for all employees should be variable and based on the achievement of Company goals and individual performance. The components of total compensation are base pay, short-term incentives, long-term incentives, and benefits.

CNP ensures that employee pay is market-based. Depending on the position being analyzed, CNP's Human Resources ("HR") staff uses a variety of national, regional, and local survey data to monitor and determine market-based pay. CNP relies on industry surveys to establish pay ranges that represent pay levels that peers and competitors provide for the positions CNP staffs.

HR uses the same market-based pay philosophy for executives. All components of compensation for positions are measured against the same or similar positions at peer companies. This analysis ensures that the Company's compensation is fully competitive and sufficient to recruit, retain and motivate the talent necessary for the operations of CNP.

The objective of CNP's pay philosophy is to approximate the median (50th percentile) of the market for each element of total compensation as represented by the companies included in the review. CNP targets the median pay level as represented by peer companies for base pay, STI, and LTI.

Mr. Drews explained the financial goals of the Company's incentive compensation and how financial goals provide benefits to customers by encouraging expense management and operational efficiency among all employees, factors critical to limiting cost increases that would otherwise need to be recovered in rates. Financial goals provide employees with incentive opportunities that are consistent with running a cost-efficient business. Operational goals encourage safe and reliable operations to deliver outstanding customer service. The efficiencies fostered by the incentive compensation contribute to the financial health and strength of the Company. Being financially strong and healthy allows CenterPoint Oklahoma easier and less costly access to the capital required to build and operate a safe, reliable natural gas distribution system, and have infrastructure available to assist with the economic development of its service territory. The financial performance goals of both the LTI and the STI programs provide incentives to achieve the results that benefit customers.

For these reasons, Mr. Drews recommended that LTI expense in the amount of $196,363 should be included as allowed expense in this Cause. Since the Commission first recognized the interests of the Company and its customers are aligned, it has consistently allowed LTI expense, whether the PBRC Plan calls for rate increases or rate refunds. Nothing presented in this Cause supports any different result here.

Mr. Drews disagreed with Mr. Farrar that the LTI program is an incentive for Company executives to act against the interests of their customers. First, Mr. Farrar's contention is inconsistent with the incentives provided by the PBRC Plan. Both customers and the Company benefit from the lower expenses, increased earnings, and greater financial health encouraged by the LTI program. The PBRC Plan requires that if the Company's earned return on equity ("ER") is greater than 10.5%, then 75% of the portion of the ER greater than 10.5% will be refunded to customers and the remaining 25% will be kept by the Company. This key provision significantly aligns the interests of the Company, its shareholders, and its customers: if the Company's executives can decrease expenses, maintain revenues through customer growth and reduced customer attrition, apply innovative approaches to managing the business (such as the AMA), and improve earnings, then the Company's customers benefit from those actions. More importantly, if those actions increase the Company's ER above the dead-band (as has occurred several times since the PBRC Plan was first approved), then the customers will receive 75% of the surplus earnings.

Second, his position is contrary to the actual experience of customer benefits generated under the PBRC Plan. The Company is always at risk for its failure to earn its allowed return. If earnings fall below the allowed return, the Company can never recover the shortfall. Even if its earnings fall below the lower limit of the dead-band and a rate increase is approved, the Company never recovers its test-year deficiency because rate increases must always be prospective. No rational company would try to lose money, particularly where, as here, there is no way to recover the losses. The Company's experience with the PBRC Plan over the last several years demonstrate that it has done nothing to pursue lower earnings or to unreasonably increase its expenses and no evidence exists to support such a counterintuitive notion.

Mr. Drews also recommended that STI expense in the amount of $413,377 should be included as allowed expense in this Cause. The STI Plan is a broad-based plan for all employees and overall compensation for employees is shown to be reasonable, market-based and necessary to recruit and retain qualified personnel needed to provide safe and reliable services to customers. In no CenterPoint Oklahoma PBRC Plan proceeding has this Commission ever disallowed recovery of the requested STI expense. To do so now would break with this Commission's longstanding precedent. As in the case of LTI, no evidence exits to support the notion that the Company has any incentive to reduce current earnings to increase rates in the future. And this Commission has repeatedly rejected Mr. Farrar's argument that the earnings-based incentives of the STI Plan should not be recovered if the Company's adjusted earnings are deficient.

Mr. Farrar is also wrong in claiming that the Company adjusted its per books financial results under the PBRC Plan to decrease the Company's earnings. The Company's adjustments to its per books financial results actually *increased* the Earned Return on Equity, all in the customers' favor.

Mr. Drews also testified that Mr. Farrar's recommendation that the Company be required to present a general rate case in 2018 would result in excessive and unnecessary costs. That recommendation is contrary to the fundamental goals of the PBRC Plan, which are to streamline regulation, lower rate case and regulatory expenses, and thereby reduce rates below what customers would otherwise pay. Under the current PBRC Plan, the Company's expenses and rate base are scrutinized every year by PUD Staff, and all aspects of the case are available for review by the Office of the Attorney General. With this comprehensive oversight formally in place, there simply is no need to conduct a costly, contentious general rate case.

Mr. Drews compared the estimated regulatory cost of the PBRC Plan proceedings and a traditional general rate case. According to uncontested evidence presented to the Commission in a past PBRC Plan proceeding, the total annual cost to the Company to complete a PBRC Plan filing and proceeding was reflected as only $176,000 per year, while the cost of filing a general rate case in which a settlement was reached and no litigation required was estimated as $1.9 million. These additional costs would be borne by CenterPoint Oklahoma's customers.

With the PBRC Plan in place and subject to annual review, a general rate case is redundant and it would provide no material benefit to the public. Under the PBRC Plan, the

PUD reviews the policy, procedures, processes and investments of the Company throughout the year, then conducts a thorough annual audit and makes adjustments identical to a rate case. Under this process, the Staff has looked at CenterPoint Oklahoma more closely than those utilities following a more traditional rate regulation.

The annual PBRC Plan process does not restrict the Commission in its review as Mr. Farrar contends. Although the PBRC Plan provides a formulaic review, the annual proceedings over the years have reviewed many other aspects of the Company's financial standing. For example, in a previous PBRC Plan proceeding, the Company presented a Cost of Service study for review to determine whether rate design should be revised accordingly. The Company's allowed return on equity and associated dead-band has on two separate occasions been revised by the Commission. This year, the Company has presented a depreciation study so that appropriate changes can be made in the rates arising from the 2017 Test-Year. These reviews and changes are not expressly called for in the PBRC Plan; however, the flexibility of the PBRC Plan allows these periodic reviews necessary to update costs.

Mr. Farrar argues that a general rate case is necessary to review the cost of long-term debt, but just as other structural cost elements have been reviewed and modified in past PBRC Plan proceedings, there is no reason why the long-term cost of debt could not also be reviewed in a PBRC Plan proceeding. A significant benefit of the PBRC Plan is that stakeholders need not wait for a general rate case to recommend changes. If Mr. Farrar thinks the Company's long-term debt cost is unreasonable, then he could have recommended a change in his responsive testimony and addressed the issue in this Cause instead of proposing an expensive and unnecessary general rate case.

Mr. Drews also responded to Mr. Farrar's other criticisms of the PBRC Plan. The Company experiences no windfall when it requests rate increases in consecutive years. Revenue and return are reviewed annually under the PBRC Plan and the Company is allowed to request a base revenue increase only when the earned return on equity for the test-year is deficient. Earning below its allowed return for consecutive years is no windfall and provides no benefit to the Company. Review under the PBRC Plan is not based on hypothetical revenue. The Plan calculates actual performance based on calculations of actual returns, applying the same methodology for rate increases as for rate credits to customers. The key is that the actual adjusted earned return on equity must be based on actual revenues and not hypothetical revenues as preferred by Mr. Farrar.

Mr. Farrar has never accepted the efficiencies of the Company's PBRC Plan in any of the proceedings in which he has testified. He makes no secret that he prefers the traditional general rate case model to the more efficient PBRC Plan. What he ignores is that the Company's PBRC Plan has worked well and benefitted both customers and the Company since first being authorized thirteen years ago.

Finally, Mr. Drews addressed the testimony of PUD. The Company does not oppose the recommendation of Mr. Aguirre to reduce the recoverable dues and donations expense by \$41,534 or the recoverable advertising, marketing, and promotional expenses by \$6,518 in this Cause. Neither does the Company oppose the recommendation of Mr. Thomas to adjust the amount of customer deposits by \$5,778. The resulting expense and rate base adjustments have been incorporated into the Company's revised PBRC Plan calculations provided in Mr. Drews

Rebuttal Exhibit BMD-1. Taken together, all these revisions result in an adjusted Earned Return of 5.58% requiring a performance-based revenue increase of $2,152,881 to restore the return on equity to the allowed return on a prospective basis. This base revenue increase is to be applied to the customer classes as follows: increases of $1,507,017 to the Residential class, $301,403 to the General Service class, $279,875 to the Commercial Service (CS-1, CS-NGV, and TSO) class, and $64,586 to the Large Commercial Service class.

The Company also agrees to review its cost estimating procedures for new additions to plant in service as recommended by PUD's witness Mr. Melvin.

DANE A. WATSON

Dane A. Watson testified on behalf of CenterPoint Oklahoma. Mr. Watson is a Partner in Alliance Consulting Group ("Alliance"). Alliance provides consulting and expert services to the utility industry.

Mr. Watson described his educational and professional background. He holds a Bachelor of Science degree in Electrical Engineering from the University of Arkansas at Fayetteville and a Master's Degree in Business Administration from Amberton University. Mr. Watson is a Certified Depreciation Professional ("CDP") according to the standards and qualifications established by the Society of Depreciation Professionals. Since graduating from college in 1985, Mr. Watson has worked in the area of depreciation and valuation. He founded Alliance in 2004 and is responsible for conducting depreciation, valuation, and certain accounting-related studies for utilities in various industries. His duties related to depreciation studies include the assembly and analysis of historical and simulated data, conducting field reviews, determining service life and net salvage estimates, calculating annual depreciation, presenting recommended depreciation rates to utility management for its consideration, and supporting such rates before regulatory bodies.

Mr. Watson was employed from 1985 to 2004 with Texas Utilities ("TXU"). During that time, he was responsible for, among other things, conducting valuation and depreciation studies for the domestic TXU companies. He also served as Manager of Property Accounting Services and Records Management in addition to his depreciation responsibilities.

Mr. Watson has twice been Chair of the Edison Electric Institute ("EEI") Property Accounting and Valuation Committee and has been Chairman of EEI's Depreciation and Economic Issues Subcommittee. He is a Registered Professional Engineer ("PE") in the State of Texas. He is also a Senior Member of the Institute of Electrical and Electronics Engineers ("IEEE") and has held numerous offices on the Executive Board of the Dallas Section of IEEE as well as national and worldwide offices. He twice served as President of the Society of Depreciation Professionals, most recently in 2015. He also teaches depreciation seminars on an annual basis for EEI and the American Gas Association (both basic and advanced levels) and has developed and taught the advanced training for the Society of Depreciation Professionals and other venues. Mr. Watson has conducted depreciation studies, filed written testimony and/or testified in more than 150 cases before more than thirty-five different state and regulatory agencies across the United States. He has also appeared at the Federal Energy Regulatory Commission as an industry panelist on asset retirement obligations.

CenterPoint Oklahoma engaged Alliance to conduct a depreciation study of the Company's depreciable assets for its natural gas operations as of December 31, 2015. Mr. Watson presented the resulting depreciation study with his testimony. He stated that the Company's current depreciation rates have been applied and approved in Commission proceedings since the mid 1990s. The study he presents here represents an update to reflect current life and net salvage estimates. Mr. Watson testified that he evaluated the service-life and net-salvage parameters to ensure that they are reasonable. Those estimated parameters have been assimilated to develop depreciation rates at the account level.

In conducting his study, Mr. Watson employed the straight-line, Average Life Group ("ALG") remaining-life depreciation system to calculate annual and accrued depreciation. The ALG methodology is the same methodology used to develop the Company's current depreciation rates, which have been consistently applied since the current rates were first approved by the Commission in PUD 940000354, and most recently in PUD 200400187.

The CenterPoint Oklahoma depreciation study and analysis that Mr. Watson performed fully supports establishing depreciation rates at the level recommended. The study includes all CenterPoint Oklahoma assets. It recommends a total depreciation expense of $8.5 million, which represents a decrease of approximately $373 thousand in annual depreciation expense compared to the depreciation rates currently in effect for the Company. The differences between the current rates and the proposed rates are shown in Mr. Watson's Exhibit DAW-2, Appendix B at December 31, 2015.

The study Mr. Watson presents supports the following:

- For Intangible assets, the study supports an increase in the annual depreciation expense for these assets of approximately $37 thousand per year.
- For Distribution assets, the study supports a decrease in the annual depreciation expense for these assets of approximately $485 thousand per year.
- For General plant assets, the study supports an increase in the annual depreciation expense for these assets of approximately $75 thousand per year.

Mr. Watson concluded that the accrual rates recommend are reasonable and should be adopted for Oklahoma.

OFFICE OF THE ATTORNEY GENERAL

EDWIN C. FARRAR

Mr. Edwin C. Farrar submitted pre-filed responsive testimony on behalf of Mike Hunter, Oklahoma Attorney General. He testified as to his educational and professional background, which included his licensure as a Certified Public Accountant and his long tenure in regulatory proceedings before the Commission, beginning in 1985. Mr. Farrar's testimony addressed his recommendations that the Commission disallow recovery of half of short-term incentive compensation and all long-term incentive compensation. It also addressed his recommendation that CenterPoint be required to file a general rate case in 2018 with a 2017 test year.

1. Short-term Incentive Compensation

Mr. Farrar testified that CenterPoint's short-term incentive compensation plan had over half of its incentive goals tied directly to profits rather than customer-centric measures like customer satisfaction or safety. He explained that while the Commission had allowed CenterPoint's recovery of short-term incentive compensation in the past, he explained that recent experience has shown that the interests of shareholders and ratepayers are not sufficiently aligned to support recovery of profit-based incentives. He explained that earnings have not been sufficiently high to result in a temporary credit for several years and that CenterPoint has actually requested rate increases every year since the case filed in 2013.

Mr. Farrar provided two reasons for disallowing profit-based short-term incentives and thus sharing short-term incentive compensation expenses between shareholders and ratepayers. First, he explained that profit-based incentives can lead employees to make decisions that benefit shareholders, not ratepayers, which can include decisions that increase rates to the detriment of customers. He noted that the rate increases requested by CenterPoint in recent years are consistent with this effect. Second, he noted that CenterPoint's pro forma earnings in PBRC Plan proceedings do not match the Company's actual earnings in an effective manner. The Company's adjustments under the PBRC consistently reduce its earnings.

Mr. Farrar recommended disallowance of half of short-term incentive compensation. He stated that the removal of half of short-term incentive compensation would decrease CenterPoint's expenses by $413,377, while the removal of related payroll taxes would result in an additional decrease of $30,507.

2. Long-Term Incentive Compensation

Mr. Farrar also provided testimony regarding long-term incentive compensation. He stated that CenterPoint has requested its largest long-term incentive compensation recovery for several years. He also explained that the Commission typically disallows recovery for all long-term incentive compensation, but that the Commission has allowed it for CenterPoint when it appeared the interests of shareholders and ratepayers are aligned. He explained that recent experience shows there is not an alignment of interests. There has not been a temporary refund to customers in several years, but there have been several requests for permanent rate increases.

Mr. Farrar explained that long-term incentive compensation is typically tied to stock value or company profits, which can lead executives to seek rate increases while shifting risk to ratepayers. He testified that CenterPoint's record of temporary credits and permanent increases over the years is consistent with this effect. He also noted that CenterPoint requested its largest recovery of long-term incentive compensation for several years in this case while at the same time reporting its largest earnings deficiency since 2010.

Mr. Farrar recommended disallowance of all long-term incentive compensation. He stated that this adjustment would decrease CenterPoint's expenses by $196,363.

3. General Rate Case Requirement

Mr. Farrar also provided testimony recommending that CenterPoint be required to file a general rate case in 2018 with a 2017 test year. He noted that CenterPoint has not filed a general rate case since 2004, meaning there has not been a comprehensive review of the Company's rates for over twelve years. He noted that CenterPoint's cost of long-term debt, for example, has not been updated since the last rate case despite several years of historically low interest rates. He explained that CenterPoint currently recovers a weighted average cost of debt of 6.79 percent, even though evidence indicates that CenterPoint's actual cost of long-term debt is 6.05 percent. Mr. Farrar also noted that the average request by CenterPoint in its most recent rate cases has been 5.99 percent. He testified that CenterPoint's cost of debt could also be subject to a prudency challenge in a general rate case, noting that Oklahoma Natural Gas recently reported a much lower average cost of debt at 3.95 percent.

Mr. Farrar also explained that reconsideration of CenterPoint's PBRC tariff in a general rate case would allow the Commission to take a fresh look at the structure of the PBRC tariff. He noted that the tariff currently focuses only on earnings, while it could instead provide incentives to improve safety, reliability, customer satisfaction, and costs.

Mr. Farrar noted a specific problem with the current structure of CenterPoint's PBRC tariff. The tariff currently fails to annualize rate increases in subsequent annual proceedings. In effect, he explained, this can result in a portion of one year's rate increase being repeated in a subsequent year. He explained that if CenterPoint can show a deficiency of $2,261,633 this year, for example, its rates would go into effect in July or August, resulting in the collection of only 40 or 50 percent of that increase. CenterPoint would thus be able to show the same deficiency reduced by 40 or 50 percent the next year, all things being equal, which would result in another increase of $1,357,000.

Mr. Farrar thus testified that a general rate case would afford the opportunity to comprehensively review CenterPoint's costs and improve the structure of the PBRC tariff. He explained that requiring a general rate case would not increase costs for ratepayers since the most expensive components of a rate case have typically been periodically performed in separate PBRC proceedings in a piecemeal fashion. Performing those reviews in a periodic general rate case would shift the costs and increase the efficiency of annual PBRC proceedings.

PUBLIC UTILITY DIVISION

GEOFFREY M. RUSH

Geoffrey M. Rush is employed by PUD of the Commission as a Senior Regulatory Analyst. In this Cause, he served as the lead analyst assigned to the Application of CenterPoint for approval of its PBRC Plan calculations for the test year ended December 31, 2016.

Mr. Rush filed Responsive Testimony on May 19, 2017, and testified that he reviewed the Application of CenterPoint for approval of its PBRC Plan calculations for the test year. In addition, his written testimony provided an overview of the areas that were reviewed by PUD witnesses, as well as PUD's review process and recommendations.

Mr. Rush testified to the following areas: Performance Based Rate Overview, Payroll Expenses, Employee Wages, Salaries & Compensation, Stock Awards Expenses, Long-Term

Incentives, and Short-Term Incentives. Mr. Rush recommended [1] An increase to the combined Payroll Expense in the amount of $124,687 as requested by the Company; [2] Long-Term Incentives in the amount of $196,363, and Short-Term Incentives in the amount of $826,754, as requested by the Company.

Mr. Rush further testified that the existing PBRC has an approved ROE "dead band" of 9.50% to 10.50%. If the earned ER for the calculation period falls within this range, then no adjustment to rates is necessary or allowed. If, however, the Company's ER falls below 9.50%, as was the case for the period in this review, then rates are adjusted prospectively, pursuant to the terms of the tariff, to restore earnings to a level that will represent an ROE of 10%, the midpoint of the dead band. This method gives the Company an incentive to be operationally efficient. If the ER is above 10.5%, the Company returns 75% of the earnings in excess of that level to ratepayers. This aligns the interests of the ratepayers with those of the stockholders by allowing the ratepayers to share in the success of the Company.

In addition, Mr. Rush testified, after conducting a thorough review of CenterPoint's PBRC Plan, PUD recommended two adjustments totaling $53,829.00. Adjustment B-1 in the amount of ($5,778) to Customer Deposits, and Adjustment H-1 in the amount of ($48,051) to Dues and Memberships.

Finally, Mr. Rush testified PUD recommends that the Commission approve CenterPoint's Application with PUD's adjustments, as presented in the testimony of PUD witnesses Elbert D. Thomas and McKlein Aguirre. PUD believes these adjustments are fair, just, reasonable, and in the public interest.

RIDER SCHEDULE NO. 5
PBRC PLAN

5. <u>**PERFORMANCE BASED RATE CHANGE (PBRC) PLAN**</u>

5.1. <u>APPLICATION</u>

5.1.1. This Plan is applicable to the Company's customers billed under any natural gas rate schedule incorporating the PBRC Plan, or "the Plan." This Plan is designed to address the unique financial and operating concerns of the Company.

5.1.2 The rates associated with the Primary PBRC will be calculated in Appendix 1 and the rates associated with Energy Efficiency programs will be calculated in Appendix 2. Paragraphs 5.2 through 5.4 are intended to deal with the Primary PBRC and the paragraphs under Section 5.5 are intended to deal with the rates associated with Energy Efficiency programs.

5.2. <u>APPLICATION OF PBRC PLAN</u>

5.2.1. (a) The Company's Allowed Return on Equity (AR) shall be 10.00% beginning with Test Year 2016 and forward. This AR will be effective until it is changed by the Commission after notice and evidentiary hearing. The Earned Return on Equity (ER) shall be recalculated annually under this Plan, using the same methodology used to calculate the AR in Cause No. PUD200400187, for use in determining the rate change adjustments that become effective during the subsequent years. CR/CT

(b) An ROE dead-band of 100 basis points is hereby established. The dead-band shall be from 9.50% to 10.50% in which no rate change shall occur. Any possible rate increase will be triggered only when the ER is below 9.50%, as explained in Paragraph 5.3.2. Similarly, any credit and sharing with the Company's customers shall occur when the ER is above 10.50%. CR CR CR

5.3. <u>APPLICATION OF PRIMARY PBRC PLAN CALCULATION PROCEDURE</u>

5.3.1. For each twelve-month period ended December 31, a Commission determination shall be made pursuant to this PBRC Plan as to whether the Company's revenue should be increased, decreased or left unchanged. If it is determined that the revenue should be increased, the natural gas rate schedules incorporating this PBRC Plan will be adjusted in the manner set forth in paragraph 5.3.5, below. Revised rate schedules will be applicable to bills rendered on and after July 1 and will remain in effect until changed under the provisions set forth in this Plan and by order of the Oklahoma Corporation Commission (hereinafter "OCC"). If it is determined that a credit is required under this PBRC Plan and the Company's revenue thereby decreased, then the Company shall flow the credit through to the customers served under any rate schedule incorporating this PBRC Plan by reference in the manner set forth in paragraph 5.3.6, below.

5.3.2. (a) If, for the twelve month period ended December 31, the Company's ER is below 9.50%, the base rates under the rate schedule subject to this PBRC Plan shall be increased for the amount necessary, in total, to restore the ROE to the AR. For example, if the ER for a given review period were to generate revenue levels that are equal to or below an ROE of 9.49%, then rates would be increased by the amount necessary to bring the ROE to 10.00% (AR). CR CR CR

(b) If, for the twelve month period ended December 31 of each year of the Plan, the Company's ER is greater than 10.50%, the portion of ER that is greater than 10.50%, adjusted so that the Company shall not share in the customer's portion of any AMA revenues, shall be shared on a 75/25 basis between the customers and the Company, with the customers receiving the greater amount. CR CR

5.3.3. Should a change in revenues be required under the terms of this PBRC Plan, then the PBRC Plan shall be developed using the Schedules and Format outlined in Appendix 1 attached herewith. The amounts shall be the actual costs recorded in the books and records of the Company, except for the adjustments for any payroll changes implemented during the Test Year, any statutorily enacted tax changes, and a cap on allowable bad debt expenses as provided for in Paragraph 5.3.7 (e)(6) below. Also, actual revenues as adjusted per Paragraph 5.3.7 (d) will be used in all calculations of ER.

5.3.4. Staff shall review and audit the PBRC filing provided by the Company each year, to assure that expenses and investments that are customarily excluded for ratemaking purposes will still be excluded when calculating the Annual Revenue Requirement. The Company shall be entitled to challenge such exclusions, and the OCC shall make a final determination as to inclusion or exclusion of such expenses and investments.

5.3.5. Effective with the 2011 Test Year, any change in revenues approved by the Commission under the terms of the PBRC filed at that time, which results in a rate increase or credit shall be allocated 70% to the Residential (RS-1) customers, 14% to the General Service (GS-1) customers, 13% to the Commercial Service (CS-1) customers (inclusive of the CS-NGV customers) and 3% to the Large Commercial Service (LCS-1) customers. One–half of the amount calculated under this PBRC Plan will be added to the Monthly Customer Charge as listed in the rate schedules to which this Plan is applicable, and one-half shall be added to the commodity rate for the first block of volumes (except in the case of the LCS-1 class, where the one-half will be added to the commodity rate to the only block of volumes) under the applicable rate schedules. The Company will file revised rate schedules subject to this Plan with the OCC each time the rates are adjusted pursuant to this PBRC Plan, and those revised rate schedules subject to this Plan shall then become the filed rates of the Company.

5.3.6. Should a credit be required as described in paragraph 5.3.2 of this PBRC Plan, then the credit shall be made by crediting customer bills over a 12-month period beginning on or after July 1. The methodology of allocation of the credits will be the same as described in paragraph 5.3.5.

5.3.7. For purposes of making the PBRC calculation –

(a) The Calendar Year shall be the Test Year.

(b) There shall be no pro forma adjustments to Test Year, per books amounts except as outlined in (e). (This provision does not preclude Staff or the Office of the Attorney General from proposing test-year adjustments customarily accepted for ratemaking purposes by the OCC.)

(c) Rate base shall be computed in the same manner as under the Joint Stipulation in Cause No. PUD200400187.

(d) Any revenues associated with energy efficiency will be removed prior to the Primary PBRC calculation and addressed in accordance with Paragraph 5.5 below.

(e) Operating expenses, per books, for the Test Year shall be adjusted as follows:

(1) gas costs shall be removed from both operating revenues and operating expenses;

(2) the level of salaries and wages, savings plan expense, payroll taxes, and other payroll-related expenses for the last month (December) of the Test Year shall be annualized;

(3) the effect of any statutorily enacted tax changes shall be annualized; and

(4) an adjustment shall be made to properly match the amortization of prudently incurred rate case expenses as of January 1, 2005 with their recovery in rates.

(5) any expenses associated with energy efficiency will be removed prior to the PBRC calculation and addressed in accordance with Paragraph 5.5 below.

(6) there will be a cap on bad debt expense at 3.5% of Test Year revenues (inclusive of gas costs), with those expenses in excess of 3.5% removed.

(7) the Company shall provide a Variance Analysis in the form of the Chapter 70 Minimum Filing Requirement

Supplemental W/P H-3 within 10 business days following the PBRC filing each year, as a supplement to its workpapers.

(f) The Company shall file Exhibits in the form of Appendix 1 and/or 2 hereto as appropriate.

(g) All adjustments made under the PBRC calculation to record expenses shall be delineated in both FERC Accounts and Natural Accounts.

(h) Billing determinants for calculation of going forward rate changes shall be determined under the Company's methodology used in Cause No. 200400187 based on the following parameters:

(1) for weather normalization purposes, normal HDDs shall be as specified in the Company's Rider Schedule No. 7, Weather Normalization Adjustment (WNA);

(2) the regression shall be based upon the most recent 60 months of data; and

(3) average customer counts for the Test Year shall be used.

(4) for purposes of determining the energy efficiency rates, the billing determinants of the CS-1 rate classification shall segregate the billing determinants associated with transport and sales customers.

(5) the net volume reduction for each rate classification caused by energy efficiency programs will be determined in the manner set forth in Appendix 2. Such amount shall be deducted from the volumetric billing determinants used in calculating the Primary PBRC and the Energy Efficiency rates.

(i) The PBRC Plan filing shall prominently identify any changes in the accounting policies, practices and procedures adopted during the Test Year.

5.3.8 Within sixty days of the close of the twelve month period, the Company shall submit to the Commission a report showing whether it has fully distributed the ratepayer credit. Any resulting debits or credits shall be trued up through the next PBRC filing to be made following the submission of said report.

5.4. FILING PROCEDURES

On or before March 15, during the term of this PBRC Plan, the Company shall file in the OCC prescribed format, (See Attached Appendix 1 and Appendix 2), its ER calculation, PBRC calculation, credit calculations, Utility Incentive Adjustment and EE True-up Adjustment, including revised rate schedules, which may be warranted under this Plan at the OCC Court Clerk's Office, with copies by certified mail to the Public Utility Division of OCC, and to the Office of the Attorney General of the State of Oklahoma ("AG"). The Company shall also provide the supporting documentation relied upon by the Company for any adjustments or annualized amounts presented in this filing along with the initial filing. Any revision or revisions that impact the net income by more than 5% are considered major modifications to the original filing and will require the time line to restart, which would require adjustment of all implementation dates. The Oklahoma Corporation Commission Staff ("Staff") and the AG may request clarification and additional data, and the Company shall provide the same. If the Company determines that a credit is required under this PBRC Plan, then the Company shall also file on or before March 15, a plan to flow the credit through to the customers served under any rate schedules incorporating the PBRC Plan by reference. Unless disputed by the Staff or the AG, any revised rate schedules or any credit plan filed will become effective by Order of the Commission with billing on and after July 1. If the Staff or AG disputes the calculation of the ER, PBRC, Utility Incentive Adjustment, EE True-up Adjustment or credit, or the filed credit plan, or any component thereof, the Staff and the AG shall notify the Company on or before May 31.

The Company, the Staff and the AG shall work in good faith to resolve all disputes and answer all questions. If the Company, the Staff and the AG agree that any calculations or the credit plan should be revised, the Company shall file with the OCC the resulting adjusted rate or credit calculations, revised rate schedules, or revised credit plan which would be effective with billing on and after July 1.

5.4.1. The Filing described in Paragraph 5.4. shall be filed under a Commission PUD Docket Number. A streamlined Procedural Schedule shall be established to provide notice and due process to all interested parties, including customers.

5.5 ENERGY EFFICIENCY ("EE")

5.5.1 In addition to any credits or base rate increases applied pursuant to the PBRC Plan above, energy efficiency program costs and a utility incentive shall be recovered within the PBRC and trued-up annually, as set forth in this section. The energy efficiency component of the PBRC will be added to or subtracted from the Company's base rates and will be adjusted twice annually. Each adjustment shall be added to the base rates currently in effect. The EE Program Rate will be effective January 1 of each EE Program Year ("Program Year") (i.e., the twelve-month period commencing on January 1 of each year). The Company's Utility Incentive and True-up Adjustments for the prior Program Year will be effective July 1.

5.5.2 **EE Program Rate.** The EE Program Rates shall be concurrently recovered beginning on January 1 and ending on December 31 of each Program Year. On December 1 prior to the Program Year, the Company shall propose the rates to be recovered during the Program Year, accompanied by work papers sufficient to fully document the computation of the proposed rates. Such rates shall consist of the budgeted EE program costs for the upcoming Program Year approved by the Commission as part of the Company's most recent energy efficiency filing, shall be calculated using the rate formulas set forth in Appendix 2, and shall be in addition to any existing utility incentive or over-recovery/under-recovery from the prior year, as set forth in 5.5.3 and 5.5.4 below. The rates will become effective on January 1 or as the Commission shall otherwise determine.

5.5.3 **Utility Incentive Adjustment.** The Company may propose to make a Utility Incentive Adjustment calculated as set forth below. The utility incentive shall be proposed as part of the PBRC rate filings made pursuant to Paragraph 5.3, above, and shall be effective July 1, or as the Commission shall otherwise determine. The Utility Incentive Adjustment shall be applied in addition to the current EE Program Rates, and any True-up Adjustment as set forth in 5.5.4 below.

(a) Utility incentive for programs that pass the Total Resource Cost ("TRC") Test: the Company may collect fifteen percent (15%) of the net benefits (calculated using the Utility Cost Test) of such programs.

(b) Utility incentive for programs that do not pass the TRC Test: the Company may collect fifteen percent (15%) of the program costs for the applicable program period.

5.5.4 **True-up Adjustment.** The EE Program Rates and Utility Incentive Adjustment shall be trued-up annually. The True-up Adjustment shall consist of (1) the difference between the energy efficiency revenues collected during the prior Program Year, excluding the Utility Incentive Adjustment revenues, and the actual costs of the energy efficiency programs; and (2) the difference between the utility incentive approved by the Commission for recovery during the period between the implementation of the EE rate adjustment in the Company's prior two PBRC rate filings and the Utility Incentive Adjustment revenues collected during the same period. To this difference shall be added any remaining over/under balance remaining from the prior year. The True-up Adjustment shall be proposed as part of the PBRC rate filing made pursuant to Paragraph 5.4 and shall be implemented July 1, or as the Commission shall otherwise determine. This adjustment shall be applied in addition to the current EE Program Rates and Utility Incentive Adjustment.

5.5.5 For each adjustment made pursuant to this Section 5.5, the Company shall file an Exhibit in the form of Appendix 2 that sets forth the proposed adjustments to the rates.

5.5.6 Program or budget amendments that cause the overall program budget to exceed 10% of the previously-approved budget shall be filed with the Commission by September 1 prior to the start of the Program Year.

5.5.7 Should the balance in the over-recovery or under-recovery account for energy efficiency program costs exceed ten (10) percent of the energy efficiency program costs approved by the Commission for that Program Year, the Company may propose an interim revision to the then-currently effective energy efficiency program costs being collected by the Company.

5.6. APPLICABLE RATE SCHEDULES

Residential Firm Sales Service (RS-1)
General Firm Sales Service (GS-1)
Commercial Firm Sales Service (CS-1)
Commercial NGV Firm Sales Service (CS-NGV)
Large Commercial Sales Service (LCS-1)

CenterPoint Energy Resources Corp.
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CenterPoint Energy
Oklahoma Division
PBRC Revenue Requirement
For the Year Ended December 31,
Cause No. PUD

Line No.		(A) Company Amount	(B) Adjustments	(C) PBRC Adjusted Amount
1	Rate Base		$ -	$ -
2	Rate of Return (based on allowed ROE)	8.50%		8.50%
3	Operating Income Required (Line 1 x line 2)	$0		$ -
4	Actual Operating Income	$0	$0	$0
5	Return Excess (Deficiency) (Line 4 - Line 3)	$0		$0
6	Income Tax Gross-Up Factor	1.6367		1.6367
7	Calculated Base Rate Revenue (Deficiency)	$0		$0
8	PBRC Distribution to Ratepayers (75%) + AMA Revenue	$0		$0
9	PBRC Distribution to Company (25%)	$0		$0
	Revenue Requirement			
10	Return Requirement (Line 3)	$0		$0
11	Income Tax Gross Up (Line 5 - Line 7)	$0		$0
12	Expenses	$0		$0
13	Base Rate Revenue Requirement (Line 10 + 11 + 12)	$0		$0

CR

APPENDIX 1

Rates Authorized by the Oklahoma Corporation Commission:

(Effective)	(Order No.)	(Cause/Docket No.)
July 19, 2016	654461	PUD 201600094
September 6, 2011	588757	PUD 201100056
March 25, 2011	583869	PUD 201000148
July 1, 2007	541049	PUD 200700076
September 1, 2006	528372	PUD 200600062

Public Utility Division Stamp:

CenterPoint Energy Oklahoma Gas
PBRC RATE BASE
Test Year Ended December 31,
Cause No. PUD

LINE NO	DESCRIPTION	(A) COMPANY PBRC RATE BASE	(B) TEST YEAR ADJUSTMENTS	(C) PBRC RATE BASE
1	PLANT IN SERVICE:			
2	PLANT IN SERVICE	$ -	$ -	$ -
3	CONSTRUCTION WORK IN PROGRESS	-	-	0
4	LESS: ACCUMULATED DEPRECIATION	-	-	0
5	NET PLANT	-	-	-
6	OTHER RATE BASE INVESTMENT:			
7	PREPAYMENTS - GAS	-	-	0
8	MATERIAL & SUPPLIES	-	-	0
9	CURRENT GAS IN STORAGE	-	-	0
10	OTHER REGULATORY ASSETS	-	-	-
11	TOTAL INVESTMENT	0	0	0
	DEDUCTIONS			
12	CUSTOMER DEPOSITS	-	-	0
13	CUSTOMER ADVANCES	-	-	0
14	ACC DEFERRED INCOME TAX	-	-	0
15	TOTAL RATE BASE	$ -	$ -	$ -

APPENDIX 1

CENTERPOINT ENERGY OKLAHOMA GAS
PBRC ADJUSTMENTS TO RATE BASE
Test Year Ended December 31,
Cause No. PUD

LINE NO.	DESCRIPTION	(A) TOTAL CENTERPOINT RATE BASE	(B) ADJUSTMENT NO. 1	(C) ADJUSTMENT NO. 2	(D) ADJUSTMENT NO. 3	(E) TOTAL ADJUSTMENTS	(F) PBRC RATE BASE
1	PLANT IN SERVICE:						
2	PLANT IN SERVICE			$ -		$ -	$ -
3	CONSTRUCTION WORK IN PROGRESS					$ -	$ -
4	LESS: ACCUMULATED DEPRECIATION					$ -	$ -
5	NET PLANT	$ -	$ -	$ -	$ -	$ -	$ -
6	OTHER RATE BASE INVESTMENT:						
7	PREPAYMENTS				$ -	$ -	$ -
8	MATERIAL & SUPPLIES					$ -	$ -
9	CURRENT GAS IN STORAGE		$ -			$ -	$ -
10	OTHER REGULATORY ASSETS					$ -	$ -
11	TOTAL INVESTMENT	$ -	$ -	$ -	$ -	$ -	$ -
	DEDUCTIONS						
12	CUSTOMER DEPOSITS					$ -	$ -
13	CUSTOMER ADVANCES					$ -	$ -
14	ACC. DEFERRED INCOME TAX		$ -			$ -	$ -
15	TOTAL RATE BASE	$ -	$ -	$ -	$ -	$ -	$ -

APPENDIX 1

CenterPoint Energy Resources Corp.
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(866) 275-5265 toll-free
(580) 351-9601

CenterPoint Energy Oklahoma Gas
Explanation of PBRC Adjustments To Rate Base
Test Year Ended December 31,
Cause No. PUD

ADJ. NO.	ADJUSTMENT DESCRIPTION	(A) IMPACT ON RATE BASE INCREASE	(B) IMPACT ON RATE BASE (DECREASE)
B-1			
B-2			
B-3			
		$ -	$ -

APPENDIX 1

Rates Authorized by the Oklahoma Corporation Commission:

(Effective)	(Order No.)	(Cause/Docket No.)
September 6, 2011	588757	PUD 201100056
March 25, 2011	583869	PUD 201000148
July 1, 2007	541049	PUD 200700076
September 1, 2006	528372	PUD 200600062

Public Utility Division Stamp:

CenterPoint Energy Resources Corp.
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CenterPoint Energy
Oklahoma Division
Capital Structure
For the Year Ended December 31,
Cause No. PUD

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	Allowed Return on Equity based on PUD 201600094						CT
1	Long Term Debt	45.00%	6.79%	3.06%	1.00000	3.06%	CR
	Equity:						
2	Equity Units	0.04%	4.90%	0.00%	1.63670	0.00%	
3	Common Stock	54.96%	10.00%	5.50%	1.63670	9.00%	CR
4	Total	100.00%		8.56%		12.06%	CR
II	Maximum Allowed Return on Equity based on PBRC Tariff						
1	Long Term Debt	45.00%	6.79%	3.06%	1.00000	3.06%	CR
	Equity:						
2	Equity Units	0.04%	4.90%	0.00%	1.63670	0.00%	
3	Common Stock	54.96%	10.50%	5.77%	1.63670	9.44%	CR
4	Total	100.00%		8.83%		12.50%	CR
III	Calculation of Earned Return on Equity (ER)						
1	Long Term Debt	45.00%	6.79%	3.06%	1.00000	3.06%	CR
	Equity:						
2	Equity Units	0.04%	4.90%	0.00%	1.63670	0.00%	
3	Common Stock	54.96%	TBD	TBD	1.63670	0.00%	CR
4	Total	100.00%		TBD		TBD	

APPENDIX 1

Rates Authorized by the Oklahoma Corporation Commission:

(Effective)	(Order No.)	(Cause/Docket No.)
July 19, 2016	654461	PUD 201600094
September 6, 2011	588757	PUD 201100056
March 25, 2011	583869	PUD 201000148
July 9, 2009	568883	PUD 200900055
July 1, 2007	541049	PUD 200700076

Public Utility Division Stamp:

CenterPoint Energy Resources Corp.
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Third Revised Sheet No. 3-5.15/21

Applies to State of Oklahoma

Cancelling Second Revised Sheet No. 3-5.15/17

CenterPoint Energy Oklahoma Gas
PBRC OPERATING INCOME STATEMENT
Test Year Ended December 31,
Cause No. PUD

LINE NO	DESCRIPTION	(A) CENTERPOINT PBRC INCOME STATEMENT	(B) TOTAL ADJUSTMENTS	(C) TOTAL INCOME STATEMENT	(D) AUTHORIZED RATE CHANGE PER PBRC	(E) PBRC RESULTS
	OPERATING REVENUES:					
1	Residential		$ -	$ -	$ -	$ -
2	Commercial/Industrial		$ -	$ -	$ -	$ -
3	Transportation Revenues		$ -	$ -		$ -
4	Sub Total	$ -	$ -	$ -	$ -	$ -
	OTHER UTILITY REVENEUES:					
5	Gas Forfeited Discounts		$ -	$ -	$ -	$ -
6	Gas Misc Service Revenue		$ -	$ -	$ -	$ -
7	Other Gas Revenues		$ -	$ -	$ -	$ -
8	Sub Total	$ -	$ -	$ -	$ -	$ -
9	TOTAL OPERATING REVENUES	$ -	$ -	$ -	$ -	$ -
10	OPERATING EXPENSES:					
11	Cost of Gas		$ -	$ -	$ -	$ -
12	Operations Expenses		$ -	$ -	$ -	$ -
13	Depreciation and Amortization Expense		$ -	$ -	$ -	$ -
14	Taxes Other Than Income Taxes		$ -	$ -	$ -	$ -
15	Income Tax		$ -	$ -		$ -
16	TOTAL OPERATING EXPENSES	$ -	$ -	$ -	$ -	$ -
17	OPERATING INCOME	$ -	$ -	$ -	$ -	$ -
18	Interest Cost		$ -	$ -		$ -
19	Net Operating Income	$ -	$ -	$ -	$ -	$ -
20	TOTAL EQUITY	$ -	$ -	$ -		
21	RETURN ON EQUITY	#DIV/0!		#DIV/0!		

APPENDIX 1

Rates Authorized by the Oklahoma Corporation Commission:

Public Utility Division Stamp:

(Effective)	(Order No.)	(Cause/Docket No.)
September 6, 2011	588757	PUD 201100056
March 25, 2011	583869	PUD 201000148
July 1, 2007	541049	PUD 200700076
September 1, 2006	528372	PUD 200600062

CenterPoint Energy Oklahoma Gas
FERC Operating Income Statement Adjustments
Test year Ended December 31,
Cause No. PUD

LINE NO.	DESCRIPTION	(A) CENTERPOINT FERC INCOME STATEMENT	(B) ADJUSTMENT NO. 1	(C) ADJUSTMENT NO. 2	(D) ADJUSTMENT NO. 3	(E) ADJUSTMENT NO. 4	(F) ADJUSTMENT NO. 5	(G) ADJUSTMENT NO. 6	(H) TOTAL ADJUSTMENTS	(I) FERC INCOME STATEMENT
	OPERATING REVENUES:									
1	Residential	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Commercial/Industrial	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	Transportation Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
4	Sub Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	OTHER UTILITY REVENUES:									
5	Gas Forfeited Discounts	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	Gas Misc Service Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
7	Other Gas Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
8	Sub Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
9	TOTAL OPERATING REVENUES	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	OPERATING EXPENSES:									
10	Cost of Gas	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
11	Operations Expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
12	Depreciation and Amortization Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
13	Taxes Other Than Income Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
14	Income Tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
15	TOTAL OPERATING EXPENSES	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

APPENDIX 1

Rates Authorized by the Oklahoma Corporation Commission: Public Utility Division Stamp:

(Effective)	(Order No.)	(Cause/Docket No.)
September 6, 2011	588757	PUD 201100056
March 25, 2011	583869	PUD 201000148
July 1, 2007	541049	PUD 200700076
September 1, 2006	528372	PUD 200600062

CenterPoint Energy Oklahoma Gas
Explanation of PBRC Adjustments To The Operating Income Statement
Test Year Ended December 31,
Cause No. PUD

ADJ. NO.	ADJUSTMENT DESCRIPTION	(A) IMPACT ON NET OPERATING INCOME INCREASE	(B) (DECREASE)
H-1			
H-2			
H-3			
H-4			
H-5			
H-6			$ -
	Total	$ -	$ -

APPENDIX 1

CenterPoint Energy Oklahoma Gas
PRO FORMA CALCULATION OF TAXABLE INCOME
Test Year Ended December 31,
Cause No. PUD

DESCRIPTION	(A) CENTERPOINT RESULTS	(B) TEST YEAR ADJUSTMENTS	(C) ADJUSTED RESULTS	(D) RECOMMENDED INCREASE	(E) PRO FORMA RESULTS
OPERATING INCOME BEFORE INCOME TAXES	$ -	$ -	$ -	$ -	$ -
INCREASE (DECREASE) FOR TAXABLE INCOME:					
INTEREST ON LONG-TERM DEBT	-	0	0		0
DISALLOWED MEALS AND ENTERTAINMENT	-		0		0
SUBTOTAL	-	-	-	0	-
TAXABLE INCOME	0	0	0	0	0
STATE EFFECTIVE TAX RATE	6.000%	6.000%	6.000%	6.000%	6.000%
STATE INCOME TAX	$ -	$ -	$ -	$ -	$ -
FEDERAL TAXABLE INCOME	0	0	0	0	0
FEDERAL TAX RATE	35.000%	35.000%	35.000%	35.000%	35.000%
FEDERAL INCOME TAX	$ -	$ -	$ -	$ -	$ -
TOTAL STATE AND FEDERAL INCOME TAX	$ -	$ -	$ -	$ -	$ -
Plus Amortization	$ -		$ -		$ -
TOTAL INCOME TAXES	$ -	$ -	$ -	$ -	$ -

APPENDIX 1

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CenterPoint Energy
Oklahoma Division
Interest Calculation
For the Year Ended December 31,
Cause No. PUD

Line No.	(A) Description	(B) Pro Forma
1	Rate Base	$ -
2	Weighted Cost of Debt	3.06%
3	Interest on Debt (Line 1 * Line 2)	$ -

CR

APPENDIX 1

Rates Authorized by the Oklahoma Corporation Commission: Public Utility Division Stamp:

(Effective)	(Order No.)	(Cause/Docket No.)
September 6, 2011	588757	PUD 201100056
March 25, 2011	583869	PUD 201000148
July 1, 2007	541049	PUD 200700076
September 1, 2006	528372	PUD 200600062

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Third Revised Sheet No. 3-5.20/21

Applies to State of Oklahoma

Cancelling Second Revised Sheet No. 3-5.20/17

CenterPoint Energy Oklahoma Gas
Adjustments To Current Income Tax Expense
Test Year Ended December 31,
Cause No. PUD

LINE NO.	ADJUSTMENT DESCRIPTION	(A) INCREASE	(B) DECREASE
	ADJUSTMENT NO. 1		
1	To synchronize interest expense with PBRC rate base Interest Expense		$ -

APPENDIX 1

Rates Authorized by the Oklahoma Corporation Commission:

Public Utility Division Stamp:

(Effective)	(Order No.)	(Cause/Docket No.)
September 6, 2011	588757	PUD 201100056
March 25, 2011	583869	PUD 201000148
July 1, 2007	541049	PUD 200700076
September 1, 2006	528372	PUD 200600062

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Tenth Revised Sheet No. 3-5.21/21

Applies to State of Oklahoma

Cancelling Ninth Revised Sheet No. 3-5.21/21

CenterPoint Energy
Oklahoma Division
Energy Efficiency

Line No.		TOTAL		Res		GS-1		CS-1	
1 Budgeted Energy Efficiency Program Costs - Current Period	$	2,403,474	$	1,840,851	$	295,213	$	267,410	CR
2 Projected Volumes				51,123,509		10,188,212		18,404,769	CR
3 Current Year Unadjusted Rate - $/Ccf				0.0360		0.0290		0.0145	
4 Utility Incentive	$	405,126	$	200,474	$	39,762	$	164,890	CR
5 New Incentive Rate - $/Ccf				0.0039		0.0039		0.0090	CR
6 Prior Incentive Rate - $/Ccf (Informational Only)				0.0028		0.0069		0.0039	CR
7 Incentive True-up (Over)/Under	$	(87,710)	$	(65,119)	$	(5,925)	$	(16,666)	CR
8 New (Over)/Under Incentive Rate - $/Ccf				(0.0013)		(0.0006)		(0.0009)	CR
9 Prior (Over)/Under Incentive Rate - $/Ccf (Informational Only)				(0.0008)		(0.0005)		(0.0001)	CR
10 Program Costs True-up (Over)/Under	$	(359,256)	$	(311,884)	$	(117,267)	$	69,895	CR
11 New (Over)/Under Program Costs Rate - $/Ccf				(0.0061)		(0.0115)		0.0038	CR
12 Prior (Over)/Under Program Costs Rate (Informational Only) - $/Ccf				(0.0058)		(0.0052)		(0.0033)	CR
13 Total Recoverable Energy Efficiency Amount	$	2,361,635	$	1,664,322	$	211,784	$	485,529	CR
14 New Total Effective Energy Efficiency Rate - $/Ccf			$	0.0325	$	0.0208	$	0.0264	CR
15 Prior Total Effective Energy Efficiency Rate - $/Ccf (Informational Only)			$	0.0312	$	0.0273	$	0.0153	
16 Energy Efficiency Rate Adjustment to Base Rates - $/Ccf			$	0.0013	$	(0.0065)	$	0.0111	CR
									CR

APPENDIX 2

Rates Authorized by the Oklahoma Corporation Commission:

(Effective)	(Order No.)	(Cause/Docket No.)
July 19, 2016	654461	PUD201600094
January 1, 2016	640596	PUD 201400363
January 1, 2016	616573	PUD 201300085
November 4, 2015	646583	PUD 201500118
January 1, 2015	616573	PUD 201300085

Public Utility Division Stamp: