PUC DOCKET NO. 29526

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, RELIANT ENERGY RETAIL SERVICES, LLC AND TEXAS GENCO, LP TO DETERMINE STRANDED COSTS AND OTHER TRUE-UP BALANCES PURSUANT TO PURA §39.262	§ § § § § § §	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

CROSS-REBUTTAL TESTIMONY

OF

BRUCE BIEWALD

ON BEHALF OF THE

GULF COAST COALITION OF CITIES

JUNE 14, 2004

CROSS-REBUTTAL TESTIMONY
OF
BRUCE BIEWALD

TABLE OF CONTENTS

SECTION **PAGE**

I. INTRODUCTION 3

II. REBUTTAL OF GRIFFEY TESTIMONY 3

PUC DOCKET NO. 29526

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, RELIANT ENERGY RETAIL SERVICES, LLC AND TEXAS GENCO, LP TO DETERMINE STRANDED COSTS AND OTHER TRUE-UP BALANCES PURSUANT TO PURA §39.262	§ § § § § § §	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

CROSS-REBUTTAL TESTIMONY OF BRUCE BIEWALD

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bruce Biewald. My business address is Synapse Energy Economics, Inc., 22 Pearl Street, Cambridge, Massachusetts, 02139.

Q. DID YOU PREPARE DIRECT TESTIMONY IN THIS CASE?

A. Yes. My direct testimony on behalf of the Gulf Coast Coalition of Cities ("GCCC") was filed on June 1, 2004.

Q. WHAT IS THE PURPOSE OF THIS CROSS-REBUTTAL TESTIMONY?

A. The purpose of my cross-rebuttal testimony is to respond to the June 1, 2004 Testimony of Charles S. Griffey, a witness for Reliant Energy, Inc.

II. REBUTTAL OF GRIFFEY TESTIMONY

Q. WHAT ISSUE DOES MR. GRIFFEY ADDRESS IN HIS TESTIMONY, AND WHAT IS HIS POSITION?

A. Mr. Griffey's testimony recommends that excess mitigation credits ("EMCs") not be terminated at the end of this proceeding. He believes that the EMCs should be continued and that the Commission should deal with this issue in a subsequent proceeding.

Q. WHAT REASONS DOES MR. GRIFFEY GIVE FOR HIS POSITION THAT EMCS SHOULD NOT BE TERMINATED IN THIS CASE?

A. Mr. Griffey offers two reasons why the Commission should not terminate the EMCs upon the final order in this case:

(1) Eliminating EMCs will deprive the Commission and parties of perhaps the best opportunity to mitigate the rate impact from CEHE's stranded costs. Customers and other market participants are better off if the EMCs continue; and

(2) Eliminating EMCs at this time will introduce regulatory uncertainty into the market. Marketplace participants reasonably understood that, under the process outlined in the true up rule and price-beat ("PTB") rule, changes to EMCs would not occur other than in the context of a PUC SUBST. R. 25.263(n) proceeding, which was expected to be subsequent to this case. Terminating EMCs at this time would upset the reasonable expectations upon which industry participants have relied in negotiating customer contracts, and will require an accelerated, corresponding adjustment to the PTB. Both consequences can be avoided by deferring decision on the treatment of EMCs to the contemplated subsequent proceeding.[1]

---

[1] Direct Testimony of Charles S. Griffey, June 1, 2004, page 5 of 16 (footnotes omitted).

Q. DO YOU AGREE WITH MR. GRIFFEY?

A. No. I disagree with both of his reasons, and with his recommendation to continue the EMCs.

Q. WHY DO YOU DISAGREE WITH MR. GRIFFEY THAT "ELIMINATING THE EMCS WILL DEPRIVE THE COMMISSION AND PARTIES OF PERHAPS THE BEST OPPORTUNITY TO MITIGATE THE RATE IMPACT OF CEHE'S STRANDED COSTS?"

A. Particularly for customers served by Reliant, the affiliated retail energy provider ("AREP") under PTB rates, continuation of the EMCs exacerbates stranded costs. The EMC credit is provided by CenterPoint to Reliant, and there is no evidence that customers served under the PTB see a benefit given that their rates are frozen. Continuing the EMCs merely increases the stranded costs that will eventually be securitized and then paid by these customers over fifteen years. This is not useful or meaningful "mitigation." These customers will be better off if the EMCs are terminated as soon as possible. If the EMCs are terminated, then the amount of the EMCs not yet "refunded" would serve as a credit to the amount of stranded costs to be securitized, thereby serving directly as stranded cost mitigation. Significantly, CenterPoint witness McGoldrick acknowledges this point and proposes to terminate the EMCs as soon as possible in his supplemental testimony.

Q. ARE YOU SYMPATHETIC TO MR. GRIFFEY'S CONCERN FOR MARKET STABILITY AND CERTAINTY?

A. Yes, but only moderately. All other things being equal, stability and certainty are preferred. However, the desire for stability and certainty do not trump other considerations as a general matter or specifically in this case. Markets are inherently volatile and uncertain, both in terms of exogenous factors (e.g., world oil prices) and regulatory factors (e.g., changes in the tax code, changes in ratemaking practice). Market participants deal with all sorts of risks on an ongoing basis.

In the case of the EMCs, they were created as a result of shifting market conditions, when the apparently large amount of stranded costs originally anticipated evaporated into a large negative number. Now a few years later the situation appears to have changed again, and the Company has requested stranded cost recovery of $2.4 billion,[2] there should not be any particular surprise that the EMCs would be terminated. Indeed, considerations of equity require that they be terminated. The purpose for which they were created – to "refund" excess mitigation – no longer exists. The remaining excess earnings to which customers are entitled should simply be credited against the Companies' stranded costs, as an adjustment to net book value.

Q. HOW WOULD A CHANGE SIMILAR TO THE MAGNITUDE OF THE EMCS COMPARE WITH OTHER CHANGES IN THE MARKET?

A. According to Exhibit CSG-2 the current EMC for residential customers is $0.004873/kWh. This is certainly not an insignificant amount, but it is not large compared to recent changes in electric wholesale market prices due to changes in the

---

2 This figure does not include interest on stranded costs or the capacity auction true up balance.

market price for natural gas. The Commission should not set rates at a level that is unreasonable for fear of disrupting the market.

Q. MR. GRIFFEY CLAIMS THAT CUSTOMERS ARE BETTER OFF IF THE EMCS ARE CONTINUED, AND HE PROVIDES SOME COST FIGURES TO DEMONSTRATE HIS POINT. HAVE YOU REVIEWED THAT SECTION OF HIS TESTIMONY?

A. I have read Mr. Griffey's testimony including that section on page 8 where he claims that customers would be "better off on a NPV basis if the Commission continues to return the excess earnings via EMCs as decided in the UCOS Order rather than switching to a 15-year period based on securitization."[3]

Q. WHAT IS YOUR VIEW ON THIS TOPIC?

A. I believe that Mr. Griffey's analysis fails to recognize important differences in the recipients of the credits. He effectively assumes that Reliant passes the full credit along to customers served under PTB rates. This is not a reasonable assumption. I believe that customers will be better off with the amount to be securitized and recovered over 15 years reduced by the amount of the remaining excess earnings not yet "refunded" via the EMCs.

Q. DOES THIS CONCLUDE YOUR CROSS-REBUTTAL TESTIMONY?

A. Yes.

---

[3] Direct Testimony of Charles S. Griffey, page 8 (lines 18 to 21).