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**

DIRECT TESTIMONY

OF

BRUCE BIEWALD

ON BEHALF OF THE

GULF COAST COALITION OF CITIES

JUNE 1, 2004

DIRECT TESTIMONY OF
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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Bruce Edward Biewald. I am president of Synapse Energy Economics, Inc., 22 Pearl Street, Cambridge, Massachusetts, 02139.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I am president and owner of Synapse Energy Economics, Inc., a consulting company specializing in economic and policy analysis of the electricity industry, particularly issues of restructuring, market power, electricity market prices, consumer protection, stranded costs, efficiency, renewable energy, environmental quality, and nuclear power. I graduated from the Massachusetts Institute of Technology in 1981, where I studied energy use in buildings. I was employed for 15 years at the Tellus Institute, where I was responsible for studies on a broad range of electric system regulatory and policy issues as Manager of the Electricity Program. I have testified on energy issues in more than eighty regulatory proceedings in twenty-five states, two Canadian

provinces, and in state and federal courts. I have co-authored more than one hundred reports, including studies for the Electric Power Research Institute, the U.S. Department of Energy, the U.S. Environmental Protection Agency, the Office of Technology Assessment, the New England Governors' Conference, the New England Conference of Public Utility Commissioners, and the National Association of Regulatory Utility Commissioners. My papers have been published in the *Electricity Journal*, *Energy Journal*, *Energy Policy*, *Public Utilities Fortnightly* and numerous conference proceedings, as well as made presentations on the economic and environmental dimensions of energy throughout the U.S. and internationally. I also have consulted for federal agencies, including the Department of Energy, the Department of Justice, the Environmental Protection Agency, and the Federal Trade Commission. Details of my experience are provided in Exhibit BEB-1.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of the Gulf Coast Coalition of Cities ("GCCC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In this testimony I analyze and make recommendations on certain aspects of the true up filing made by CenterPoint Energy Houston Electric, LLC ("CenterPoint"), Reliant Energy Retail Services, LLC ("Reliant"), and Texas Genco, LP ("TGN"), collectively "the Companies." Specifically, I will be testifying on: (1) environmental cleanup costs, (2) excess mitigation credits, (3) the interest portion of the excess mitigation credits, and (4) Construction Work in Progress ("CWIP"). I also support the GCCC's legal and consulting costs in this case.

Q. PLEASE SUMMARIZE YOUR MAIN CONCLUSIONS AND RECOMMENDATIONS.

A. My main conclusions and recommendations are as follows.

The $780 million of environmental cleanup costs for which the Companies request recovery in this case were not all "prudent, reasonable, and necessary." The Company overran the cap set in Docket No. 24835 by $81 million. It also failed to recognize a drastic decline in the operation of its units resulting primarily from new generating capacity additions to the electric system. The Company's failure to analyze the emissions controls using reasonable projections of capacity factors for its generating units was unreasonable and imprudent. As a result, the Company incurred $108 million for emission controls at the P. H. Robinson station which has been mothballed. I recommend that $189 million of the Company's requested environmental cleanup costs be removed from recoverable stranded costs. This represents the overrun of $81 million above the cap, and the $108 million for controls at P. H. Robinson.

With regard to the Excess Mitigation Credits ("EMCs"), I conclude that the decision in 2001 to create those credits was based upon projections of large amounts of excess mitigation that have turned out to be incorrect, and that customers have effectively been deprived of reductions to stranded costs. The Commission should act in this case to discontinue the EMCs as soon as possible, and the amount of EMCs that have been paid to the affiliate retail energy provider, Reliant Energy, serving customers under price to beat ("PTB") rates should be credited to customers in the stranded cost determination in this true-up case. The regulated utility, CenterPoint,

and the unregulated affiliated retail electric provider ("AREP"), Reliant Energy, have a joint obligation to mitigate stranded cost. The specific amount of this adjustment to the Companies' filed cost numbers will depend upon the total actual amount of EMCs paid between now and the time the Commission's order in this case is implemented.

With regard to the ***interest*** portion of the EMCs, I conclude that the Companies' filing has the Companies keeping rather than appropriately crediting it to customers. The Companies should be required to reduce its net book value by the amount of interest on the EMCs in this case. This amounts to approximately $180 million.

With regard to Construction Work in Progress, I conclude that the Companies have not demonstrated that the non-environmental portion of CWIP should be paid for by customers as part of the stranded cost recovery in this case. The Companies do not identify a specific number for non-environmental CWIP, nor do they identify the components of that CWIP or justify its inclusion in rates. I recommend that Commission not allow the approximately $89 million of non-environmental CWIP that appears to be included in the Companies calculation.

Q. DID GCCC CONDUCT A COMPREHENSIVE REVIEW OF THE COMPANIES' FILING IN THIS CASE?

A. No. In an attempt to minimize duplication of effort, GCCC has focused upon a few specific issues in this case. Failure to comment on a particular issue, should not be interpreted as agreement with the Companies' position.

Q. HAVE YOU PROVIDED THE RFI RESPONSES THAT YOU RELIED UPON FOR THIS TESTIMONY?

A. Yes. The non-confidential RFI responses are provided in Exhibit BEB-2. The confidential RFI responses are provided in confidential Exhibit BEB-3.

Q. HAVE YOU PROVIDED YOUR WORKPAPERS?

A. Yes. My workpapers are provided in Exhibit BEB-4.

II. ENVIRONMENTAL CLEANUP COSTS

Q. PLEASE SUMMARIZE THE BACKGROUND FOR YOUR REVIEW OF THE COMPANIES' NOx CONTROL INVESTMENTS IN THIS DOCKET.

A. PURA[1] §39.252(a) allows Texas' regulated utilities to recover approved stranded costs in the transition to a competitive electric power industry. In addition, PURA §39.251 defines stranded costs to include certain environmental cleanup costs as set out in PURA §39.263. PUC Substantive Rule 25.261 lays out the terms under which companies may recover investments made towards reducing emission controls between January 1, 1999 and April 30, 2003. This rule establishes that one regulatory proceeding would evaluate the "cost-effectiveness" of companies' proposed emission control plans (§25.261(e)), and a second proceeding would evaluate whether the qualifying costs incurred during the period were "prudent, reasonable and necessary" (§25.261(f)). For the Reliant/CenterPoint Companies, the first proceeding required by the rule was PUC Docket No. 24835, *Petition of Reliant Energy, Incorporated for*

[1] Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §39.252(a) (Vernon 1998 & Supp. 2003) ("PURA").

Approval of Environmental Cleanup Costs Plan, and the second is the instant proceeding, Docket No. 29526.

In Docket No. 24835, the Companies filed a NOx control plan that involved investments at 25 of its generating units at eight power plant sites. At many of the larger units, the proposed investments included both lower cost combustion controls and higher cost post-combustion controls, such as Selective Catalytic Reduction ("SCR") systems. The cost of the entire plan totaled $721 million. Reliant requested recovery of $699 million of this amount.

In Docket No. 24835, the Commission determined that the NOx control plan proposed by the Companies was cost effective, and it established a cap of $699 million on recoverable costs associated with that plan.[2] Importantly, the Commission approved the plan as a whole, and it explicitly limited the scope of that proceeding to provide the Companies with flexibility in implementing the plan.[3] This flexibility is consistent with the provisions of PUC Substantive Rule 25.261 that require the Companies, in this docket, to demonstrate the prudence and reasonableness of their implementation of the NOx control plan.

Q. WHAT ISSUES DO YOU ADDRESS REGARDING THE COMPANIES' IMPLEMENTATION OF THE NOX CONTROL PLAN?

A. First, I address the prudence of several investments the Companies made in older generating units for which there is currently little demand. Second, I focus on

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2 Final Order, PUC Docket No. 24835, April 12, 2002.

3 Final Order, PUC Docket No. 24835, p. 14.

expenditures the Companies have requested in excess of the $699 million cap established in Docket No. 24835.

In its Preliminary Order in this proceeding, the Commission identified these issues as "issues to be addressed." The Commission articulates issue 2(c) as:

> "Have the applicants met their burden of proof under PUC SUBST. R. 25.261(f) to demonstrate that the environmental cleanup costs for which the applicants seek to recover as invested capital under PURA §39.263 were prudent, reasonable, and necessary and were actually incurred to implement the most cost-effective alternative?"[4]

The prudence of the Companies' implementation of the NOx control plan is also relevant to issue number 3 in the Preliminary Order: "Have the applicants appropriately mitigated stranded costs."[5]

Q. HAVE ALL OF THE COMPANIES' EMISSION-CONTROL INVESTMENTS BEEN "PRUDENT, REASONABLE, AND NECESSARY?"

A. No. Six of the generating units in which the companies are making substantial NOx-control investments have seen dramatically declining utilization during the period 2000 through 2004. It is likely that these plants will be underutilized in the near term as well. These units are: P. H. Robinson units 1 through 4, T. H. Wharton unit 2 and Greens Bayou unit 5. Together, these units represent 2,871 MW of generating capacity. All six units are over 30 years old; three of them are over 35 years old, and one is over 40 years old. Demand for these units has been falling since late 2000, and the Companies began officially "mothballing" the units in 2002 – that is, closing the

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4 Preliminary Order, PUC Docket No. 29526, May 4, 2004, p. 12.

5 Preliminary Order, PUC Docket No. 29526, May 4, 2004, p. 11.

units for the majority of the year. I am not questioning the decision to dispatch these units infrequently or the decision to mothball these units. Indeed, given the vintage and poor operating efficiency of these units they should not be operated at high capacity factors.

It is not cost effective to make significant emission control investments in units likely to be utilized at very low levels in the near term. A mothballed unit, for example, does not emit any pollution. As such, emission controls for the unit are obviously not necessary. To justify a significant investment at a large generating unit, one must expect there to be reasonable demand for the unit in the near future. If one does not expect a reasonable level of demand for the unit, the investment should be deferred until more information is available about future demand for the unit.

I use the term "prudent" to mean actions made by a reasonable person based upon information that management had, or should have had, at the time of the actions. Imprudence could be the result of simply making an unreasonable decision, or failing to obtain information or conduct analysis that should have been obtained or conducted based upon facts known at the time of the decision. In the interest of incurring costs prudently and mitigating its stranded costs, the Companies should have taken into account actual market conditions in implementing the NOx control plan. Specifically, the Companies should have considered deferring or canceling investments in plants that were likely to have very low utilization rates in the near term. Instead, the Company proceeded to make substantial emission control investment in aged and inefficient gas units. The logical explanation for this is that

the Company wanted to make the investment in time to have the costs included as part of their stranded cost recovery.

Q. WHY HAS THERE BEEN SO LITTLE DEMAND FOR SOME OF THE COMPANIES' OLDER PLANTS RECENTLY?

A. The period 1999 to the present has been marked by unprecedented market entry in the Texas wholesale power market. Table 1 shows the amount of generating capacity added in each year of this period. This information is from the Commission's website. Between January 1998 and December 2000, prior to the filing of the Companies' NOx control plan, over 7,600 MW of new capacity was added in Texas, and 780 MW of this capacity was added in the Houston area. During 2001 through 2003, as the Companies pressed ahead with implementation of the NOx control plan, over 20,800 *additional* MWs were added in Texas, with over 3,200 of them in the Houston area. For context the *total* peak hour demand for electricity in the Electric Reliability Council of Texas system is about 60,000 MW. This is an extremely rapid capacity expansion by any measure.

Table 1. Generating Capacity Additions in Texas, 1998 – 2004

	New Capacity Added (MW)	
Year Online	In Texas	In Houston Area
1998	824	240
1999	1,403	0
2000	5,399	540
2001	7,257	497
2002	6,698	1,731
2003	6,867	995
Q1, 2004	620	0
Under Construction	2,482	598
Total	31,550	4,601

Source: www.puc.state.tx.us/electric/reports/gentable.pdf.

Many of the new power plants in Texas utilize very efficient, combined-cycle generating technology. These plants typically have efficiencies in the range of 45 to 49%. Older steam units, like those at Robinson, Wharton and Greens Bayou, have efficiencies in the range of 29 to 33%. Thus, regardless of gas prices, these units are almost certain to have lower total operating costs than many of the Companies' older, gas-fired steam units. This means that the new units are likely to bid less than the Companies' gas-fired steam units into wholesale electricity markets.

Q. HAS IT BEEN CLEAR FOR SOME TIME THAT SURPLUS CAPACITY WOULD REDUCE DEMAND FOR SOME OF TEXAS GENCO'S OLDER STEAM UNITS?

A. Yes. As shown in Table 1 above, there was a remarkable amount of capacity under development in Texas during the years 1998 through 2001. The Companies filed the NOx control plan in October 2001. I reviewed the plan at that time for the Texas Office of Public Utility Counsel ("OPC"). I was concerned most by the fact that the plan was based on unrealistically high forecasted utilization rates for the Companies' older, gas-fired steam units. In its Statement of Position on the NOx control plan, the OPC stated that the methodology used by the Companies for forecasting future use of their plants "does not appropriately reflect current dynamics in Texas wholesale power markets and significantly overestimates the utilization of many plants."[6] In other words, I believed that the NOx control plan included investments in plants that were not likely to operate in the near term as much as the Companies projected.

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6 OPC Statement of Position, PUC Docket 24835, January 8, 2002, pp. 1-2.

Q. WERE THE COMPANIES AWARE, WHEN THEY FILED THE NOX CONTROL PLAN, THAT UTILIZATION OF SOME OF THEIR PLANTS WAS LIKELY TO BE MUCH LOWER THAN ASSUMED?

A. I believe so. The CEO of Texas Genco, David Tees, recently acknowledged that the Companies were aware of a capacity surplus in the state at least as far back as 2001.[7] However, the Companies were almost certainly aware in 2000 of a probable capacity surplus. As shown in Table 1, between January 1998 and December 2000, over 7,600 MW were added in Texas, with 780 MW of it in the Houston area. Further, at least 1,500 MW of new capacity in the Houston area was either under construction or in the advanced stages of planning in December 2000. This was ten months before the Companies filed the NOx control plan with the Commission.

During discovery, the Companies provided projections of plant utilization made in September 2002.[8] Figure 1 shows these projections (2002 through 2007) along with the actual capacity factors for 2000 and 2001. Note that, at this time, the Companies were projecting no operation of Greens Bayou 5 through 2006 (and 1% utilization in 2007). Utilization of the P. H. Robinson units was projected to be below 10% through 2006. It was at the time of these projections, the Fall of 2002, that the Companies officially mothballed all six of these generating units.[9]

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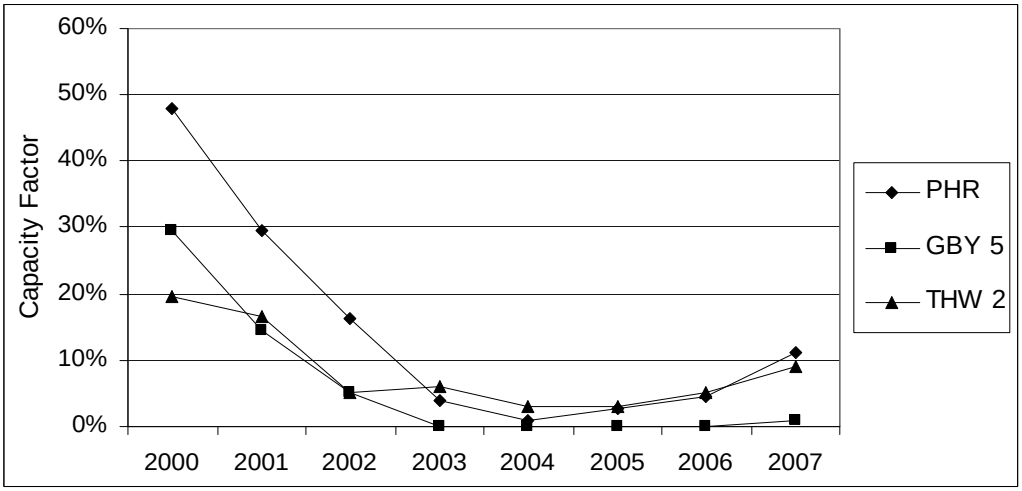
7 Direct Testimony of David G. Tees, Docket No. 29526, March 31, 2004, p. 74, lines 6-8.

8 CenterPoint Response to GCCC RFI 2-24, Attachments 5, 6, and 7.

9 Direct Testimony of David G. Tees, Docket No. 29526, March 31, 2004, p. 35.

Figure 1. Texas Genco Projections of Plant Utilization Made in September 2002



Given the new plants added in Houston during 1998 through 2001, and the Companies' projections in 2002, it is almost certain that the Companies were projecting declining utilization of these plants in 2001, when they filed the NOx control plan.

Q. WHAT DID THE COMPANIES ASSUME ABOUT THE FUTURE UTILIZATION OF THEIR POWER PLANTS WHEN THEY DEVELOPED THE NOX CONTROL PLAN?

A. The Companies forecasted utilization using the methodology laid out in Substantive Rule 25.261. In this methodology, plant capacity factors (*e.g.*, utilization rates) for 2003 were to be the average of the factors for 2000 through 2002, and the factors were to be adjusted down by 2% per year thereafter. This methodology was proposed in rulemaking comments by Texas Utilities, and adopted by the Commission in its Order Adopting Substantive Rule 25.261.[10] Notably, the Companies provided no

[10] *See* Order Adopting New Substantive Rule 25.261 Relating to Stranded Cost Recovery of Environmental Cleanup Costs, Project No. 21406, September 7, 2000, Preamble, p. 41.

comment on the methodology, despite the evidence that actual utilization of many of its plants was likely to be much lower than predicted by this methodology.

However, despite this shortcoming in the methodology required for developing the NOx control plan, several provisions of PURA §39.252 and Substantive Rule 25.261 were designed to ensure that the Companies *implemented* the NOx control plan prudently.

Q. WHAT PROVISIONS REQUIRED THE COMPANIES TO IMPLEMENT THE NOX CONTROL PLAN PRUDENTLY?

A. First, PUC SUBST. R. 25.261(f) states that, in the true-up proceeding, each company has the "burden of showing that its qualifying costs during the period were prudent, reasonable, and necessary…." This language clearly establishes that the finding that costs "qualify" for recovery (in Docket No. 24835) is not sufficient. Expenditures must both qualify and be prudent, reasonable, and necessary.

Second, PURA §39.252 explicitly directs the Companies to mitigate their stranded cost liability. Obviously, making large investments in plants that will not be needed for some time is not mitigating stranded costs. In fact, this could be seen as doing just the opposite, as frontloading into the stranded cost sum investments that will not be needed for some time.

Third, in its Final Order approving the NOx control plan, the Commission was clear to call the $699 million figure a "cap"[11] and to limit the scope of that proceeding to provide the Companies with "important flexibility in implementing

[11] Final Order, PUC Docket No. 24835, April 12, 2002, p. 10.

[their] emissions reduction plan".[12] The establishment of a cap, within which the Companies had flexibility, is consistent with the requirement in PUC SUBST. R. 25.261 that the Companies exercise prudence in implementing their NOx control plan.

Notably, the CEO of Texas Genco, David Tees, recently stated that he understood the Companies' obligation to invest in NOx controls only at plants that were expected to generate income sufficient to justify the investments.[13]

Q. DID THE COMPANIES FACTOR CURRENT MARKET CONDITIONS INTO THEIR IMPLEMENTATION OF THE NOX CONTROL PLAN?

A. No. During discovery, the Gulf Coast Coalition of Cities asked the Companies what actions they took "once it became evident that a surplus of electric generating capacity existed in Texas".[14] The specific actions the Companies cite are: "…TGN announced the mothballing of several generating units, and it deferred planned outages and projects associated with those units until such time that the Company felt the units would be needed by the market to serve demand."[15] It is noteworthy that the Companies chose to defer some projects at the mothballed plants – but not the emission control projects – which could be recovered as stranded cost if they were not deferred.

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12 *Ibid.*, p. 4.

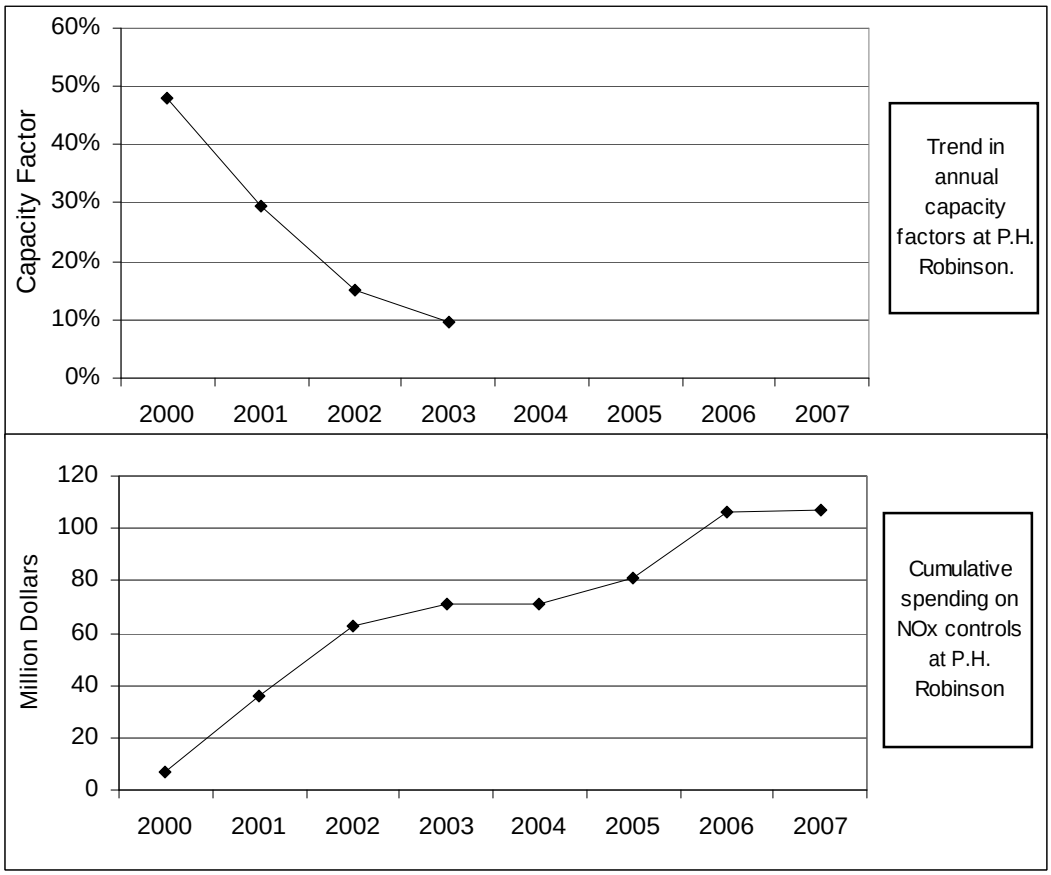
13 *See* Exhibit BEB-5.

14 CenterPoint Response to GCCC RFI 2-2.

15 *Ibid.*

Figure 2 compares the actual utilization of P. H. Robinson to the timing of the investments Texas Genco made, and will make, at the plant. The information in this figure was provided by the Companies in discovery in this proceeding.[16] This figure shows substantial investments in the years 2001 and 2002, when plant utilization was declining rapidly. The lower chart also shows significant planned investments in the years during which plant utilization was projected to remain very low (see Texas Genco's 2002 projection of output from P. H. Robinson in Figure 1).

Figure 2. Utilization versus NOx Control Investment at P.H. Robinson



[16] CenterPoint Response to COH RFI 9-31 Supp 1, and CenterPoint Response to GCCC RFI 2-22.

Q. IS THERE EVIDENCE THAT THE COMPANIES EXERCISED ANY DISCRETION IN IMPLEMENTING THE NOX CONTROL PLAN?

A. No, there is not. The GCCC also asked the Companies if they had performed any analysis to determine whether the plan or the costs of the plan would be different if based on "actual and currently expected unit capacity factors" rather than the projections used in Docket No. 24835.[17] The Companies responded that they do not have any documents responsive to that request.[18]

In addition, the GCCC asked: "what, if any, decisions did the Companies make during the period 2002 through the present regarding which emission control systems approved in Docket No. 24835 to install and which not to install."[19] The Companies' complete response is: "The Commission found the emission control plan approved in Docket No. 24835 to be reasonable, and the Company is implementing that plan."[20]

These two responses reveal a strikingly narrow interpretation of the Companies' obligations in implementing the NOx control plan. Moreover, the responses ignore the Companies' obligations to implement the plan prudently, to mitigate their stranded costs and to act in the interest of their ratepayers.

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17 *See* GCCC RFI 2-26.

18 CenterPoint Response to GCCC RFI 2-26, provided in Exhibit BEB-2.

19 *See* GCCC RFI 2-21, provided in Exhibit BEB-2.

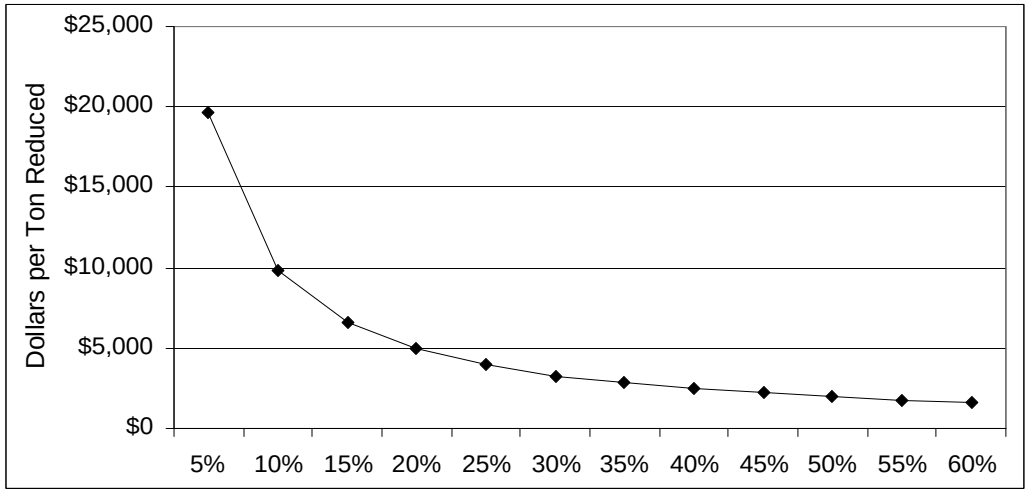
20 CenterPoint Response to GCCC RFI 2-21, provided in Exhibit BEB-2.

Q. WHAT WOULD PRUDENT IMPLEMENTATION OF THE NOX CONTROL PLAN HAVE LOOKED LIKE?

A. Prudent implementation of the NOx control plan would have involved periodic analyses of whether forecasted utilization of the units involved in the plan justified the investments there. In fact, the rapidly falling utilization of the P. H. Robinson units, Wharton 2 and Greens Bayou 5 should have alerted the Companies to the fact that such an analysis was necessary. Reviewing the cost effectiveness of the NOx control investments would have been neither highly time-consuming nor labor intensive.

One simple way to screen the investments periodically would have been to assess the cost effectiveness of the proposed emission controls, in terms of dollars per ton of NOx removed, based on the Companies' *current* forecasts of actual utilization rates. These analyses would have shown that, at low utilization rates, the proposed investments at several plants would result in very expensive NOx reductions. Figure 3 shows an illustrative calculation of the cost effectiveness of the controls installed at P. H. Robinson at different plant utilization rates. This is not intended to be a precise calculation, because it is based on publicly available information about the plant. However, it does show the kind of cost effectiveness numbers the Companies would have seen had they performed a similar analysis. At a utilization rate of 10%, the investment at P. H. Robinson yields reductions at a cost of roughly $10,000 per ton. At a utilization rate of 20%, reductions come at $5,000 per ton. Of course, in a year when the plant does not operate at all, the NOx control investment provides no value whatsoever.

Figure 3. The Cost of NOx Reductions at P.H. Robinson as a Function of Plant Utilization (Capacity Factor)



In Figure 3, the proposed investment in P. H. Robinson ($108 million) is annualized using a capital recovery factor of 12%. The plant-average, uncontrolled emission rate is assumed to be 0.14 lb/mmBtu, based on data from the US Environmental Protection Agency's Acid Rain Program. The NOx controls are assumed to reduce this rate by 90% on average. The data points were calculated by simply dividing the annualized cost of the investment by annual tons reduced.

The Companies' current projection for P. H. Robinson forecasts a utilization rate of 10.8% in 2008.[21] As noted, the cost of the NOx reductions at that utilization rate would be in the range of $10,000 per ton. The Companies have not projected utilization beyond 2008. It is unclear when – or if – the utilization of Robinson will reach 20%, where the cost of NOx reductions would be "only" about $5,000 per ton.

[21] CenterPoint Response to GCCC RFI 2-23, Attachment 1, provided in Exhibit BEB-2.

This type of analysis might have also predicted extremely costly emission reductions at Wharton 2 and Greens Bayou 5. In 2002, Texas Genco projected a 9% utilization rate in 2007 at Wharton 2 and a 1% utilization rate in 2007 at Greens Bayou 5.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE ENVIRONMENTAL CLEANUP COSTS?

A. First, the Companies have requested recovery of $779,599,440 in this proceeding. However, in its Final Order in Docket No. 24835, the PUC clearly stated that the $699 million figure would "operate as the cap" on NOx control expenditures. The Companies should not be allowed to recover the $81 million in costs that are in excess of the cap.

Second, to quote PUC Substantive Rule 25.261(f), the Companies should be allowed to recover only their "prudent, reasonable and necessary" investment in emission controls. The Companies should recover only the prudent, reasonable, and necessary expenditures it made within the spending cap.

As discussed above, the Companies were aware while implementing the NOx control plan that several of the generating units involved in the plan would be utilized far less than assumed when developing the plan. Despite this knowledge, Texas Genco went ahead with investments at these units. The largest such investment is the $108 million investment in combustion controls and SCR systems at the four P. H. Robinson units.

I believe that a regulated utility acting prudently would have deferred the planned investments at P. H. Robinson until it had more information about long-term

demand for and utilization of these units. However, if the Companies had deferred the projects at P. H. Robinson, it would not have been able to claim the recovery of the costs of those projects from CenterPoint ratepayers as stranded costs in this true-up case. Rather than mitigating stranded costs by making only prudent, reasonable and necessary investments in emission controls, the Companies exacerbated the stranded cost burden with significant investments in P. H. Robinson that are not used and useful at this time and may never be.

I recommend that the Companies not be allowed to recover the $108 million investment in the P. H. Robinson units. This would allow the Companies to recover $591 million of their NOx control costs, calculated as the $699 million cap less $108 million.

III. EXCESS MITIGATION CREDITS

Q. WHAT ARE EXCESS MITIGATION CREDITS?

A. Excess mitigation credits are amounts that CenterPoint Energy Houston Electric pays to retail energy providers ("REPs") through a credit in its regular bills.[22]

Q. HOW AND WHY WERE EMCS CREATED?

A. EMCs began in January 2002. They were created pursuant to the PUC's October 4, 2001 Order in Docket No. 22355, Reliant's Unbundled Cost of Service ("UCOS") proceeding.

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[22] *See* Reliant's Response to OPC RFI 8-1.

Prior to that docket, the PUC had allowed the Company to retain excess earnings, in order to mitigate its stranded costs. That is, customers during the period 1998 through 2001 were entitled to rate reductions, but rather than reduce rates the PUC had the Company "redirect depreciation," in effect using the customers' money to pay off what were expected to be significant positive stranded costs. Then, in Docket No. 22355, the PUC projected that the market value of the Company's generating assets ***exceeded*** their book value. At that point in time, rather than having stranded costs, CenterPoint was estimated to have $2.6 billion of "excess mitigation."[23] With this large amount of excess mitigation in mind, it made sense at the time to create a mechanism so that the Company would not over-collect stranded costs. The EMCs were put in place, starting in January 2002, for this reason. Specifically, the PUC ordered that:

> It is reasonable and necessary to reverse depreciation that was redirected to generation plant under PURA §39.256 and to apply excess earnings used to mitigate stranded costs under PURA §§39.254 & 39.257 as a credit to nonbypassable delivery charges as described in Findings of Fact Nos. 160 through 168…."[24]

The amount of excess earnings for the period 1998 through 2001 totaled $1,131,305,253.[25] The EMCs were set up to credit that amount, plus interest computed at 7.5% over a seven year period from 2002 through 2008.

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23 *See* Order in PUC Docket No. 22355, pp. 50 and 165.

24 Order, PUC Docket No. 22355, October 4, 2001, p. 164.

25 Direct Testimony of James S. Brian, Docket No. 29526, p. 18 of 29.

Q. DID THE COMMISSION IN 2001 RECOGNIZE THAT THERE WAS UNCERTAINTY WITH REGARD TO STRANDED COSTS?

A. Yes, in its October 4, 2001 Order in Docket No. 22355, the Commission indicated that the stranded cost figures were subject to considerable uncertainty and that it was important to maintain flexibility in dealing with stranded costs and EMCs going forward.

Q. HAVE EVENTS UNFOLDED AS THEY WERE EXPECTED TO FROM THE PERSPECTIVE OF LATE 2001?

A. The Commission was correct about the great uncertainty and about the need for flexibility. Other than that, events have unfolded rather differently from the expectations in late 2001 when the Commission decided that EMCs should be implemented so as to prevent CenterPoint from over-recovering stranded costs. From today's perspective it appears clear that the Commission's 2001 projection of electricity market prices was overly optimistic. CenterPoint's claim in this proceeding is for stranded costs of $2.4 billion (this figure does not include interest on stranded costs or the capacity auction true up balance). While intervenors, including the GCCC will demonstrate the unreasonableness of this request, it is clear at this point in time with the benefit of hindsight that the implementation of the EMCs at the end of 2001 was premature.

Q. DO THE EMCS PROVIDE BENEFITS TO CUSTOMERS?

A. Yes and no. When the PUC established the EMCs it ordered the credits be made to REPs rather than directly to PTB customers. For the non-affiliated or competitive

REPs, it is possible that the prices offered are lower than they would otherwise be as a result of these credits. However, for the AREP service customers served under the PTB there is no benefit. This is because the PTB rate has been frozen. The vast majority of residential customers are served by the AREP, Reliant Energy Retail Services. For those customers, the AREP benefits from the EMCs, but the customers do not.

Q. IS TERMINATION OF THE EMCS A NECESSARY FORM OF MITIGATION?

A. To the extent that the Company is found to have positive stranded costs, termination of the EMCs would help to mitigate stranded costs.

Q. WHAT POSITIONS DO CENTERPOINT AND RELIANT TAKE ON THE ISSUE OF EMCS?

A. Curiously, CenterPoint and Reliant take different positions on the EMCs. CenterPoint, in its March 31, 2004 "Motion to Terminate Excess Mitigation Credits" in this proceeding, takes the position that the EMCs payments during the five month period from April to August 2004 "will provide no benefits to the vast majority of retail electric customers and ***will increase stranded cost payments*** by approximately $172 million…"[26] and that "stranded costs should be mitigated by ceasing EMCs as soon as possible."[27]

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[26] *See* CenterPoint Motion to Terminate Excess Mitigation Credits, Docket No. 29526, March 31, 2004, p. 1 (emphasis in original).

[27] *Ibid.*

Reliant, on the other hand, argues that CenterPoint's motion be denied, and that the EMCs be continued until a future rate proceeding.[28] If Reliant's approach is adopted it will serve to increase stranded costs.

Q. WHAT IS THE AMOUNT OF THE EMC THAT HAS BEEN REFUNDED TO REPS TO DATE?

A. The amount of EMCs refunded by CenterPoint to affiliated retail provides serving PTB customers is identified in CenterPoint's confidential response to TIEC RFI 3-9.[29] This response shows the amount of the principal paid to Reliant Energy Retail Services for the period from January, 2002 (when the EMCs began) through February, 2004. In addition, since February, 2004, these EMCs have been refunded at a rate of approximately $19 million per month.[30] These credits will continue until the PUC makes a decision to terminate the EMCs, presumably in its order in this case.

Q. DOES YOUR DISCUSSION OF EMCS, ABOVE, ADDRESS THE INTEREST PORTION OF THE EMCS?

A. The discussion above address EMCs generally, the interest portion of the EMC payments will be addressed specifically in the next separate section of my testimony.

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[28] Reliant Energy Retail Services, LLC's Response to CenterPoint Energy Houston Electric, LLC's Motion to Terminate Excess Mitigation Credits, April 4, 2004.

[29] *See* Confidential Exhibit BEB-3.

[30] *See* Petition of CenterPoint Energy Houston Electric, LLC to Terminate Excess Mitigation Credits, PUC Docket No. 28024, p. 3.

Q. SHOULD THE PUC MAKE A DECISION ABOUT THE EMCS IN THIS CASE?

A. Yes. CenterPoint filed a petition to terminate the EMCs in June, 2003.[31] The Commission concluded in that case that "CenterPoint's petition to terminate excess mitigation credits seeks to prematurely address issues more appropriately considered in the true-up proceeding under PURA §39.262.[32] In addition, at the time of its application in this case, CenterPoint again requested termination of EMCs. After considering briefs on the request, the PUC found in its Preliminary Order that it "has the authority to terminate the EMC upon the issuance of a final order in this proceeding if it determines it is in the public interest to do so" and indicated that it "anticipates that parties will address this issue in this proceeding."[33]

Q. WHAT DO YOU RECOMMEND BE DONE WITH REGARD TO THE EMCS?

A. I recommend that the EMCs be terminated as soon as possible, and that all of the EMCs that were credited to the AREP serving customers under the price to beat rate, be credited to CenterPoint customers against the Companies' stranded cost claim in this proceeding. The Commission should use an accurate number for this credit, including past actual and future estimated EMCs through the date on which the Commission's order in this docket will be implemented.

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31 *Petition of CenterPoint Energy Houston Electric, LLC to Terminate Excess Mitigation Credits*, PUC Docket No. 28024, June 26, 2003.

32 Order, PUC Docket No. 28024, February 3, 2004, p. 5.

33 Preliminary Order, PUC Docket No. 29526, May 4, 2004, pp. 6-7.

IV. INTEREST ON EXCESS MITIGATION CREDITS

Q. ARE THERE ADDITIONAL ISSUES WITH RESPECT TO THE INTEREST PORTION OF THE EMCS?

A. Yes. When the PUC created the EMCs with its October 4, 2001 Order in Docket No. 22355, it called for a recovery of the more than $1 billion in excess earnings over a period of seven years, with interest on the EMCs computed at 7.5%. Because the Company had retained funds during the period 1998 to 2002 that customers were otherwise entitled to, the crediting of those funds back to customers over the seven year period from 2002 through 2008 include interest in order to account for time value of the "loan."

Q. WHAT DID THE COMMISSION SAY ABOUT INTEREST IN ITS OCTOBER 4, 2001 ORDER?

A. In its October 4, 2001 Order in Docket No. 22355 the PUC stated that "Reliant may not collect interest on the amount of EMCs that are returned to customers if the 2004 true-up proceeding finds that such credits should not have been returned."[34] Today, in the true-up proceeding, with the magnitude of the Companies' stranded cost claim, it is possible that the PUC will provide for some stranded cost recovery, rendering the EMCs, as set up in 2001, as a mistake. That is, the EMCs "should not have been returned." In this situation, the interest portion of the EMCs should be credited to customers.

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[34] Order, PUC Docket No. 22355, October 4, 2004, FOF 165D, p. 140. I am aware that, without reaching the merits, the district court found that this finding of fact was advisory and premature. Obviously, a similar finding in this proceeding would not be advisory or premature.

Q. DOES THE COMPANY'S FILING CREDIT THE INTEREST ON EMCS TO CUSTOMERS?

A. No. The calculations in Mr. Brian's Figure JSB-9 appear to credit the interest on EMCs to customers, in that they show annual "total refunds" for 2002 through 2004 that include interest. The interest amounts to $180,064,839 over the three year period. However, the calculations in Mr. Brian's Figure JSB-3 apparently take back the interest for the company by adding that same $180 million to the net book value of generating assets. The adjustment to book value causes the Company's claimed stranded costs to be higher, and thereby denies customers the interest on the EMC loan to which they are entitled.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE INTEREST ON THE EMCS?

A. Consistent with the PUC's ruling in Docket No. 22355, the Company should not be allowed to collect interest on the amount of EMCs that are returned to customers. To do otherwise, would create an undue windfall for the Company. Consequently, I recommend a $180,064,839 decrease to the Companies' proposed net book value in order to reverse Mr. Brian's upward adjustment of the same amount.

V. CONSTRUCTION WORK IN PROGRESS

Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR TESTIMONY?

A. This portion of the testimony covers the topic of CWIP and demonstrates why a portion of it should not be included in CenterPoint's net book value calculation for purposes of calculating stranded costs in the true-up filing.

Q. FROM AN ACCOUNTING SENSE, WHAT IS THE DEFINITION OF CONSTRUCTION WORK IN PROGRESS?

A. Construction work in progress is the account in which money for unfinished construction projects is held.

Q. DID CENTERPOINT HAVE ANY CWIP ON THE BOOKS AS OF DECEMBER 31, 2001?

A. Yes. On Schedule III-A, Centerpoint presented its CWIP on the regulated books as $425,105,186 as of December 31, 2001.

Q. WHY IS THE CWIP AS OF DECEMBER 31, 2001 RELEVANT IN THE TRUE-UP FILING?

A. For the purposes of the true-up filing, stranded costs are defined as the difference between the total amount of costs of a facility and the market price of the facility. PURA §39.251(7) defines "stranded costs" to include "generation assets" as of December 31, 2001. Furthermore, PURA §39.251(3) defines "generation assets" as "all assets associated with the production of electricity." Therefore, any construction work in progress that is associated with production of electricity could be included in the stranded costs net book value calculation, as long as it also satisfies PURA §36.054.

Q. WHAT DOES PURA §36.054 SAY?

A. PURA §36.054(a) states that CWIP "is an exceptional form of rate relief and [one] that the PUC may grant *only* if the utility demonstrates that inclusion is necessary to the utility's financial integrity." PURA §36.054(b) states that CWIP "may not be

included in rate base for a major project under construction to the extent that the project has been inefficiently or imprudently planned or managed."

Q. HAS CENTERPOINT DEMONSTRATED THAT THE $425,105,186 OF CWIP USED FOR PROJECTS WAS USED EFFICIENTLY AND WAS PRUDENTLY PLANNED AND MANAGED?

A. No, CenterPoint has not made such a claim. In his deposition, Mr. James S. Brian, the primary CWIP witness on behalf of CenterPoint, discusses CWIP and the fact that a portion of it was related to environmental projects. I address environmental costs in a different section of my testimony. For the remainder of this section, I will focus on the non-environmental CWIP requested by CenterPoint in the true-up filing.

Q. WHAT WAS THE NON-ENVIRONMENTAL CWIP BALANCE AS OF DECEMBER 31, 2001?

A. The non-environmental CWIP appears to be $89,213,128.

Q. HOW WAS THIS AMOUNT DETERMINED?

A. I had to back it out of the work papers provided by Mr. Brian (figures JSB-5.2 and JSB-3). Without further clarification or an explanation of its makeup, Mr. Brian provided total CWIP at $425,105,180. Discovery was done to further break down this number, but responses have been unsatisfactory. The most I could do is to derive it from other numbers in Mr. Brian's analysis. Specifically, I start with the number that Mr. Brian shows in Figure JSB-5.2, $335,892,058, relating to environmental costs that have been included in the net book value of generation assets for the purposed of true-up determination. The difference between the $425,105,180 total

CWIP and the $335,892,058 of environmental costs is $89,213,128. This is the amount of CWIP that I assume relates to non-environmental projects.

Q. HAS CENTERPOINT DEMONSTRATED THAT THE $89,213,128 OF NON-ENVIRONMENTAL CWIP AS OF DECEMBER 31, 2001 WAS NECESSARY TO THE UTILITY'S FINANCIAL INTEGRITY?

A. No. CenterPoint has not demonstrated that the non-environmental CWIP is necessary to the Company's financial integrity. In fact, given the large dollar value of CWIP, very little specific information has been provided concerning the makeup of the CWIP account or its relation to CenterPoint's financial integrity.

Q. WHAT DOES MR. BRIAN SAY ABOUT THE NON-ENVIRONMENTAL CWIP IN HIS DEPOSITION?

A. When asked about the make-up of non-environmental CWIP on the books as of December 31, 2001, Mr. Brian could not justify, or even identify the categories of costs included in the non-environmental CWIP.[35]

Q. IS THERE ANY INDICATION THAT THE CWIP ACCOUNT VALUE MIGHT HAVE BEEN ERRONEOUS?

A. Yes. In a highly sensitive response to HCHE RFI 5-27, CenterPoint provided a valuation of CenterPoint that was prepared as of December 1, 2002 by Bearing Point, a business consulting, systems integration and managed services firm hired by CenterPoint to conduct the valuation. On page 30 of this report (page 31 of the RFI),

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[35] *See* Exhibit BEB-6 for statements made in Mr. Brian's confidential deposition about CWIP.

there is a discussion of CenterPoint's CWIP as of that date. Bearing Point expresses concern about the many projects in the CWIP account and the lack of justification for those costs, and makes adjustments to CenterPoint's CWIP. The specific language from this section of the Bearing Point report is provided as confidential Exhibit BEB-7.

Q. BASED ON THE ABOVE QUESTIONS, WHAT IS YOUR RECOMMENDATION REGARDING CWIP AND THE TRUE-UP FILING?

A. CenterPoint has not provided adequate information to support the value of the CWIP account as of December 31, 2001. It has been demonstrated, through the CenterPoint valuation study, that the CWIP account does not always accurately reflect the company's situation. In addition, CenterPoint has been remiss at satisfying PURA §36.054(a) and PURA §36.054(b); it has neither been shown that the CWIP was necessary to CenterPoint's financial integrity, nor that the CWIP dollars was used efficiently nor properly managed. For all of these reasons, I recommend that the $89,213,128 million of non-environmental CWIP be removed from CenterPoint's book value calculation for purposes of this true-up proceeding.

VI. RATE CASE EXPENSES

Q. PLEASE DESCRIBE THE EXPENDITURES FOR WHICH GCCC IS REQUESTING REIMBURSEMENT IN CONNECTION WITH THE CURRENT PROCEEDING.

A. GCCC is requesting reimbursement for expenses directly related to this proceeding pursuant to the requirements of PURA §33.023. These expenses are similar to

expenditures normally and historically incurred by intervening parties in rate cases brought to the PUC by investor owned utilities in the state. The expenses include legal fees, expert witness fees, and associated out of pocket expenditures directly supporting the work of the firms and individuals retained by GCCC to assist in this proceeding.

Q. WHAT IS THE TOTAL OF GCCC RATE CASE EXPENSES THROUGH MAY 25, 2004?

A. Through May 25, 2004, GCCC's rate case expenditures total $130,670.32. Table 2 sets out the professional fees and expenses charged by the consultants and lawyers through May, 2004. Note that for Lloyd, Gosselink and for John Mavretich the fees and expenses are through May 25, 2004. For Synapse Energy Economics, the fees and expenses are through May 31, 2004. Despite this difference, I have put these in the table together, and refer to them as "through May 2004."

Table 2. GCCC Fees and Expenses through May 2004

CONSULTANTS/ATTORNEYS	FEES	EXPENSES	TOTAL
Synapse Energy Economics	$52,886.25	$12.79	$52,899.04
John Mavretich	$6,000.00	$0.00	$6,000.00
Lloyd, Gosselink	$70,107.50	$1,673.78	$71,781.28
TOTAL	$128,993.75	$1,686.57	$130,670.32

Q. ARE GCCC'S ACTUAL RATE CASE EXPENSES INCURRED THROUGH MAY, 2004, REASONABLE AND NECESSARY?

A. Yes.

Q. ON WHAT DO YOU BASE YOUR CONCLUSION?

A. I have previously served as a consultant and/or expert witness to intervenors in well over one hundred proceedings over the past two decades. I am familiar with the manner in which various companies and agencies create a structure for the management of litigation, including the hiring and supervision of outside experts. This has made me familiar with the mechanisms for monitoring and controlling litigation expenses. I can estimate the degree and amount of effort necessary and appropriate for the analysis of various litigation issues.

Mr. Talbot and I, as the two individuals testifying for GCCC, have provided sworn testimony affirming that all amounts billed to GCCC are accurate and contain no out of pocket expenditures considered to be luxury class.

Q. WHAT IS THE TOTAL OF GCCC RATE CASE EXPENSES ESTIMATED FOR THE PERIOD FROM THE END OF MAY THROUGH THE COMPLETION OF THE PROCEEDING?

A. From the end of May through the end of the proceeding GCCC estimates an additional $370,000.00 in rate case expenditures will be necessary. Table 3 sets out the estimated fees and expenses by consultants and legal firm.

Table 3. GCCC Going Forward Costs

CONSULTANTS/ATTORNEYS	ESTIMATED AMOUNT
Synapse Energy Economics	$ 25,000.00
John Mavretich	$5,000.00
Lloyd, Gosselink	$340,000.00
TOTAL	$370,000.00

Q. ARE THE ESTIMATED FEES AND EXPENSES SHOWN IN TABLE 2 REASONABLE?

A. Yes. Again, based upon the sworn testimony of the GCCC's consultants, the affidavit of GCCC's legal counsel, and my experience, it is my opinion that GCCC's estimated rate case expenses are reasonable.

Q. PLEASE SUMMARIZE GCCC'S TOTAL REQUEST FOR CONSULTING FEES AND EXPENSES.

A. GCCC seeks a finding that its consulting fees and expenses totaling $88,899.04 are reasonable.

Q. ARE GCCC'S TOTAL REQUESTED CONSULTING COSTS REASONABLE?

A. Yes. This is an important case in which the Companies have filed extensive testimony and exhibits. They have requested several billion dollars in cost recovery. The issues are complex, and the true-up of the Companies' costs is very important for the Companies and for electricity customers in the State of Texas.

Q. PLEASE SUMMARIZE GCCC'S REQUESTED LEGAL FEES AND EXPENSES.

A. GCCC requests a finding that its legal fees and expenses of $411,781.28 are reasonable.

Q. ARE GCCC'S TOTAL LEGAL COSTS REASONABLE?

A. Yes. GCCC's law firm, Lloyd, Gosselink, Blevins, Rochelle, Baldwin & Townsend, P.C. ("Lloyd, Gosselink") has attorneys with many years of experience in utility regulation and administrative law. The Lloyd, Gosselink lawyers have represented municipalities in many rate cases.

GCCC's counsel, Thomas L. Brocato, has over 13 years of utility law experience and has participated in over 200 rate proceedings. Lloyd, Gosselink has advised the GCCC in the review of the CenterPoint True-up filing. The lawyers have prepared the appropriate pleadings, and aided in evaluation of the filing and helped resolve discovery disputes. GCCC's lawyers reviewed the prefiled testimony of GCCC's witnesses. The invoices submitted by Lloyd, Gosselink set out in detail the legal services rendered in this case. As set out in the affidavit of Mr. Brocato, attached as Exhibit BEB-8, there is still much legal work to be done.

My conclusion that GCCC's requested legal expenses are reasonable is based on my experience, my understanding of the services performed and the legal services to be performed, the importance and magnitude of this true-up case, and on the sworn affidavit of GCCC's counsel.

Q. PLEASE IDENTITY JOHN MAVRETICH AND EXPLAIN HIS ROLE AND COSTS IN THIS CASE.

A. John Mavretich is a consultant to the GCCC. He has extensive experience in the area of utility regulation and provided consulting services to the GCCC in Reliant's UCOS proceeding. He has reviewed the filing and advised the GCCC attorneys on various

issues in this case. His hourly billing rate is $125 per hour and his total costs through May total $6,000. Mr. Mavretich's hourly rate and costs incurred in this proceeding are reasonable.

Q. PLEASE IDENTIFY SYNAPSE ENERGY ECONOMICS.

A. Synapse was retained by the GCCC for consulting services. Synapse has represented consumer interests in previous PUC dockets. Specifically, we worked for the Office of Public Utility Counsel in the Docket Nos. 24835 and 28818. Synapse is a consulting firm with about a dozen professionals, specializing in analysis of electric power issues. Synapse has half a dozen senior staff each with more than two decades of experience with public utility planning and ratemaking issues.

In this case, Neil Talbot, senior associate, and I are testifying on behalf of the GCCC. Mr. Talbot holds degrees in law, economics, and finance, and has more than thirty years of experience consulting on energy issues. His qualifications and experience are summarized in the beginning of his testimony in this case, and in his resume attached to that testimony.

I have more than twenty years of experience consulting on energy issues, and I have testified in more than 80 proceedings, in more than one half of the states in the US, in two Canadian provinces, and in Federal and state courts. My qualifications are summarized at the beginning of this testimony, above, and in my resume provided here as Exhibit BEB-1.

The key Synapse staff who are assisting the witnesses in this case are Amy Roschelle and Geoff Keith. Amy Roschelle holds Amy has a BS and MS in materials science and engineering from MIT and UCLA, respectively, as well as an MBA from

the MIT Sloan School of Management. Geoff Keith holds a Bachelor of Arts degree from Tufts University and a Masters degree in Environmental Studies from Brown University. Geoff has more than seven years of experience analyzing energy and environmental technical and policy issues.

Q. PLEASE SUMMARIZE THE SERVICES PROVIDED BY SYNAPSE.

A. Synapse is providing the GCCC with technical advice and analysis and expert testimony regarding issues underlying the Companies' true-up filing. Such services include review and analysis of CenterPoint's testimony and schedules as well as precedent from other cases with similar issues, preparation of direct testimony, review of Companies' rebuttal testimony, preparation of cross-rebuttal testimony, assistance with analysis of settlement proposals, technical support with cross-examination during the hearing and in preparation of post-hearing briefs. The issues that we are addressing include environmental control costs, excess mitigation credits, capital structure, and the control premium.

Q. WHAT ARE THE TOTAL CHARGES THROUGH MAY 2004 FOR SERVICES PROVIDED TO THE GCCC BY SYNAPSE?

A. Through May 2004, Synapse has charged $52,899.04 for this case. These charges are comprised of professional fees of $52,886.25 and costs of $12.79.

Q. HAVE YOU ESTIMATED SYNAPSE'S CHARGES FOR THE REMAINDER OF THIS CASE INCLUDING ANY APPEALS?

A. Yes, I have. I estimate that the total consulting charges for the remainder of this case will be $25,000. When combined with charges incurred through May 2004, this results in total request of $77,900 for this case.

Q. WHAT IF THE ABOVE ESTIMATES OF THE COSTS TO COMPLETE THIS CASE PROVE TO BE OVERSTATED?

A. GCCC is requesting to be reimbursed only for reasonable expenses actually incurred for this case.

Q. ARE THE HOURLY RATES CHARGED TO THE GCCC IN THIS CASE BY SYNAPSE COMPARABLE TO THE FEES CHARGED BY OTHER CONSULTING FIRMS?

A. Yes. The hourly rates charged for this project are the normal billing rates of Synapse. Specifically, the key individuals working on this case and their hourly charge rates are as follows: Neil Talbot at $150 per hour, Bruce Biewald at $150 per hour, Amy Roschelle at $125 per hour, and Geoff Keith at $125 per hour. These hourly rates are comparable and in many cases lower than the hourly rates charged by other regulatory consultants with similar experience. The hourly rate charged GCCC is the same or lower than charged other clients for similar services.

Q. HAS SYNAPSE PERFORMED THE SERVICES THE GCCC IN THIS CASE IN A PROFESSIONAL, TIMELY, AND EFFICIENT MANNER?

A. Yes. Synapse has at all times represented the GCCC in this case in a professional, timely, and efficient manner.

Q. DESCRIBE EFFORTS MADE TO KEEP EXPENSES REASONABLE.

A. Synapse has developed a budget for the work in this case, and our agreement with the GCCC caps the consulting charges at that budget level. I monitor the progress and charges as we proceed in order to ensure that the work is on track, timely and efficient.

Q. ARE THE FEES AND EXPENSES CHARGED TO THE GCCC BY SYNAPSE PROPERLY SUPPORTED?

A. Yes. Synapse submits monthly invoices to the GCCC which include a description of the services provided, the number of hours billed by individual, the hourly rate, and a detailed itemization of expenses charged to the project. These invoices are being provided to the Company.

Q. HAS ANY MEMBER OF SYNAPSE BILLED 12 OR MORE HOURS IN ANY ONE DAY ON THIS CASE?

A. No.

Q. DO THE CHARGES BY SYNAPSE INCLUDE ANY UNREASONABLE CHARGES FOR TRAVEL, LODGING OR MEALS?

A. No. Travel expenses related to this project were held to reasonable levels. No meal charged to the GCCC will exceed $25 for an individual.

Q. DO THE CHARGES INCLUDE ANY LUXURY ITEMS SUCH AS LIMOUSINE SERVICE, SPORTING EVENTS, ALCOHOLIC DRINKS, MOVIES OR OTHER ENTERTAINMENT?

A. No.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATION REGARDING SYNAPSE'S CHARGES IN THIS CASE.

A. Based on my 23 years of experience as a regulatory consultant, the actual charges to date and estimated charges for completion of this case including any appeals are reasonable in light of the scope and complexity of this case and the issues addressed by Synapse, when compared to charges for similar services provided by other regulatory consulting and law firms. Synapse's total request of $77,900 is reasonable and necessary in order to ensure proper review of several key aspects of the billions of dollars in costs that CenterPoint is seeking to recover and securitize in this case. The Commission should approve the charges by Synapse.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.