CASE NO. 00007064

APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX, CENTERPOINT ENERGY ARKLA, AND CENTERPOINT ENERGY TEXAS GAS FOR CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION	**§ § § § § § § §**	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

APPLICATION CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX, CENTERPOINT ENERGY ARKLA, AND CENTERPOINT ENERGY TEXAS GAS FOR CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION

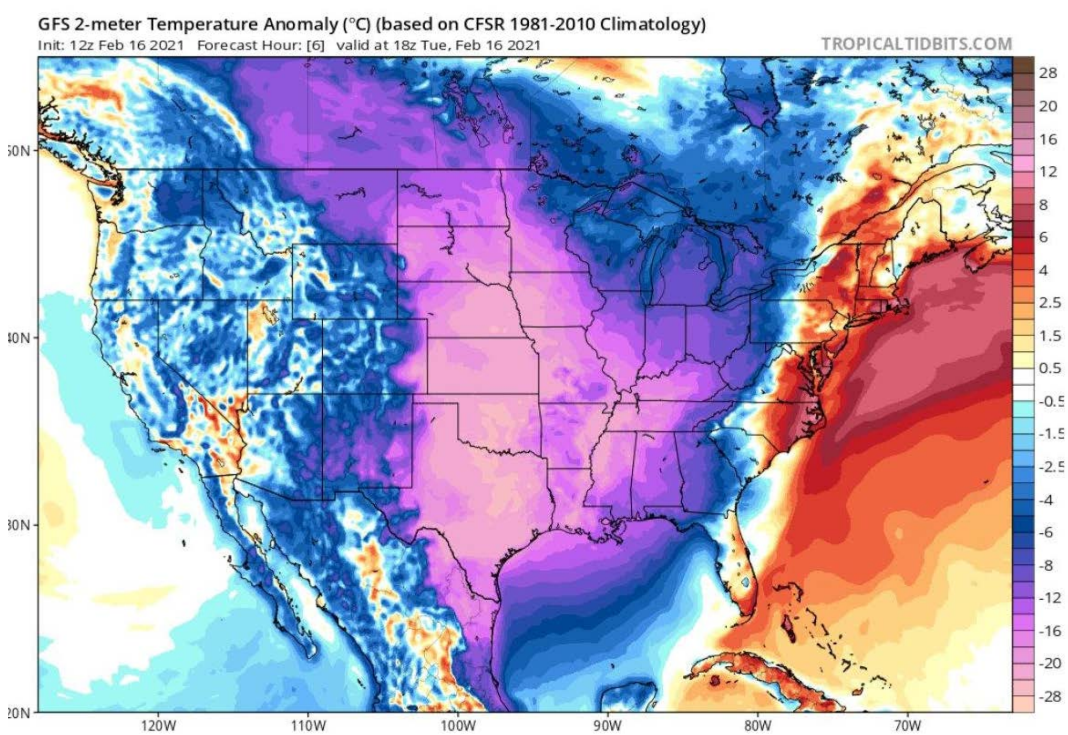
COMES NOW, CenterPoint Energy Resources Corp. ("CERC"), d/b/a CenterPoint Energy Entex, CenterPoint Energy Arkla, and CenterPoint Energy Texas Gas ("CenterPoint" or the "Company"), and files this Application for Customer Rate Relief and Related Regulatory Asset Determination ("Application"). CenterPoint operates in Texas as a "gas utility" under Texas Utilities Code §§ 101.003(7) and 104.362(12). The Company's Application is filed pursuant to the customer rate relief provisions contained in H.B. 1520, Texas Utilities Code, chapter 104, subchapter I, and the Railroad Commission of Texas ("Commission") Notice to Gas Utilities issued on June 17, 2021 (the "Notice").

I. SUMMARY OF REQUESTED RELIEF

As the first week of February 2021 unfolded, meteorologists across the country began tracking changes in the jet stream and the potential for colder than normal weather across the continental United States. In the context of these evolving conditions, on February 8, the Electric Reliability Council of Texas issued an Operating Conditions Notice warning of the potential for extreme weather and, as Texans prepared to enter President's Day Weekend, an arctic air mass began moving southeast across the United States. On February 12, Governor Abbott issued a State of Disaster in Texas for all Texas counties and the Commission issued an Emergency Order temporarily modifying natural gas utility curtailment priorities to ensure the protection of human needs customers throughout the storm. In the days that followed, Winter Storm Uri set records for sub-freezing temperatures and wind chills across the state.

At its worst, Winter Storm Uri forced approximately half of electric generation in Texas offline, bathed over half of the United States in freezing temperatures, and sent demand for natural gas across the country to record levels. From Minnesota to Houston, daily spot prices for gas were more than 100 times greater than normal levels, as human needs customers required natural gas to heat homes, hospitals, police stations, shelters, and essential businesses. The sheer size and generational impact of Winter Storm Uri, as captured by temperature modeling on February 16, 2021, is shown below.

February 16, 2021 - United States Temperature Map



Throughout the event, the Commission coordinated with utilities and other state agencies to ensure the protection of human needs customers. In addition to its February 12

Emergency Order, on February 13 the Commission issued a *Notice of Authorization for Regulatory Asset Accounting for Local Distribution Companies Affected by the February 2021 Winter Weather Event* ("Regulatory Asset Notice"), to provide support for utilities needing to procure gas supply in the midst of record-setting natural gas prices[1] and to give clear direction to Local Distribution Companies ("LDCs") that their task during the storm was to ensure, through all necessary means, the protection of human life through safe and reliable provision of natural gas to Texans. As the evidence attached to this Application demonstrates, CenterPoint heeded the Commission's call, secured an adequate supply of natural gas for its customers, and provided reliable natural gas service before, during, and after the storm.

Through the passing of H.B. 1520, the Texas Legislature has recognized the generational nature of Winter Storm Uri and has provided a solution intended to grant relief to customers from Winter Storm Uri's extraordinary costs. CenterPoint's Application seeks to achieve the customer rate relief objectives of H.B. 1520 by securitizing the extraordinary costs and thereby extending the time period over which those costs will be recovered from customers.[2] The Company's Application is timely filed, as required by the Commission's Notice to Gas Utilities issued on June 17, 2021, and Texas Utilities Code § 104.365(a). In support of its Application, the Company respectfully shows the following:

II. JURISDICTION

The Commission's jurisdiction in this proceeding stems from the adoption of a new subchapter I in chapter 104 of the Texas Utilities Code, which was passed by the Texas Legislature

[1] The Commission's Regulatory Asset Notice authorized CenterPoint "to record in a regulatory asset account the extraordinary expenses associated with the 2021 Winter Weather Event, including but not limited to gas cost and other costs related to the procurement and transportation of gas supply."

[2] Consistent with the Commission's Notice, the context for this filing is related to the unprecedented cold winter weather event that began in Texas on Thursday, February 11, 2021 ("February 2021 Winter Weather Event" or "Winter Storm Uri"). If the Commission determines that securitization should not be used to recover the Regulatory Asset balance, CenterPoint requests recovery of its approved Regulatory Asset balance through its existing Cost of Gas Clauses over a three-year period.

to provide customers with rate relief related to natural gas costs incurred during Winter Storm Uri. CenterPoint operates as an LDC and gas utility under Texas Utilities Code §§ 101.003(7) and 104.362(12). The Commission has exclusive, original jurisdiction to prescribe the manner and form of the books, records, and accounts for gas utilities under Texas Utilities Code §§ 102.101(a), (b) and (d). In addition, Texas Utilities Code § 104.365 gives the Commission jurisdiction to determine the regulatory asset amount to be recovered by a utility related to its extraordinary costs incurred for Winter Storm Uri. Upon making a regulatory asset determination, the Commission has exclusive, original jurisdiction based on Texas Utilities Code § 104.364(c) to issue a financing order to authorize recovery of extraordinary costs through securitization by creating customer rate relief property.

III. SUMMARY OF REGULATORY ASSET AND RELIEF REQUESTED

The Company's Application, with its supporting testimony and evidence, proves that CenterPoint prudently, reasonably and necessarily incurred extraordinary costs related to Winter Storm Uri and establishes that: (1) securitization provides tangible and quantifiable benefits for customers greater than would be achieved absent the issuance of customer rate relief bonds (Texas Utilities Code § 104.361); (2) securitization financing is the most cost-effective method of funding CenterPoint's regulatory asset balance based on customer affordability considerations and comparisons of conventional forms of recovery and securitization recovery (Texas Utilities Code § 104.366); and (3) securitization is in the public interest and consistent with the purposes of subchapter I, chapter 104 of the Texas Utilities Code.

A. Regulatory Asset

CenterPoint requests a Commission determination that its extraordinary costs, which total $1,141,278,934, are reasonable, necessary, and accurate. The extraordinary costs in the Company's regulatory asset account ("Regulatory Asset") comply with the Commission's requirements because (1) they are costs CenterPoint would not have incurred but for Winter Storm Uri, and (2) the costs include only natural gas procurement costs, financing and other costs incurred to secure and pay for natural gas, carrying costs, and legal and consulting costs related to gas procurement and this proceeding.[3] The Regulatory Asset is recorded in the books and records of the Company in accordance with the Uniform System of Accounts prescribed for natural gas companies subject to the provisions of the Natural Gas Act (15 U.S.C. Section 717 et seq) by the Federal Energy Regulatory Commission and generally accepted accounting principles. CenterPoint also incurred certain extraordinary operational expenses as result of Winter Storm Uri that have been properly booked to the Regulatory Asset in accordance with Commission's Regulatory Asset Notice. However, at this time, the Company is not requesting recovery of those extraordinary costs.[4]

B. Arkla Schedules Provided Separately

Consistent with the recently announced sale of certain CenterPoint Energy, Inc. LDC assets in Oklahoma, Arkansas, and Texarkana, Texas, the Company is presenting the extraordinary gas costs associated with the Arkla Division and Purchase Gas Adjustment ("PGA") area of Texarkana separately in the Company's schedules as a stand-alone Texas Division, consistent with the manner in which the Company's PGA tariffs operate. To this end, the Texarkana Winter Storm Uri extraordinary gas costs have been separately tracked and accounted for so that the new owner of those assets will have clear direction on how to account for, recover and remit any amounts authorized for securitization by the Commission.

[3] *Notice of Authorization for Regulatory Asset Accounting for Local Distribution Companies Affected by the February 2021 Winter Weather Event* (February 2021); *Notice to Gas Utilities regarding Procedure for Gas Utilities to File an Application for Regulatory Asset Determination Pursuant to H.B. No. 1520, Texas Utilities Code, chapter 104, subchapter I, and Participate in Securitization of Extraordinary Costs Incurred as a Result of the February 2021 Winter Weather Event* (June 2021).

[4] The Company will request recovery of extraordinary operational expenses incurred as a result of Winter Storm Uri in future base rate proceedings.

C. Initiation of a Financing Order Proceeding

Concurrently with its establishment of this proceeding, the Company requests that the Commission initiate a separate proceeding to issue a financing order that will allow the Texas Public Finance Authority ("TPFA") to issue securitization bonds relating to utility Regulatory Assets as soon as possible. In doing so, CenterPoint respectfully requests that the Commission direct the TPFA to select: (1) a governing board for the financing entity that will administer the extraordinary cost securitization bonds and (2) a lead underwriter for those bonds as soon as possible. The swift establishment of a separate proceeding, selection of a governing board, selection of a lead underwriter, and start of necessary financing initiatives should save valuable time between the issuance of any Commission order on the amount of utility Regulatory Assets to be recovered through securitization and the actual securitization of those costs. It could also save Texas LDC ratepayers millions in carrying costs associated with the need for those utilities to carry the extraordinary costs on their balance sheets until such time as securitization can occur.

D. Alternative Relief Requested

Alternatively, if the Commission determines that securitization should not be used to recover the Regulatory Asset balance, CenterPoint requests approval to recover its approved Regulatory Asset balance through its existing PGA Clauses over a three-year period rather than the twelve-month reconciliation period in its authorized PGA tariffs. Recovery over a three-year period would be in the form of a volumetric charge assessed to all rate-regulated sales customers. At the end of the three-year recovery period, the Company would true-up collections to determine whether a final one-time surcharge or refund is necessary to ensure CenterPoint collects only the authorized Regulatory Asset balance, which would be recovered (or refunded) through the existing PGA true-up process.

Whether CenterPoint's Regulatory Asset balance is recovered through securitization financing or its PGA tariff, the Company requests that the charge be included in the Cost of Gas charged to customers. For this reason, there should be no change or impact on CenterPoint's base rates.

IV. DETAILS OF THE APPLICATION

A. Regulatory Asset Balance Submitted for Determination

CenterPoint's Regulatory Asset balance totals $1,141,278,934 and contains reasonable, necessary, and prudent extraordinary costs that CenterPoint would not have incurred but for Winter Storm Uri. The balance consists of extraordinary gas costs, financing costs incurred to secure and pay for natural gas volumes purchased during the February 2021 Winter Weather Event, legal and consulting expenses relating to that event and this proceeding and carrying costs.

B. Class and Number of Customers Affected

The Company's request for a Regulatory Asset determination and related cost recovery will affect all sales customers CenterPoint serves in the state of Texas.

C. Effect of Proposed Recovery

Texas Utilities Code § 104.366 requires the Commission to determine that securitization financing is the most cost-effective method of recovery considering issues of customer affordability. The statute directs the Commission to compare recovery through securitization and recovery through conventional methods. The following comparison shows that recovery of the Company's Regulatory Asset balance as part of the estimated aggregated balances for all participating LDCs through securitization is the most cost-effective method of recovery compared to conventional recovery through CenterPoint's various PGAs:

Line No.	Division	Customer Class	Total Monthly Customer Impact over 1-Year Period	Total Monthly Customer Impact over 3-Year Period	Total Monthly Customer Impact of Securitization
1	**Beaumont-East Texas**	Residential	$ 26.37	$ 9.71	$ 3.78
2		Commercial -Small	$ 131.86	$ 48.55	$ 18.90
3		Commercial -Large	$ 2,030.62	$ 747.69	$ 291.06
4	**North East Texas - Tyler**	Residential	$ 44.96	$ 16.53	$ 5.04
5		Commercial -Small	$ 168.59	$ 61.99	$ 18.90
6		Commercial -Large	$ 4,102.39	$ 1,508.42	$ 459.90
7	**South Texas**	Residential	$ 13.00	$ 4.78	$ 2.52
8		Commercial -Small	$ 110.51	$ 40.64	$ 21.42
9		Commercial -Large	$ 1,696.59	$ 623.94	$ 328.86
10	**Houston**	Residential	$ 39.38	$ 14.50	$ 3.78
11		Commercial -Small	$ 223.15	$ 82.15	$ 21.42
12		Commercial -Large	$ 2,914.05	$ 1,072.76	$ 279.72
13	**Texas Coast**	Residential	$ 39.38	$ 14.50	$ 3.78
14		Commercial -Small	$ 183.77	$ 67.65	$ 17.64
15		Commercial -Large	$ 2,997.06	$ 1,103.32	$ 293.58
16	**Texarkana Incorporated**	Residential	$ 37.05	$ 13.63	$ 5.04
17		Commercial -Small	$ 194.50	$ 71.54	$ 26.46
18	**Texarkana Environs**	Residential	$ 37.05	$ 13.63	$ 5.04
19		Commercial -Small	$ 620.55	$ 228.26	$ 84.42

D. Description of the Filing Package

CenterPoint submits this filing is consistent with the requirements set forth in the Notice, including the following direct testimony:

- Talmadge R. Centers, Jr., Vice President – Regional Operations. Mr. Centers provides an overview of CERC's Gas Operations in Texas, its Emergency Operations Plan, actions during Winter Storm Uri, and testifying witnesses.

- Mary A. Kirk, Director – Accounting. Ms. Kirk attests to the accuracy of the Company's books and its compliance with applicable Commission rules. In addition, Ms. Kirk sponsors the regulatory asset amount.

- Brian S. Wagaman, Vice President of Gas. Mr. Wagaman demonstrates that the gas purchasing practices before during and after Winter Storm Uri were prudent, reasonable and necessary.

- Bernadette Johnson - Senior Vice President, Power and Renewables for Enverus, Inc. Ms. Johnson testifies to the market environment for natural gas prices during Winter Storm Uri. Ms. Johnson also demonstrates that CenterPoint's gas procurement plan was prudently developed and operated as designed during the February 2021 Winter Weather Event.

- Dr. Bruce Fairchild - principal in Financial Concepts and Applications, Inc. . Dr. Fairchild demonstrates that securitization provides tangible and quantifiable benefits for customers greater than would be achieved absent the issuance of customer rate relief bonds, that securitization financing is the most cost-effective method of funding the regulatory asset balance for CenterPoint based on customer affordability considerations and comparisons of conventional forms of recovery and securitization recovery, and securitization is in the public interest.

The Company's direct testimony is included as **Exhibit D** to this Application.

In addition, CenterPoint is filing Schedules, included as **Exhibit A** to this Application, and affidavits that support its requested Regulatory Asset balance.

V. PROPOSED NOTICE

CenterPoint will promptly undertake to notify all Texas customers of its Application based on the proposed form of Notice attached as **Exhibit B** to this Application. The Company will provide bill insert notice to each affected customer and notify each of its municipal regulatory authorities of the Application. A non-confidential version of the Company's Application will be posted on the CenterPoint website. A copy of the Application will also be made available upon request to the Company. Finally, CenterPoint will provide proof of notice to the Commission upon completion of notice.

VI. PROPOSED PROCEDURAL SCHEDULE

Consistent with the Notice, CenterPoint has included a proposed procedural schedule as **Exhibit C** to its Application that will allow the Commission to make a regulatory asset determination within the time frame set forth in Texas Utilities Code § 104.365(d). The proposed schedule allows for a process consistent with the statutory 150-day period provided for the regulatory asset determination.

VII. REQUEST FOR APPROVAL OF PROTECTIVE ORDER

The Company requests approval of the proposed protective order filed by Joint Utilities on July 30, 2021. A copy of the same proposed protective order is attached as **Exhibit E** to this

Application, should the Commission determine that separate protective orders are necessary in each of the customer rate relief and regulatory asset applications. Regardless, protected material will be provided to parties upon execution of a protective order certification, which is included as Exhibit A to the proposed Protective Order.

VIII. COMPANY REPRESENTATIVES FOR NOTIFICATION

CenterPoint's business address and telephone number are:

CenterPoint Energy
P.O. Box 2628
Houston, Texas 77252-2628
713-207-1111 (telephone)
713-207-9840 (facsimile)

CenterPoint's authorized representatives are:

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P.O. Box 2628
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Please serve all pleadings, motions, orders, and other documents filed in this proceeding upon CenterPoint's authorized representatives at the above-stated addresses.

IX. CONCLUSION

CenterPoint requests that the Commission (1) determine that its Regulatory Asset balance in the amount of $1,141,278,934 is reasonable, necessary and prudent; (2) initiate a financing order proceeding to authorize recovery of the Regulatory Asset balance through securitization financing, if the Commission determines the statutory requirements for doing so have been met; (3) authorize recovery of the Regulatory Asset balance over a three-year period through the PGA tariff if the statutory requirements for securitization financing are not met; and (4) for such further relief to which the Company may be entitled.

Respectfully submitted,

By: ______________________________

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ATTORNEYS FOR CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX, CENTERPOINT ENERGY ARKLA AND CENTERPOINT ENERGY TEXAS GAS

Exhibit A - Schedules

The schedules and related workpapers are voluminous and are being provided electronically. Confidential materials will be provided upon execution of the Protective Order issued in this proceeding.

NOTICE OF CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION APPLICATION

On July 30, 2021, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex, CenterPoint Energy Arkla and CenterPoint Energy Texas Gas ("CenterPoint" or the "Company") on behalf of its Texas local distribution systems filed an Application for Customer Rate Relief and Related Regulatory Asset Determination ("Application") with the Railroad Commission of Texas ("Commission"). The Application was filed pursuant to the Commission's authority to provide customer rate relief based on provisions under H.B. 1520, Texas Utilities Code, Chapter 104, Subchapter I, and the Commission Notice to Gas Utilities issued on June 17, 2021.

CenterPoint's Application seeks a determination as to the reasonableness and necessity of the Company's extraordinary costs incurred to provide service during Winter Storm Uri, which occurred in February 2021. The Application also requests a Commission determination to utilize securitization financing to recover the extraordinary costs it incurred to provide service during Winter Storm Uri. The use of securitization financing is expected to provide the most cost effective and affordable method of recovering these costs and will thereby provide customers with rate relief. The Company is also requesting that the Commission establish a financing order proceeding and, if securitization financing is not approved, to authorize recovery of the extraordinary costs through the Company's approved gas cost recovery tariffs over a three-year period.

The extraordinary costs CenterPoint seeks to recover include gas procurement costs incurred during Winter Storm Uri; carrying costs, financing and other costs incurred to secure and pay for natural gas volumes purchased during the storm; and the Company's extraordinary legal and consulting expenses relating to that event and this proceeding. Other extraordinary costs associated with Winter Storm Uri have been recorded in a separate regulatory asset and the Company will seek review of these costs for reasonableness in a subsequent rate proceeding, as applicable.

Recovery of the extraordinary costs CenterPoint incurred to provide service during Winter Storm Uri will affect all rate-regulated customers the Company serves in Texas. If securitization financing

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is approved, it is expected that customer bills will begin to reflect the recovery of Winter Storm Uri costs upon the issuance of customer rate relief bonds, which, if approved, are expected to be issued in September 2022. In the absence of securitization financing, gas procurement expenses are passed through to customers through the Company's Beaumont-East Texas Purchased Gas Adjustment (PGA) Area Rate Schedule No. PGA-17. The estimated monthly impact to gas costs for the average residential customer if the Winter Storm Uri extraordinary costs were recovered pursuant to the Company's Beaumont-East Texas PGA Area currently approved Rate Schedule No. PGA-17 is estimated to be $8.79/Mcf per month, for twelve months. The estimated monthly customer rate relief charge to recover Winter Storm Uri's extraordinary costs pursuant to the securitization process is expected to be less than this amount.

Persons with specific questions or desiring additional information about this filing may contact the Company at 800-259-5544. Complete copies of the Application for Customer Rate Relief and Related Regulatory Asset Determination is available for inspection at the Company's offices located at 1111 Louisiana, Houston, Texas 77002 and on our website at CenterPointEnergy.com/txcustomerraterelief. In addition, any affected person may file in writing comments or a protest concerning the application with Docket Services Section of the Office of the Hearings Division, Railroad Commission of Texas, P.O. Box 12967, Austin, Texas 78711-2967, at any time within 60 days following the receipt of this notice. Please reference Case No. 00007064.

Las personas con preguntas específicas o que deseen información adicional sobre esta presentación pueden comunicarse con la Compañía al 800-259-5544. Copias completas de la Solicitud de alivio de tarifas para clientes y determinaciones regulatorias de activos relacionados están disponibles para su inspección en las oficinas de la Compañía ubicadas en 1111 Louisiana, Houston, Texas 77002 y en nuestro sitio web en CenterPointEnergy.com/txcustomerraterelief. Además, cualquier persona afectada puede presentar comentarios por escrito o una protesta con respecto a la solicitud con la Sección de Servicios de Expediente de la Oficina de la División de Audiencias, Comisión de Ferrocarriles de Texas, P.O. Box 12967, Austin, Texas 78711-2967, en cualquier momento durante 60 días, contados a partir de que la notificación sea recibida. Por favor haga referencia al Case No. 00007064.

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CenterPoint's Application seeks a determination as to the reasonableness and necessity of the Company's extraordinary costs incurred to provide service during Winter Storm Uri, which occurred in February 2021. The Application also requests a Commission determination to utilize securitization financing to recover the extraordinary costs it incurred to provide service during Winter Storm Uri. The use of securitization financing is expected to provide the most cost effective and affordable method of recovering these costs and will thereby provide customers with rate relief. The Company is also requesting that the Commission establish a financing order proceeding and, if securitization financing is not approved, to authorize recovery of the extraordinary costs through the Company's approved gas cost recovery tariffs over a three-year period.

The extraordinary costs CenterPoint seeks to recover include gas procurement costs incurred during Winter Storm Uri; carrying costs, financing and other costs incurred to secure and pay for natural gas volumes purchased during the storm; and the Company's extraordinary legal and consulting expenses relating to that event and this proceeding. Other extraordinary costs associated with Winter Storm Uri have been recorded in a separate regulatory asset and the Company will seek review of these costs for reasonableness in a subsequent rate proceeding, as applicable.

Recovery of the extraordinary costs CenterPoint incurred to provide service during Winter Storm Uri will affect all rate-regulated customers the Company serves in Texas. If securitization financing

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is approved, it is expected that customer bills will begin to reflect the recovery of Winter Storm Uri costs upon the issuance of customer rate relief bonds, which, if approved, are expected to be issued in September 2022. In the absence of securitization financing, gas procurement expenses are passed through to customers through the Company's Houston Division's Rate Schedule No. PGA-15T. The estimated monthly impact to gas costs for the average residential customer if the Winter Storm Uri extraordinary costs were recovered pursuant to the Company's Houston Division's currently approved Rate Schedule No. PGA-15T is estimated to be $13.13/Mcf per month, for twelve months. The estimated monthly customer rate relief charge to recover Winter Storm Uri's extraordinary costs pursuant to the securitization process is expected to be less than this amount.

Persons with specific questions or desiring additional information about this filing may contact the Company at 800-752-8036. Complete copies of the Application for Customer Rate Relief and Related Regulatory Asset Determination is available for inspection at the Company's offices located at 1111 Louisiana, Houston, Texas 77002 and on our website at CenterPointEnergy.com/txcustomerraterelief. In addition, any affected person may file in writing comments or a protest concerning the application with Docket Services Section of the Office of the Hearings Division, Railroad Commission of Texas, P.O. Box 12967, Austin, Texas 78711-2967, at any time within 60 days following the receipt of this notice. Please reference Case No. 00007064.

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The extraordinary costs CenterPoint seeks to recover include gas procurement costs incurred during Winter Storm Uri; carrying costs, financing and other costs incurred to secure and pay for natural gas volumes purchased during the storm; and the Company's extraordinary legal and consulting expenses relating to that event and this proceeding. Other extraordinary costs associated with Winter Storm Uri have been recorded in a separate regulatory asset and the Company will seek review of these costs for reasonableness in a subsequent rate proceeding, as applicable.

Recovery of the extraordinary costs CenterPoint incurred to provide service during Winter Storm Uri will affect all rate-regulated customers the Company serves in Texas. If securitization financing is approved, it is expected that customer bills will begin to reflect the

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recovery of Winter Storm Uri costs upon the issuance of customer rate relief bonds, which, if approved, are expected to be issued in September 2022. In the absence of securitization financing, gas procurement expenses are passed through to customers through the Company's Northeast Texas-Tyler Purchased Gas Adjustment (PGA) Area Rate Schedule No. PGA-17. The estimated monthly impact to gas costs for the average residential customer if the Winter Storm Uri extraordinary costs were recovered pursuant to the Company's Northeast Texas-Tyler PGA Area currently approved Rate Schedule No. PGA-17 is estimated to be $11.24/Mcf per month, for twelve months. The estimated monthly customer rate relief charge to recover Winter Storm Uri's extraordinary costs pursuant to the securitization process is expected to be less than this amount.

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CenterPoint's Application seeks a determination as to the reasonableness and necessity of the Company's extraordinary costs incurred to provide service during Winter Storm Uri, which occurred in February 2021. The Application also requests a Commission determination to utilize securitization financing to recover the extraordinary costs it incurred to provide service during Winter Storm Uri. The use of securitization financing is expected to provide the most cost effective and affordable method of recovering these costs and will thereby provide customers with rate relief. The Company is also requesting that the Commission establish a financing order proceeding and, if securitization financing is not approved, to authorize recovery of the extraordinary costs through the Company's approved gas cost recovery tariffs over a three-year period.

The extraordinary costs CenterPoint seeks to recover include gas procurement costs incurred during Winter Storm Uri; carrying costs, financing and other costs incurred to secure and pay for natural gas volumes purchased during the storm; and the Company's extraordinary legal and consulting expenses relating to that event and this proceeding. Other extraordinary costs associated with Winter Storm Uri have been recorded in a separate regulatory asset and the Company will seek review of these costs for reasonableness in a subsequent rate proceeding, as applicable.

Continued …

Recovery of the extraordinary costs CenterPoint incurred to provide service during Winter Storm Uri will affect all rate-regulated customers the Company serves in Texas. If securitization financing is approved, it is expected that customer bills will begin to reflect the recovery of Winter Storm Uri costs upon the issuance of customer rate relief bonds, which, if approved, are expected to be issued in September 2022. In the absence of securitization financing, gas procurement expenses are passed through to customers through the Company's South Texas Division's Rate Schedule No. PGA-16. The estimated monthly impact to gas costs for the average residential customer if the Winter Storm Uri extraordinary costs were recovered pursuant to the Company's South Texas Division's currently approved Rate Schedule No. PGA-16 is estimated to be $6.50/Mcf per month, for twelve months. The estimated monthly customer rate relief charge to recover Winter Storm Uri's extraordinary costs pursuant to the securitization process is expected to be less than this amount.

Persons with specific questions or desiring additional information about this filing may contact the Company at 800-427-7142. Complete copies of the Application for Customer Rate Relief and Related Regulatory Asset Determination is available for inspection at the Company's offices located at 1111 Louisiana, Houston, Texas 77002 and on our website at CenterPointEnergy.com/txcustomerraterelief. In addition, any affected person may file in writing comments or a protest concerning the application with Docket Services Section of the Office of the Hearings Division, Railroad Commission of Texas, P.O. Box 12967, Austin, Texas 78711-2967, at any time within 60 days following the receipt of this notice. Please reference Case No. 00007064.

Las personas con preguntas específicas o que deseen información adicional sobre esta presentación pueden comunicarse con la Compañía al 800-427-7142. Copias completas de la Solicitud de alivio de tarifas para clientes y determinaciones regulatorias de activos relacionados están disponibles para su inspección en las oficinas de la Compañía ubicadas en 1111 Louisiana, Houston, Texas 77002 y en nuestro sitio web en CenterPointEnergy.com/txcustomerraterelief. Además, cualquier persona afectada puede presentar comentarios por escrito o una protesta con respecto a la solicitud con la Sección de Servicios de Expediente de la Oficina de la División de Audiencias, Comisión de Ferrocarriles de Texas, P.O. Box 12967, Austin, Texas 78711-2967, en cualquier momento durante 60 días, contados a partir de que la notificación sea recibida. Por favor haga referencia al Case No. 00007064.

CenterPoint Energy

NOTICE OF CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION APPLICATION

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CenterPoint's Application seeks a determination as to the reasonableness and necessity of the Company's extraordinary costs incurred to provide service during Winter Storm Uri, which occurred in February 2021. The Application also requests a Commission determination to utilize securitization financing to recover the extraordinary costs it incurred to provide service during Winter Storm Uri. The use of securitization financing is expected to provide the most cost effective and affordable method of recovering these costs and will thereby provide customers with rate relief. The Company is also requesting that the Commission establish a financing order proceeding and, if securitization financing is not approved, to authorize recovery of the extraordinary costs through the Company's approved gas cost recovery tariffs over a three-year period.

The extraordinary costs CenterPoint seeks to recover include gas procurement costs incurred during Winter Storm Uri; carrying costs, financing and other costs incurred to secure and pay for natural gas volumes purchased during the storm; and the Company's extraordinary legal and consulting expenses relating to that event and this proceeding. Other extraordinary costs associated with Winter Storm Uri have been recorded in a separate regulatory asset and the Company will seek review of these costs for reasonableness in a subsequent rate proceeding, as applicable.

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Recovery of the extraordinary costs CenterPoint incurred to provide service during Winter Storm Uri will affect all rate-regulated customers the Company serves in Texas. If securitization financing is approved, it is expected that customer bills will begin to reflect the recovery of Winter Storm Uri costs upon the issuance of customer rate relief bonds, which, if approved, are expected to be issued in September 2022. In the absence of securitization financing, gas procurement expenses are passed through to customers through the Company's Texas Coast Division's Rate Schedule No. PGA-15T. The estimated monthly impact to gas costs for the average residential customer if the Winter Storm Uri extraordinary costs were recovered pursuant to the Company's Texas Coast Division's currently approved Rate Schedule No. PGA-15T is estimated to be $13.13/Mcf per month, for twelve months. The estimated monthly customer rate relief charge to recover Winter Storm Uri's extraordinary costs pursuant to the securitization process is expected to be less than this amount.

Persons with specific questions or desiring additional information about this filing may contact the Company at 800-752-8036. Complete copies of the Application for Customer Rate Relief and Related Regulatory Asset Determination is available for inspection at the Company's offices located at 1111 Louisiana, Houston, Texas 77002 and on our website at CenterPointEnergy.com/txcustomerraterelief. In addition, any affected person may file in writing comments or a protest concerning the application with Docket Services Section of the Office of the Hearings Division, Railroad Commission of Texas, P.O. Box 12967, Austin, Texas 78711-2967, at any time within 60 days following the receipt of this notice. Please reference Case No. 00007064.

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NOTICE OF CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION APPLICATION

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CenterPoint's Application seeks a determination as to the reasonableness and necessity of the Company's extraordinary costs incurred to provide service during Winter Storm Uri, which occurred in February 2021. The Application also requests a Commission determination to utilize securitization financing to recover the extraordinary costs it incurred to provide service during Winter Storm Uri. The use of securitization financing is expected to provide the most cost effective and affordable method of recovering these costs and will thereby provide customers with rate relief. The Company is also requesting that the Commission establish a financing order proceeding and, if securitization financing is not approved, to authorize recovery of the extraordinary costs through the Company's approved gas cost recovery tariffs over a three-year period.

The extraordinary costs CenterPoint seeks to recover include gas procurement costs incurred during Winter Storm Uri; carrying costs, financing and other costs incurred to secure and pay for natural gas volumes purchased during the storm; and the Company's extraordinary legal and consulting expenses relating to that event and this proceeding. Other extraordinary costs associated with Winter Storm Uri have been recorded in a separate regulatory asset and the Company will seek review of these costs for reasonableness in a subsequent rate proceeding, as applicable.

Recovery of the extraordinary costs CenterPoint incurred to provide service during Winter Storm Uri will affect all rate-regulated customers the Company serves in Texas. If securitization financing is approved, it is expected that customer bills will begin to reflect the recovery of Winter Storm Uri costs upon the issuance of customer rate relief bonds, which, if approved, are expected to be issued in

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September 2022. In the absence of securitization financing, gas procurement expenses are passed through to customers through the Company's Texarkana, Tx Division's Rate Schedule No. 1 Gas Supply Rate. The estimated monthly impact to gas costs for the average residential customer if the Winter Storm Uri extraordinary costs were recovered pursuant to the Company's Texarkana, Tx Division's currently approved Rate Schedule No. 1 Gas Supply Rate is estimated to be $9.26/Mcf per month, for twelve months. The estimated monthly customer rate relief charge to recover Winter Storm Uri's extraordinary costs pursuant to the securitization process is expected to be less than this amount.

Persons with specific questions or desiring additional information about this filing may contact the Company at 800-992-7552. Complete copies of the Application for Customer Rate Relief and Related Regulatory Asset Determination is available for inspection at the Company's offices located at 1111 Louisiana, Houston, Texas 77002 and on our website at CenterPointEnergy.com/txcustomerraterelief. In addition, any affected person may file in writing comments or a protest concerning the application with Docket Services Section of the Office of the Hearings Division, Railroad Commission of Texas, P.O. Box 12967, Austin, Texas 78711-2967, at any time within 60 days following the receipt of this notice. Please reference Case No. 00007064.

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CenterPoint® Energy

<u>Regulatory Asset Filing: Proposed Procedural Schedule</u>

Event	150-Day Timeline*
Application Filed	July 30, 2021
Conference, if necessary	TBD
Intervention Deadline	TBD
Deadline for Propounding Discovery Requests on Applicants' Direct Testimony	August 20
Intervenor Direct Testimony	August 30
• *Deadline for Propounding Discovery Requests on Intervenor Direct*	September 15
Settlement Conference	September 9
Staff Direct Testimony	September 21
• *Deadline for Propounding Discovery Requests on Staff Direct*	September 24
Applicants' Rebuttal Testimony	September 30
• *Deadline for Propounding Discovery Requests on Applicants' Rebuttal*	October 4
Trial Briefs due	October 5
Prehearing Conference	October 6
Hearing on the Merits	October 7-8
Initial Briefs	October 14
Reply Briefs	October 21
Draft Order Issued	October 25
Exceptions to Draft Order	October 28
Replies to Exceptions to Draft Order	November 2
RCT Conference - Regulatory Asset Determination	November 10
RCT Conference – Financing Order Issuance	December 7
Statutory Deadline for Regulatory Asset Determination	**December 28**

* Condensed from the full 240-day timeline for the Commission in the new statute (150 days for Regulatory Asset determination, followed by 90 days for issuance of Financing Order). **A 240-day statutory deadline would be March 28, 2022.** Following the Commission's issuance of a Financing Order, the TPFA has approximately 180 days to cause the issuance of bonds.

- Discovery responses due:
  - within 7 working days for Applicant Direct
  - within 3 working days for Intervenor and Staff Direct
  - within 3 working days for Applicant Rebuttal

- Discovery received after 1pm on the last working day of a work week is deemed received on the first working day of the following work week.

- Discovery limitations:
  - For aligned municipal parties, by Applicant: no more than 50 RFIs, including subparts, per week
  - For any party that is not aligned, by Applicant: no more than 25 RFIs, including subparts, per week
  - Not applicable to Commission Staff or Presiding Officers

CASE NO. 00007064

APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX, CENTERPOINT ENERGY ARKLA AND CENTERPOINT ENERGY TEXAS GAS FOR CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION	**§ § § § § § § §**	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

DIRECT TESTIMONY

OF

TALMADGE R. CENTERS, JR.

ON BEHALF OF

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX,
CENTERPOINT ENERGY ARKLA
AND
CENTERPOINT ENERGY TEXAS GAS

July 30, 2021

TABLE OF CONTENTS

LIST OF EXHIBITS

EXECUTIVE SUMMARY OF TALMADGE R. CENTERS, JR.

CenterPoint Energy Resources Corp. ("CERC") d/b/a CenterPoint Energy Entex, CenterPoint Energy Arkla, and CenterPoint Energy Texas Gas ("CenterPoint" or the "Company") as presented in this filing. My testimony supports the Company's request for customer rate relief by securitizing extraordinary costs incurred as a result of Winter Storm Uri. In summary, my testimony:

- Provides an overview of the Company's filing;
- Describes CERC's local distribution system operations in Texas;
- Details actions taken in advance of Winter Storm Uri by CERC and in response the Railroad Commission of Texas' ("Commission") Emergency Order issued February 12, 2021;
- Discusses the operational environment encountered by the Company during the storm; and
- Supports the Company's request to securitize approximately $1,141,278,934 in extraordinary costs incurred as a result of Winter Storm Uri.

Together with the other witnesses and evidence presented by CERC in this proceeding, my testimony demonstrates that the Company's actions to procure firm gas supply for its human needs customers before, during and after Winter Storm Uri were prudent, reasonable and necessary. Securitization of these gas costs, along with other costs that have been necessarily incurred due to Winter Storm Uri, provides tangible and quantifiable benefits for customers greater than would be achieved absent the issuance of customer rate relief bonds and is the most cost-effective method for funding CenterPoint's regulatory asset balance. Securitization is in the public interest and the Company's request should be approved.

DIRECT TESTIMONY OF TALMADGE R. CENTERS, JR.

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND PRESENT TITLE.

A. My name is Talmadge R. Centers, Jr., and I am CERC's Division Vice President Regional Operations for Texas. I have direct responsibility for the gas distribution operations in the state of Texas. My business address is 1111 Louisiana Street, Houston, Texas 77002.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from Texas A&M University in 1985 with a Bachelor of Science degree in Mechanical Engineering, as well as an Executive MBA degree from Texas A&M University in 2006. I began my career with Entex, a CenterPoint Energy, Inc. ("CNP") predecessor company, in August of 1985. Since that time, I have been employed by CNP or one of its affiliates. My positions within the Company have included Senior/Chief/Manager/Director of Engineering, Chief Engineer/Manager of Operations in Mississippi, Manager/Director of Operations in Houston, Regional Vice President in Minnesota, Division Vice President of System Integrity and Safety, Vice President of Safety/Training/Environmental, and my present position within CERC is Division Vice President Regional Operations for Texas. I was named to my present position in 2019, at which time I assumed responsibility for all gas distribution operations in the state of Texas, except for the Texarkana area, which is managed by our Arkansas and Oklahoma regions.

Q. HAVE YOU TESTIFIED IN PRIOR REGULATORY PROCEEDINGS BEFORE ANY OTHER REGULATORY AUTHORITIES?

A. Yes. I provided testimony in Gas Utilities Docket Nos. 9469, 10567 and 10920. Additionally, I provided testimony to the Minnesota Utilities Commission in dockets G-008/GR-13-316, G-008/GR-15-424 and G-008/GR-17-285.

Q. HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A. Yes. I have prepared or supervised the preparation of the exhibits listed in the table of contents.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. PLEASE DISCUSS THE PURPOSE OF YOUR TESTIMONY.

A. My testimony provides an overview of the Company's customer rate relief filing. I also describe CERC's Texas local distribution system operations and explain how the Company's natural gas delivery system functions on a day-to-day basis. I describe the essential role that access to a firm and reliable gas supply plays in both meeting customer demand requirements and in maintaining required system pressure. My testimony explains the operational consequences that will occur if gas volumes fall below system pressure requirements and describes the operational activities undertaken by CERC before, during, and after the February 2021 Winter Storm Uri to ensure system reliability and the continued provision of gas service to human needs customers in Texas. Finally, my testimony summarizes and supports the Company's request to securitize approximately $1,141,278,934 in extraordinary costs incurred as result of Winter Storm Uri.

Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF OTHER WITNESSES?

A. My testimony provides an overview of CERC's filing and outlines the operational details for executing natural gas delivery to our customers in Texas. It is complementary to testimony provided by Mr. Brian Wagaman in the Company's Gas Supply Department, Ms. Mary Kirk, Director of Accounting, Ms. Bernadette Johnson with Enverus, Inc. ("Enverus"), and Dr. Bruce Fairchild, a principal with Financial Concepts and Applications, Inc. ("FINCAP").

III. OVERVIEW OF THE COMPANY'S FILING

Q. WHY IS THE COMPANY MAKING THIS FILING?

A. This filing is in accordance with the Commission's June 17, 2021, Notice to Gas Utilities ("June 17th Notice"), which established a procedure for gas utilities seeking a regulatory asset determination pursuant to House Bill ("H.B.") 1520, Texas Utilities Code, chapter 104, subchapter I, and invited utilities to participate in securitization of extraordinary costs resulting from February 2021 Winter Storm Uri. I have included H.B. 1520 as Exhibit TRC-1 to my testimony. The Commission's June 17th Notice instructed gas utilities desiring to participate in securitization pursuant to H.B. 1520 to file an Application for Regulatory Asset Determination ("Application") on Friday, July 30, 2021 and the Company has met the Commission's deadline for filing.

Q. WHAT ACTION IS CERC SEEKING FROM THE COMMISSION THROUGH THIS FILING?

A. The Company is requesting a determination that $1,141,278,934 in extraordinary costs due to Winter Storm Uri were prudently, reasonably, and necessarily incurred on behalf of its Texas customers and are eligible for securitization and recovery in accordance with H.B. 1520. The evidence presented by the Company also demonstrates that securitization financing is the most cost-effective and affordable method of reimbursing CERC for its extraordinary gas costs. However, if the Commission concludes that securitization financing proves not to be beneficial for customers, the Company requests authority to recover the approved regulatory asset balance as a uniform, volumetric rate through the gas cost recovery mechanisms applicable in its various Texas divisions over a three-year period. Finally, the Company has requested that the Commission immediately initiate a proceeding to issue a financing order related to securitizing Winter Storm Uri costs. The initiation of a financing order proceeding at this time will allow that case to process simultaneously with this Application and avoid unnecessary delay in the issuance of securitization bonds and the incurrence of additional carrying costs.

Q. IS THE COMPANY REQUESTING A REGULATORY ASSET DETERMINATION FOR ALL OF ITS EXTRAORDINARY COSTS INCURRED AS A RESULT OF WINTER STORM URI?

A. No. Consistent with the Commission's June 17th Notice, the extraordinary costs included in the Company's filing are those related to the extraordinary gas costs incurred during February 2021, and certain additional expenses. The Company will present the other extraordinary costs incurred to provide service to customers during Winter Storm Uri for review and recovery in a future rate proceeding.

Q. DO THE REGULATORY ASSET BALANCES PRESENTED FOR RECOVERY IN THIS PROCEEDING INCLUDE ANY AFFILIATE COSTS?

A. No.

Q. IN ADDITION TO YOURSELF, WHAT OTHER WITNESSES PRESENT TESTIMONY IN SUPPORT OF THE COMPANY'S APPLICATION?

A. In addition to my testimony, the Company is presenting the direct testimony, exhibits, and supporting schedules of five other witnesses.

Ms. Mary A. Kirk, Director of Accounting for CenterPoint Energy Service Company, LLC ("Service Company") sponsors the Company's books and records, the accounting schedules presented in this Application, and the Company's total regulatory asset balance. Mr. Brian Wagaman, Vice President of Gas Supply for CERC, supports the prudence of the Company's extraordinary gas costs. He describes CERC's Gas Supply Plan, the objectives of the plan, and the manner in which the plan is executed. Mr. Wagaman describes the actions taken by CERC's Gas Supply organization during Winter Storm Uri to ensure that the Company had sufficient gas supply to provide service to all its human needs customers without interruption. Ms. Bernadette Johnson, a principal with Enverus, provides testimony summarizing the natural gas market conditions encountered by CERC and other utilities during Winter Storm Uri and provides an independent third-party review of how the Company's Gas Supply Plan functioned during the storm. Finally, Dr. Bruce Fairchild, a principal with FINCAP, demonstrates that the use of securitization financing will provide tangible and quantifiable benefits to customers, greater than would be achieved absent the issuance of customer rate relief bonds. Dr. Fairchild describes the proposed structuring, expected pricing, and proposed financing costs of customer rate relief bonds, and further explains that customer rate relief bond financing for extraordinary costs is the most cost-effective method of funding regulatory asset reimbursement.

Q. WERE THE DOCUMENTS INCLUDED WITH YOUR TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes.

Q. PLEASE DISCUSS HOW THE COMPANY IS SUPPORTING THE EXTRAORDINARY GAS COSTS REQUESTED IN THIS FILING.

A. CERC is supporting the regulatory asset balances at issue in this filing by providing the information required in the Commission's June 17th Notice. Extraordinary gas costs are provided on a division-by-division basis. Schedules supporting the Company's request are attached to Ms. Kirk's testimony and are jointly sponsored by myself, Ms. Kirk, and Mr. Wagaman.

Q. CNP RECENTLY ANNOUNCED THE SALE OF CERTAIN LDC ASSETS IN OKLAHOMA, ARKANSAS AND TEXARKANA, TEXAS. HOW IS THE COMPANY PRESENTING ANY EXTRAORDINARY GAS COSTS RELATED TO ASSETS THAT ARE SUBJECT TO THAT SALE PROCEEDING?

A. The Winter Storm Uri extraordinary gas costs associated with CERC's Texarkana assets are presented separately in the Company's schedules as a stand-alone Texas Division, consistent with the manner in which the Company's Purchase Gas

Adjustment ("PGA") tariffs operate. As Ms. Kirk testifies, the Texarkana Winter Storm Uri extraordinary gas costs have been separately tracked and accounted for so that the new owner of those assets will have clear direction on how to account for, recover and remit any amounts securitized.

Q. WHAT STANDARD SHOULD THE COMMISSION APPLY IN REVIEWING THE REASONABLENESS AND NECESSITY OF THE COMPANY'S EXTRAORDINARY COSTS?

A. The reasonableness and necessity of the Company's extraordinary costs should be evaluated based on the circumstances that existed at the time Winter Storm Uri occurred and, on the resources, and information reasonably available to CERC during the storm.

IV. OVERVIEW OF CERC'S LOCAL DISTRIBUTION SYSTEM OPERATIONS IN TEXAS

Q. PLEASE PROVIDE A GENERAL OVERVIEW OF CERC'S LOCAL DISTRIBUTION OPERATIONS IN TEXAS.

A. CenterPoint delivers natural gas and transportation services to approximately 1.7 million customers in Texas. The system serves over 262 cities in 85 counties and comprises of over 34,000 miles of gas main with 826 custody transfer points (city gate stations). Included with my testimony is a statewide map of the Company's system, as well as maps of the Company's five individual operating divisions. See Exhibit TRC-2. Our operations employ over 1,200 employees as well as over 250 contract crews totaling over 1,100 contract employees. As outlined in Mr. Wagaman's testimony, as per CenterPoint Energy's 2020 Gas Procurement Plan, based on a 10-year average of normal weather, we plan to deliver over 94.5 Bcf of natural gas annually. The actual demand for the 2020 – 2021 annual season was 99.0 Bcf. Our operations safety and compliance are regulated by the Commission in conjunction with the Pipeline and Hazardous Material Safety Administration at the federal level.

Q. IS YOUR TESTIMONY PROVIDING INFORMATION RELATING TO THE COMPANY'S ENTEX AND ARKLA DIVISION IN TEXAS?

A. Yes, the Company has four Entex divisions and, as I note above, one Arkla division in Texas that is currently in the process of being sold.

Q. IN GENERAL TERMS, HOW DOES A NATURAL GAS DELIVERY SYSTEM WORK?

A. In general, gas is delivered to our city gate stations or rural delivery points by our upstream pipeline suppliers' transmission systems. At each city gate, gas is measured, monitored for quality, odorized, and pressure reduced to manage design pressure into our system. Pressure regulating equipment is designed to control the pressure and volume based on the load requirements of the customers' peak demand. Our design day and hour temperature for the state's distribution systems varies from 6-30 degrees Fahrenheit. The piping system is designed to deliver volumes at these temperatures to maintain adequate pressure at the low points (furthest point) in the system to ensure all customers have adequate capacity without exceeding their maximum pressure requirements. The pressure on the system "pushes" the gas through the mains and service lines as demand for gas is needed. Maintaining minimum pressure at the low points without exceeding the system's maximum design pressure is critical for both safety and meeting load demand. Failing to maintain pressure can result in outages or interruption of service. Unlike electric and water systems, a gas system cannot be turned back on when pressure recovers due to safety concerns. Instead, the impacted area must be turned off, re-pressurized, and each customer location delivery must be re-pressured and checked. This is a very costly and time intensive process that is not without risk due to the scale of the activities.

Q. CAN YOU EXPLAIN HOW GAS PRESSURE WORKS AND THE ROLE THAT IT PLAYS IN OPERATING THE SYSTEM?

A. Gas pressure acts as "kinetic and stored energy." It is the energy that pushes the gas through the system the same way water flows through a water hose at your house. The primary difference is water is incompressible and pressure drops in the system are more a function of piping design and not having to factor the dynamics of the fluid compressing. In a gas system, you have what is called "line pack." Because of this physical fact, we must maintain enough pressure and low point control to factor in the time delay of load coming on to the system. The best analogy for this is the delay you see in traffic at a streetlight. When the light turns green (load coming on), the cars at the back of the line don't instantly move, there is a delay. Because the gas must flow from the city gate to the load, "line pack" provides the excess capacity necessary to meet the demand until the pressure regulating equipment at the city gate can react and restore the pressure in the system. Under normal conditions, the load demand gradually increases or decreases, and the control equipment has time to respond.

Q. HOW DOES THE COMPANY ENSURE THAT ADEQUATE PRESSURE IS MAINTAINED ON THE SYSTEM?

A. The process starts with securing and contracting gas supply for the system's load requirements. This includes coordinating with the supplier on the design delivery custody transfer points (city gates) to supply the gas on the specific dates or time at the minimum delivery load and pressures. The gas pressure is then reduced and monitored entering our system. Once delivered into our system, the system is designed (size and pressure rating of the system) to accommodate the load and pressure requirements to meet the demand.

Q. WHAT ARE THE OPERATIONAL CONSEQUENCES IF PRESSURE ON THE SYSTEM FALLS BELOW THE REQUIRED THRESHOLDS?

A. Expanding on my previous statements, in simple terms, if pressure falls below the minimum requirements, customers may experience low pressure and could experience delivery interruptions. In other words, a customer's natural gas equipment or appliances may not stay "lit" or remain "burning."

Q. ARE THERE ANY POTENTIAL CONSEQUENCES FOR CUSTOMERS IF THE COMPANY LOSES PRESSURE ON THE SYSTEM?

A. Yes. If this condition occurs, customers could lose service until we can conduct a premise-by-premise review of the impacted area and complete safety checks to restore service. In cases where customers are operating "open or uncontrolled" flame equipment like gas grills or cook tops, unburned gas can be released when the pressure recovers, creating a potential hazard. For this reason, maintaining pressure is critical, and when it is not, we must shut the system down and proceed with a defined restoration and re-light procedure.

V. OPERATIONS ACTIVITIES TAKEN IN ADVANCE OF WINTER STORM URI AND IN RESPONSE TO THE COMMISSION'S REVISED CURTAILMENT ORDER

Q. HOW DOES CERC PLAN AND PREPARE FOR EXTREME WEATHER EVENTS SUCH AS WINTER STORM URI?

A. CERC starts by studying forecast demands (short and long term) for both extreme warm and cold weather scenarios. Once the forecast demands are established, we then design the system for extremes. This includes pressure study load analysis by our engineering department to validate pipe size, pressure requirements, measurement needs, odorization, and over pressure protection. These parameters are all established for the design day and hour temperatures for the system (previously mentioned). Finally, our Gas Supply department contracts gas for firm supply and transportation needs. Additionally, we meet with our upstream pipeline suppliers before and after each heating season to review system safety, performance, capacity needs due to growth, and reliability.

Prior to each weather event, we review all delivery points and system status to ensure they are completely operable, and that any contingencies are in place. For example, equipment heaters, liquid separators, odorizer settings, and pressure control equipment are all checked or readjusted. In some cases, and certainly in the case of Winter Storm Uri, employee resources, schedules, and deployment locations are adjusted to quickly respond to any issues as they arise. These activities are triggered by events such as hurricanes, tornadoes, or terrorist events. In the case of Winter Storm Uri, due to the large regional weather impact to our service territory, both our gas and electric operations[1] implemented our Emergency Operating Plan ("EOP") to coordinate and respond to customer needs, system operations, or governing agency or local and regional response activities. This plan establishes our incident command structure and support functions and is included as Exhibit TRC-3 to my testimony.

In the case of Winter Storm Uri, our EOP was implemented as a winter response plan. The plan established operational leadership, engineering, and system operations ICS (incident command structure) in our gas control center to manage the event. In addition, we implemented our corporate response plan to coordinate with electric operations as well as community and governmental agencies both locally and in Austin. We deployed engineering staff directly in the electric command center to coordinate electric outage status and provide technical updates to suppliers across the state through the Texas Energy Reliability Council ("TERC"). This proved to be very beneficial to coordinate curtailment orders by the state and ensure the gas system was ready as electric service was restored and gas load came back on.

Q. ARE THERE ANY CONSIDERATIONS THAT CERC TAKES INTO ACCOUNT WHEN DESIGNING AND BUILDING ITS SYSTEM TO WITHSTAND EXTREME WEATHER?

A. Yes. As previously referenced, safety and reliability are at the top of the list of considerations as we design for demand. Our systems must remain reliable in all

[1] CenterPoint Energy Houston Electric, LLC ("CEHE"), an independent wholly-owned subsidiary of CNP is a transmission and distribution utility that provides electric service in a portion of Texas.

weather conditions (floods, cold weather, hurricanes) and firm gas supply is critical to provide human needs and maintain the safety of the system. Therefore, weatherization is a standard consideration in both the design and operation of our system. As importantly, the supporting systems and processes need to be reliable. Our internal infrastructure like IT, system control, dispatching, and communications all must be available or have business continuity plans as backups.

Q. DID CERC UNDERTAKE ANY WINTERIZATION ACTIVITIES SPECIFIC TO WINTER STORM URI IN ADVANCE OF THE STORM?

A. Yes. As previously stated, our standards and system design criteria consider demand and pressure requirements for these type events. We also build into the design equipment such as heaters, liquid separation, and odorization to operate in these extremes. Moreover, contingency plans are in place to respond to mechanical or equipment failures to ensure reliability.

Q. COULD YOU PROVIDE AN OVERVIEW OF CERC'S EOP?

A. In general, our EOP uses the Incident Command System ("ICS") provides the roles and responsibilities defined to manage an event like Winter Storm Uri. The plan is implemented anytime the company needs to prepare or respond to internal or external events. The plan is reviewed, and mock drills are conducted annually. This is typically in response to hurricane preparation, but the plan can be and is used for any significant event like hurricanes, tornadoes, terrorist events, or large-scale restoration. For gas operations, cold weather is a given. For most cold weather events, we usually do not need to implement our EOP protocol. However, once we determined the magnitude and regional impact to both the gas and electric systems as Winter Storm Uri moved across the country, CNP implemented EOP protocols at three levels. First, CNP had our corporate EOP implemented to execute coordination with all groups across our territories. This included the other states CNP operates (Mississippi, Louisiana, Oklahoma, Arkansas, Indiana, Ohio, and Minnesota) as this event impacted the entire mid-continent. Second, EOP for gas operations was implemented to coordinate and manage gas operations for same as well as targeted focus on Texas. Third, our electric operations implemented EOP protocol as they prepared for icing and potential electric restoration impacts. For Winter Storm Uri, our plans anticipated electrical outages due to icing, but did not anticipate large scale power outages due to the shortages in electric generation capacity.

Q. DID CERC'S EOP DURING WINTER STORM URI FUNCTION AS INTENDED?

A. Yes. Our company's EOP command and preparation protocol enabled us to initiate and provide support functions to coordinate efforts that ensured safety and reliability. It provided clear communications protocol with our customers, as well as internal and external stakeholders. Moreover, due to the fact the plan requires back up generation at our service centers and critical facilities, we were able to sustain operations and critical systems operating and monitoring system performance as well as execute restoration efforts in the few isolated areas where delivery was interrupted.

Q. ON FEBRUARY 12, 2021, THE COMMISSION ISSUED AN EMERGENCY ORDER SETTING FORTH SERVICE PRIORITIES FOR THE DELIVERY OF GAS BY NATURAL GAS UTILITIES IN RESPONSE TO WINTER STORM URI. WHAT ACTIONS DID CERC TAKE IN RESPONSE TO THIS ORDER?

A. CERC sent out curtailment letters on Feb. 15th to the 18 third-party shippers who sell natural gas to the 4,077 commercial and industrial customers in our Transportation Services program in Texas. We also contacted 64 of our transport customers to ask them to specifically curtail or idle operations where CERC was at risk of jeopardizing the integrity of our gas distribution system in cities because of low pressure issues. Exceptions were granted to customers with human needs (hospitals, electric generation, gas delivery facilities, etc.) or system critical needs were required. We also sent another letter on Feb. 20th to the 18 third-party shippers letting them know curtailment had ended and they could resume normal operations. Exhibit TRC-4 includes copies of the Commission's Emergency Orders and Exhibit TRC-5 includes copies of the curtailment letters. Where exceptions were not granted, field verification was conducted at many locations to verify compliance. Most locations reported that customers had already self-curtailed due to the weather.

VI. OPERATING ENVIRONMENT DURING WINTER STORM URI

Q. DID CERC FACE ANY PARTICULAR OPERATIONAL CHALLENGES DURING THE COURSE OF THE EVENT?

A. Yes.

Q. HOW DID CERC RESPOND TO THOSE CHALLENGES?

A. CNP responded as it always does. The entire CERC team remained vigilant and committed to delivering the firm reliable gas our customers expect. We leveraged the significant capital investments, processes, systems, and training implemented in our history as a company. The investments made in the gas system paid huge dividends for our customers (supply diversity, system upgrades for reliability, system integrity, asset replacements, back up IT systems, process and logistics contingencies, third party support logistics, ICS training, and mock drills to test preparation were all used in this event).

At the peak of the event, the Company experienced several challenges. However, the most difficult was maintaining pressure during electric restoration. When electric power is off for extended periods of time, homes internal temperatures fall well below thermostat settings. Consequently, when the power is restored to large areas, the instantaneous gas demand put tremendous stress on the gas system jeopardizing system pressure until the ambient temperatures increased and the load was reduced. To mitigate this effect during Winter Storm Uri, we coordinated closely with our electric operations to maximize system pressures in the restored areas as the power was restored. In many cases, stations had to be manually operated or bypassed to ensure demand was met. The Company operated two of its propane air facilities to supplement delivery, manually bypassed 59 delivery points, and deployed our mobile compressed natural gas (CNG) delivery trucks to eight critical locations to hold pressure or provide gas to human needs customers.

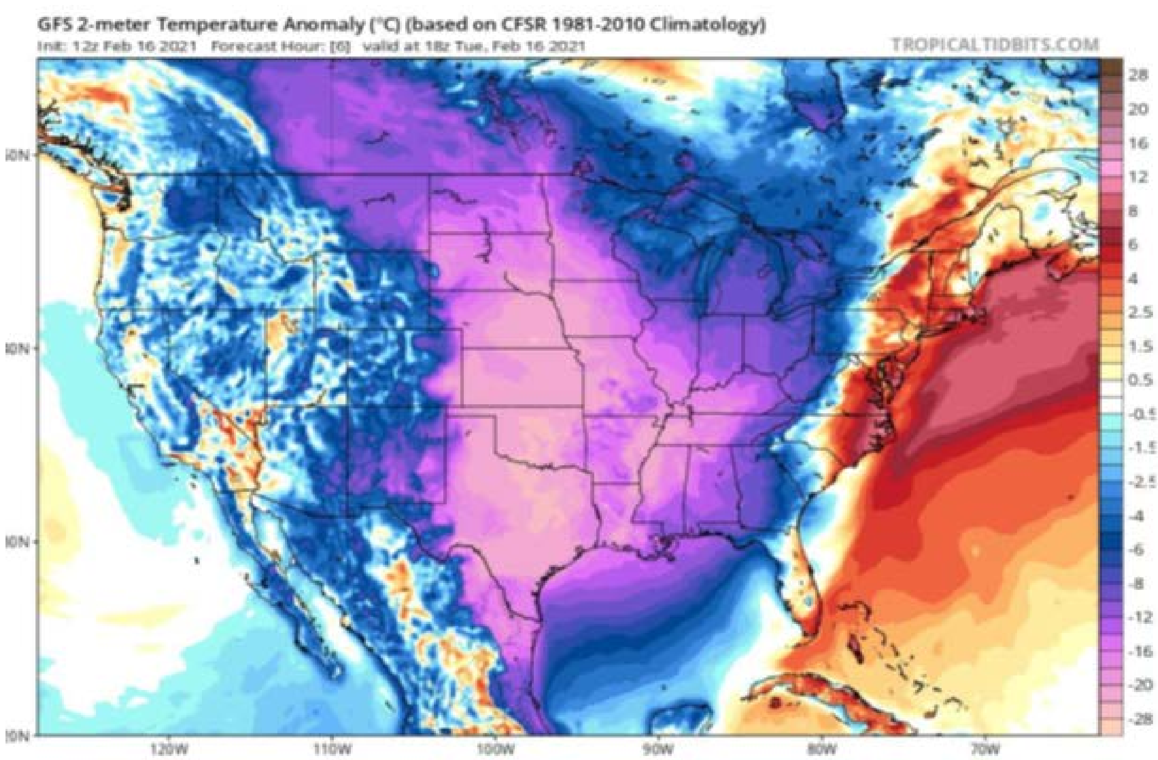
Due to the manual nature of these operations, employees were required to remain on site at all times. Road conditions and access to public food and human needs required considerable logistics to support our field personnel who remained on site until relief could be provided. More specifically, CERC responded to various challenges such as:

- Road and weather conditions – this was mitigated by deploying employees across the system to reduce response times. We implemented food and logistics to these individuals since they could not leave their posted area for extended periods of time and most food, fuel, and personal facilities were closed due to COVID, or electric power outages.
- Coordinating with multiple agencies – in addition to coordinating with CEHE, the Company coordinated with TERC and deployed engineering staff into our electric EOP group working with TERC and the Electric Reliability Council of Texas to help stay ahead of the event.
- System monitoring - as traditional low points moved due to electric outages and restoration timing, engineering staff continuously ran pressure scenarios to model system performance and establish where to deploy resources and people to maintain pressure.
- Curtailment validation – validating curtailment orders were executed and verified for non-firm/non-human needs transport customers. We notified our 4,077 transportation customers through the 18 gas marketers of the curtailment order. Of these, 64 customers were specifically notified by the CNP

Transportation Department to curtail or idle usage to provide capacity to firm human needs customers on those systems.

Q. IN YOUR EXPERIENCE, HAS CERC EVER BEEN FACED WITH THE TYPE OF WINTER WEATHER CHALLENGE POSED BY WINTER STORM URI IN FEBRUARY OF 2021?

A. No. Winter Storm Uri was a generational winter storm event that impacted CERC and other gas utilities across the country in ways that no previous storm ever has. The sheer size of Winter Storm Uri stressed utility systems in ways that we have never seen before. One of the easier ways to visualize the storm's impact is to look at a map of temperatures during the event. The temperature map below is for February 16, 2021 – one of the middle days in the event.



Q. DID CERC COMMUNICATE WITH ITS CUSTOMERS REGARDING THE NEED FOR CONSERVATION DURING THE EVENT?

A. Yes, 51 emails and 358 social media posts were executed to clarify restoration efforts, provide safety tips, and address customer responses. CNP translated all Power Alert Service and customer emails into Spanish. CNP also issued 25 news releases and more than 150 media interviews, and more than 650 media reports were published.

Q. WAS CERC ABLE TO PROVIDE SAFE AND RELIABLE GAS SERVICE TO ITS HUMAN NEEDS CUSTOMERS THROUGHOUT THE EVENT?

A. Yes. Out of over 1.7 million customers served by gas operations, only 717 customers experienced temporary interruption of service due to equipment failure at the city gate. In our Texas Coast Division, this included 200 customers in San Leon and 237 customers in Crosby. In our East Texas Division, this included 80 customers in Betz and 200 customers in Jasper. These outages were due to either localized equipment failure or instantaneous demand being too high when electric operations restored power. In all cases, gas service was restored within 24 hours of the outage after necessary safety checks were completed.

Q. MR. WAGAMAN TESTIFIES REGARDING THE EXTRAORDINARY GAS COSTS INCURRED DURING THE EVENT. FROM AN OPERATIONS PERSPECTIVE, WAS THE GAS PURCHASED BY CERC DURING THIS EVENT NECESSARY TO MEET HUMAN NEEDS CUSTOMER DEMAND AND SUPPORT SYSTEM OPERATIONS?

A. Yes.

Q. WITHOUT THOSE GAS PURCHASES, WOULD CERC HAVE BEEN ABLE TO ENSURE THE SAFE AND RELIABLE PROVISION OF NATURAL GAS SERVICE TO ITS HUMAN NEEDS CUSTOMERS DURING THE EVENT?

A. No.

Q. DID CERC PROCURE SUFFICIENT GAS SUPPLY TO PROVIDE RELIABLE AND SAFE SERVICE TO CUSTOMERS THROUGHOUT WINTER STORM URI?

A. It did. As Mr. Wagaman explains and Ms. Johnson independently verifies, the Company's gas supply plan was executed effectively throughout the event, as evidenced by the fact none of the Company's customers were interrupted during the storm due to issues related to procuring gas supply.

VII. EXTRAORDINARY COSTS

Q. HAS CERC ESTABLISHED A REGULATORY ASSET TO RECORD EXTRAORDINARY COSTS ASSOCIATED WITH THE EVENT?

A. Yes. As explained by Ms. Kirk, CERC has established a regulatory asset account to record the extraordinary costs incurred to provide natural gas service during the Event. The total amount of CERC's extraordinary costs requested for securitization and recovery is $1,141,278,934.

Q. WHAT EXTRAORDINARY COSTS HAVE BEEN INCLUDED IN THE REGULATORY ASSET FOR COMMISSION REVIEW AND APPROVAL IN THIS PROCEEDING?

A. Pursuant to the Commission's June 17th Notice to Operators, the Company's regulatory asset includes extraordinary gas procurement costs, commitment fees associated with the financing of those costs, extraordinary legal and consulting costs resulting from Winter Storm Uri and carrying costs from the date extraordinary costs were incurred through August 31, 2022. Detailed schedules supporting the Company's request are attached to Ms. Kirk's testimony and are jointly sponsored as indicated by Ms. Kirk.

Q. HOW DO THE COMPANY'S WITNESSES AND VARIOUS PERSONNEL SUPPORT CENTERPOINT'S REQUEST FOR CUSTOMER RATE RELIEF?

A. Mr. Wagaman and Ms. Johnson sponsor and support the recovery of gas costs associated with the event. Ms. Kirk sponsors the Company's books and records and the amounts reflected in the exhibits and schedules attached to her testimony. Mr. Brett Jerasa, an employee of Service Company, provides an affidavit in support of the Company's commitment fee request and short-term carrying cost calculation. Mr. Jerasa's affidavit is attached to the testimony of Ms. Kirk. Dr. Fairchild demonstrates that securitization is in the public interest and sponsors the joint schedules related to securitization. I support the reasonableness of the Company's operational activities prior to, through and following the event. Attached to my testimony are also affidavits from Mr. Patrick H. Peters, III and Ms. Judy Y. Liu, Associate General Counsel with Service Company, supporting the additional legal and consulting expenses that were incurred as a result of the event and the need for this proceeding.

Q. PLEASE DESCRIBE THE LEGAL AND CONSULTING EXPENSES FOR WHICH CENTERPOINT SEEKS RECOVERY IN THIS PROCEEDING.

A. The Company's legal and consulting expenses fall into two general categories: (1) legal and consulting expenses associated with this proceeding and the development of H.B. 1520 and (2) legal expenses associated with the Company's review of invoices from gas suppliers related to the event. With respect to this proceeding and H.B. 1520, CenterPoint has incurred and seeks recovery for legal expenses related to the Texas securitization legislation (H.B. 1520) and the development and support of this Application. CenterPoint has also requested legal expenses associated with its retention of Susman Godfrey LLP to review invoices from its gas suppliers related to the event and to represent the Company in any negotiations or disputes relating to those invoices. All legal and consulting expenses requested by the Company would not have been incurred but for Winter Storm Uri. Any amounts deemed to be lobbying expenditures related were not included in the Regulatory Asset and have been recorded below-the-line as required by the Federal Energy Regulatory Commission.

Q. HOW DO THESE COSTS DIFFER FROM NORMAL ONGOING LEGAL AND CONSULTING EXPENSES?

A. The Company typically recovers its gas costs through the PGA mechanism. In response to the extraordinary gas costs incurred by utilities across the state, the Legislature in passing H.B. 1520 has provided gas utilities and the Commission with an alternative cost recovery mechanism in securitization. The unique and complex nature of securitization resulted in the Company incurring costs that it would not incur in connection with its PGA filings. Specifically, CenterPoint retained Coffin Renner LLP ("Coffin Renner") to provide legal services relating to several issues resulting from Winter Storm Uri. Coffin Renner provided support related to H.B. 1520 and the Company's decision to participate in the securitization process. The firm also provided assistance in preparing the Company's Application for customer rate relief and will provide representation throughout the proceeding and in connection with the issuance of a financing order. CenterPoint also retained the services of Enverus to independently evaluate the Company's Gas Supply Plan and its performance throughout Winter Storm Uri. The services of Dr. Fairchild were retained to testify in support of the use of securitization. Finally, as discussed by Mr. Wagaman, Susman Godfrey LLP was retained to ensure that gas invoices received by the Company related to Winter Storm Uri were correct and reasonable. None of these costs were incurred in the ordinary course of business and none of these costs would have been incurred were it not for Winter Storm Uri and the need for the Company to participate in the securitization process.

Q. IS THE COMPANY PROVIDING DOCUMENTATION SUPPORTING THESE LEGAL AND CONSULTING COSTS AS PART OF ITS FILED APPLICATION?

A. Yes, Ms. Kirk addresses the documentation supporting those costs in her testimony.

Q. WHAT IS THE TOTAL AMOUNT OF ADDITIONAL LEGAL AND CONSULTING EXPENSE THAT CENTERPOINT SEEKS RECOVERY IN THIS THIS PROCEEDING?

A. $2,767,638.

Q. WERE THESE LEGAL AND CONSULTING COSTS REASONABLY AND NECESSARILY INCURRED IN RELATION TO THE SECURITIZATION LEGISLATION AND PREPARATION OF THIS FILING?

A. Yes. Attached to my testimony are the affidavits of Mr. Patrick H. Peters, Associate General Counsel, Service Company, and Ms. Judy Y. Liu, Associate General Counsel, Service Company, attesting to the reasonableness of these costs.

VIII. SECURITIZATION

Q. ARE YOU FAMILIAR WITH THE SECURITIZATION PROCESS?

A. Yes. Through CEHE, CNP has been involved in multiple securitization proceedings over the past 20 years. In this proceeding, H.B. 1520, which was signed into law on June 16, 2021, was enacted to authorize securitization financing of extraordinary costs. Similar to the transition bonds and storm restoration bonds that CNP has helped to fund in years past for CEHE, the reimbursement of CERC's extraordinary costs through securitization will benefit customers.

Q. IS CERC REQUIRED TO PARTICIPATE IN THE SECURITIZATION PROCESS?

A. No. Under the terms of H.B. 1520, gas utilities must choose to participate in the securitization process. Otherwise, they may utilize existing recovery mechanisms to seek recovery of these extraordinary costs. CERC is choosing to participate in the securitization process because the issuance of bonds to pay for the extraordinary gas costs benefits its customers.

Q. HOW WOULD THE COMPANY RECOVER ITS EXTRAORDINARY GAS COSTS IF IT DID NOT TO PARTICIPATE IN THE SECURITIZATION PROCESS?

A. All of CERC's operating divisions in Texas have PGA tariffs that authorize the Company to recover the costs associated with procuring, storing, and transporting gas to its customers. In addition to the monthly rate charged to customers for their gas usage, the Company annually reconciles the difference between the Actual Gas Cost Incurred and the Gas Cost Billed through the PGA. A reconciliation factor is established to recover the difference and is applied to customer bills and recovered over the subsequent 12 months to ensure that the Company neither over- nor under-recovers its gas costs. Without the securitization recovery process, the Company would include its extraordinary gas costs in the annual PGA reconciliation process and recover those amounts from customers over the subsequent 12-month period.

Q. WHAT IS THE ESTIMATED MONTHLY COST TO CUSTOMERS THAT WILL RESULT FROM THE ISSUANCE OF CUSTOMER RATE RELIEF BONDS?

A. The estimated monthly cost associated with the securitization process is supported by Dr. Fairchild and results in a volumetric rate of $1.26 per Mcf.

Q. WHAT IS THE ESTIMATED MONTHLY COST TO CUSTOMERS IF EXTRAORDINARY GAS COSTS WERE RECOVERED AS AUTHORIZED UNDER THE COMPANY'S GAS COST RECOVERY MECHANISMS?

A. The estimated monthly cost for CERC customers, by division, is presented in the table below:

Line No.	Division	Customer Class	Average Monthly Usage (Mcf)	Customer Impact over 1-year Period per Mcf	Total Monthly Customer Impact over 1-Year Period
		(a)	(b)	(c)	(d) = (b)*(c)
1	**Beaumont-East Texas**	Residential	3	$ 8.79	$ 26.37
2		Commercial -Small	15	$ 8.79	$ 131.86
3		Commercial -Large	231	$ 8.79	$ 2,030.62
4	**North East Texas - Tyler**	Residential	4	$ 11.24	$ 44.96
5		Commercial -Small	15	$ 11.24	$ 168.59
6		Commercial -Large	365	$ 11.24	$ 4,102.39
7	**South Texas**	Residential	2	$ 6.50	$ 13.00
8		Commercial -Small	17	$ 6.50	$ 110.51
9		Commercial -Large	261	$ 6.50	$ 1,696.59
10	**Houston**	Residential	3	$ 13.13	$ 39.38
11		Commercial -Small	17	$ 13.13	$ 223.15
12		Commercial -Large	222	$ 13.13	$ 2,914.05
13	**Texas Coast**	Residential	3	$ 13.13	$ 39.38
14		Commercial -Small	14	$ 13.13	$ 183.77
15		Commercial -Large	233	$ 12.86	$ 2,997.06
16	**Texarkana Incorporated**	Residential	4	$ 9.26	$ 37.05
17		Commercial -Small	21	$ 9.26	$ 194.50
18	**Texarkana Environs**	Residential	4	$ 9.26	$ 37.05
19		Commercial -Small	67	$ 9.26	$ 620.55

Q. WHAT WOULD THE ESTIMATED MONTHLY COST TO CUSTOMERS BE IF THE EXTRAORDINARY GAS COSTS WERE AMORTIZED AND RECOVERED THROUGH GAS COSTS CHARGED TO CUSTOMERS OVER A THREE-YEAR PERIOD?

A. The estimated monthly cost for CERC customers, by division, if amortized and recovered over a three-year period is presented in the table below:

Line No.	Division	Customer Class	Average Monthly Usage (Mcf)	Customer Impact over 3-year Period per Mcf	Total Monthly Customer Impact over 1-Year Period
		(a)	(b)	(c)	(d) = (b)*(c)
1	**Beaumont-East Texas**	Residential	3	$ 3.24	$ 9.71
2		Commercial -Small	15	$ 3.24	$ 48.55
3		Commercial -Large	231	$ 3.24	$ 747.69
4	**North East Texas - Tyler**	Residential	4	$ 4.13	$ 16.53
5		Commercial -Small	15	$ 4.13	$ 61.99
6		Commercial -Large	365	$ 4.13	$ 1,508.42
7	**South Texas**	Residential	2	$ 2.39	$ 4.78
8		Commercial -Small	17	$ 2.39	$ 40.64
9		Commercial -Large	261	$ 2.39	$ 623.94
10	**Houston**	Residential	3	$ 4.83	$ 14.50
11		Commercial -Small	17	$ 4.83	$ 82.15
12		Commercial -Large	222	$ 4.83	$ 1,072.76
13	**Texas Coast**	Residential	3	$ 4.83	$ 14.50
14		Commercial -Small	14	$ 4.83	$ 67.65
15		Commercial -Large	233	$ 4.74	$ 1,103.32
16	**Texarkana Incorporated**	Residential	4	$ 3.41	$ 13.63
17		Commercial -Small	21	$ 3.41	$ 71.54
18	**Texarkana Environs**	Residential	4	$ 3.41	$ 13.63
19		Commercial -Small	67	$ 3.41	$ 228.26

Q. HOW DO THE ESTIMATED MONTHLY COSTS TO CUSTOMERS ABOVE COMPARE TO THE MONTHLY COSTS THAT MAY OTHERWISE OCCUR IF THE COMMISSION APPROVES SECURITIZATION FINANCING FOR THE COMPANY'S EXTRAORDINARY COSTS?

A. The table below compares the monthly costs associated with a one-year recovery through the PGA and three-year recovery through the PGA with Dr. Fairchild's analysis of securitization financing.

Line No.	Division	Customer Class	Total Monthly Customer Impact over 1-Year Period	Total Monthly Customer Impact over 3-Year Period	Total Monthly Customer Impact of Securitization
1	Beaumont-East Texas	Residential	$ 26.37	$ 9.71	$ 3.78
2		Commercial -Small	$ 131.86	$ 48.55	$ 18.90
3		Commercial -Large	$ 2,030.62	$ 747.69	$ 291.06
4	North East Texas - Tyler	Residential	$ 44.96	$ 16.53	$ 5.04
5		Commercial -Small	$ 168.59	$ 61.99	$ 18.90
6		Commercial -Large	$ 4,102.39	$ 1,508.42	$ 459.90
7	South Texas	Residential	$ 13.00	$ 4.78	$ 2.52
8		Commercial -Small	$ 110.51	$ 40.64	$ 21.42
9		Commercial -Large	$ 1,696.59	$ 623.94	$ 328.86
10	Houston	Residential	$ 39.38	$ 14.50	$ 3.78
11		Commercial -Small	$ 223.15	$ 82.15	$ 21.42
12		Commercial -Large	$ 2,914.05	$ 1,072.76	$ 279.72
13	Texas Coast	Residential	$ 39.38	$ 14.50	$ 3.78
14		Commercial -Small	$ 183.77	$ 67.65	$ 17.64
15		Commercial -Large	$ 2,997.06	$ 1,103.32	$ 293.58
16	Texarkana Incorporated	Residential	$ 37.05	$ 13.63	$ 5.04
17		Commercial -Small	$ 194.50	$ 71.54	$ 26.46
18	Texarkana Environs	Residential	$ 37.05	$ 13.63	$ 5.04
19		Commercial -Small	$ 620.55	$ 228.26	$ 84.42

Q. IS SECURITIZATION THE MOST COST-EFFECTIVE METHOD OF FUNDING THE REGULATORY ASSET REIMBURSEMENT TO CERC?

A. Yes. As explained by Dr. Fairchild and supported by the comparisons in the tables above, securitization, through the issuance of customer rate relief bonds, is the most cost-effective method of funding regulatory asset reimbursements when viewed from a customer affordability perspective.

Q. WILL OTHER TANGIBLE AND QUANTIFIABLE CUSTOMER BENEFITS BE REALIZED THROUGH SECURITIZATION FINANCING?

A. Yes. As explained by Dr. Fairchild, use of the securitization process is expected to result in a AAA bond rating, which means that the carrying cost (i.e. interest rate) paid by customers will be lower than if CERC was to finance this debt. Securitization financing will also remove the debt associated with these extraordinary costs from CERC's balance sheet, which will support the Company's credit rating. Maintenance of an investment grade credit rating will ensure that CERC can continue to make necessary investments in system safety and reliability.

Q. IF SECURITIZATION FINANCING IS NOT AUTHORIZED BY THE COMMISSION, HOW DOES CERC PROPOSE TO RECOVER ITS EXTRAORDINARY GAS COSTS?

A. If the Commission does not authorize securitization financing, the Company requests that the Commission issue a regulatory asset determination for each of its division's extraordinary gas costs and that the Company be authorized to recover those costs over a three-year period via a uniform, volumetric rate that will be recovered through the Company's PGA tariffs.

Q. WHEN VIEWED IN LIGHT OF ALL OTHER COST RECOVERY ALTERNATIVES IS SECURITIZATION FINANCING IN THE PUBLIC INTEREST AND DOES IT MEET THE STATED PURPOSES OF SUBCHAPTER I, CHAPTER 104 OF GURA?

A. Yes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

AFFIDAVIT OF PATRICK H. PETERS III

Before me, the undersigned authority, on this date personally appeared Patrick H. Peters III, known to me to be the person whose name is subscribed below, and being by me first duly sworn, stated upon oath as follows:

1. "My name is Patrick H. Peters III. I am over 18 years of age, of sound mind, and fully competent to make this affidavit. Each statement of fact herein is true and of my own personal knowledge. I am employed by CenterPoint Energy Services Company, LLC, a subsidiary of CenterPoint Energy, Inc. ("CNP").

2. I received BA and BBA degrees from the University of Texas at Austin and a JD degree from the University of Michigan Law School. I have been a licensed attorney in the state of Texas for approximately 17 years. My prior work experience includes Baker Botts LLP, the Public Utility Commission of Texas, and the Electric Reliability Council of Texas, Inc.

3. I have been employed by CenterPoint Energy Service Company, LLC for approximately 6 years. I have represented CNP in various matters, including its natural gas utility business in Texas, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex, CenterPoint Energy Arkla and CenterPoint Energy Texas Gas ("CenterPoint" or the "Company"), and its electric utility business in Texas, CenterPoint Energy Houston Electric, LLC ("CEHE").

4. Over the course of my career, I have appeared in numerous regulatory matters and have hired and managed outside counsel and testifying and consulting experts for those matters. As an Associate General Counsel for CenterPoint Energy Service Company, LLC, I have been responsible for reviewing and approving invoices from outside law firms and consultants.

5. As an Associate General Counsel for CenterPoint Energy Service Company, LLC, which is responsible for providing legal services to all business units of CenterPoint Energy, Inc., a Fortune 500 corporation, I am familiar with the rates of a broad range of lawyers and consultants, both those at small and large firms and solo practitioners, including the rates charged by such attorneys and consultants for work on regulatory matters.

6. Mark Santos and the firm of Coffin Renner LP ("CR") were retained by the Company to provide legal services related to Winter Storm Uri in February of 2021 and to serve as counsel of record in this proceeding. The CR attorneys who worked on this matter have extensive experience representing utilities before the Railroad Commission of Texas ("Commission"). The firm of Baker Botts LLP also provided a minor amount of legal services to the Company related to Winter Storm Uri.

7. Enverus Consulting, and specifically, Ms. Bernadette Johnson, were retained by the Company to provide analysis and testimony summarizing the natural gas market conditions encountered by CERC during Winter Storm Uri and to provide an independent third-party review of how the Company's Gas Supply Plan functioned during the storm. Bruce Fairchild, a principal with Financial Concepts and Applications, Inc. ("FINCAP"), was also retained by joint utilities to analyze and provide testimony on whether the use of securitization financing will provide tangible and quantifiable benefits to customers, greater than would be achieved absent the issuance of customer rate relief bonds.

8. Mark Santos is the primary lawyer at CR representing CenterPoint in the Winter Storm Uri Customer Rate Relief filing. Mr. Santos has represented CNP as outside counsel in various Commission and other regulatory proceedings for over 10 years. Moreover, Mr. Santos also represents other utility clients before the Commission and other regulatory bodies. Mr. Santos is therefore knowledgeable of and skilled in Commission practices and procedures.

9. Mr. Santos has also been the lead outside lawyer for CenterPoint in each of its recent rate filings since 2015. Of CenterPoint's outside counsel, he is the most knowledgeable concerning the Company's natural gas rate issues in Texas.

10. I have personally reviewed the CR, Baker Botts, Enverus, and FINCAP invoices submitted for recovery on behalf of the Company.

11. I reviewed the above-referenced legal invoices taking into consideration the eight factors listed in Rule 1.04(b) of the Texas Disciplinary Rules of Professional Conduct:

    (1) the time and labor required, novelty and difficulty of the questions involved and the skill requisite to perform the legal services properly;
    (2) the likelihood that acceptance of employment will preclude other employment by the attorney;
    (3) the customary fee charged in the locality for similar legal services;
    (4) the amount of time involved and result achieved;
    (5) time limitation imposed by the client or circumstances;
    (6) the nature and length of the professional relationship with the client;
    (7) the experience, reputation and ability of the lawyers involved; and
    (8) whether the fee is fixed or contingent or uncertain of collection before the legal services are rendered.

12. I considered the factors delineated by the Third Court of Appeals in *City of El Paso v. Public Utility Comm'n of Texas*, 916 S.W.2d 515 (Tex. App.—Austin 1995, writ dism'd by agr.):

    (1) time and labor required;
    (2) nature and complexity of the case;
    (3) amount of money or value of property or interest at stake;
    (4) extent of responsibilities the attorney assumes;

(5) whether the attorney loses other employment because of the undertaking; and

(6) benefits to the client from the services.

13. As noted above, I am familiar with the rates for utility regulatory work in Texas and elsewhere. Generally speaking, the rates charged by any individual lawyer typically vary based on the level of experience possessed by the lawyer performing the work, the size and reputation of the law firm in which the lawyer works, and the technical nature of the work performed. While the hourly rate charged by outside counsel for work in this case is an important factor, it is only one of many important factors to be considered. Equally important are factors such as the number of hours worked, the complexity of the issues involved, and the experience of the lawyers involved. That is, an experienced lawyer in a complex case with an hourly rate at the high end of the range may be able to more efficiently do the work than a less experienced lawyer with an hourly rate at the low- or mid-point of the hourly rate range, such that the total amount paid at the end of the day is reasonable, even if the hourly rates are at the high end of the range. Similarly, a lawyer working at an hourly rate at the low- or mid-point of the range may have spent so many hours on a matter that the total amount paid is not reasonable, even though the hourly rate is low.

14. I am familiar with many regulatory lawyers in the Texas bar, and the lawyers at CR and Baker Botts enjoy excellent reputations for providing a high level of quality work on both complex and routine appellate matters. CR and Baker Botts work on matters of significant importance to Fortune 500 clients. In my experience, the hourly rates of CR and Baker Botts are consistent with other Texas lawyers performing similar work in Texas. Rates for lawyers in the regulatory field, in my experience, have recently ranged, depending on the experience of the lawyer between $300 to more than $800 (and sometimes more for very specialized subject matters, like tax regulatory work). The rates for CR and Baker Botts' work in this proceeding are in the expected range.

15. The rates charged by CR and Baker Botts in this proceeding are the same hourly rates the law firm charged the Company and its affiliates for other matters I am familiar with, including matters for which rate case expense reimbursement was not available.

16. In my opinion, the hourly rates charged by CR and Baker Botts are reasonable and in the range of rates charged in Texas by firms with the same level of depth and expertise. Similarly, in my opinion, the other expenses charged by CR and Baker Botts (i.e. copying, delivery service, etc.) are also reasonable and in line with costs charged by other law firms providing these types of legal services.

17. I am also familiar with the rates charged by consultants such as Enverus and Dr. Fairchild in regulatory proceedings. Enverus and Dr. Fairchild also have excellent reputations for providing high level of quality work in regulatory proceedings and the rates charged by Enverus and Dr. Fairchild are reasonable and in the range of rates charged by consulting firms with the same level of depth and expertise. In

my opinion, the rates charged by Enverus and CenterPoint's share of the rates charged by Dr. Fairchild are reasonable.

18. Included with the Company's Application and in support of Exhibit MAK-4 at Schedule D are invoices supporting $326,690 in actual legal and consulting expense incurred by CenterPoint through June 2021 for legal and consulting services rendered in connection with Winter Storm Uri and this proceeding. In addition, based on my experience in participating in Commission proceedings and my knowledge of issues likely to be raised, I estimate that the total legal and consulting expenses incurred for the completion of this docket and any related financing order proceeding will be approximately $525,000 and the estimated professional fees will be approximately $175,001. CenterPoint will update its actual and estimated legal and consulting expenses and professional fees over the course of this proceeding.

19. The legal and consulting expenses that CenterPoint seeks to recover qualify as extraordinary costs because these legal and consulting services would not have been necessary but for Winter Storm Uri. Both during and after Winter Storm Uri, the services provided have exclusively focused on CenterPoint's activities during Winter Storm Uri, ensuring recovery of extraordinary costs associated with the storm, and efforts to develop and implement the customer rate relief authorized in H.B. 1520.

20. With regard to the customer rate relief and regulatory asset determination proceeding, CR's, Enverus', and Dr. Fairchild's services were engaged to obtain customer rate relief and a regulatory asset determination regarding extraordinary costs incurred to provide service during Winter Storm Uri and to participate in securitization pursuant to H.B. 1520. The activities performed and that are expected to be performed are reasonable and necessary for the presentation and processing of the Company's Application for Customer Rate Relief and Related Regulatory Asset Determination. These services have or will include the preparation of testimony and exhibits, responses to discovery, attendance at meetings with participating parties, and the drafting of various pleadings throughout the proceeding.

21. I have reviewed the billings of CR, Baker Botts, Enverus, and Dr. Fairchild submitted to the Company for legal and consulting services performed in providing legal and consulting services to CenterPoint related to Winter Storm Uri and the regulatory asset determination proceeding and I affirm that those billings accurately reflect the time spent and expenditures incurred by CR, Baker Botts, Enverus, and Dr. Fairchild on CenterPoint's behalf. The charges and rates of the firms are reasonable and consistent with those billed by others for similar work, and the legal and consulting rates charged are comparable to rates charged by other professionals with the same level of expertise and experience and commensurate with the complexity of the issues in the proceeding. The charges as calculated are correct and there was no duplication of services and no double billing of charges.

22. Based upon my experience and review of the work done in this proceeding and the invoices of CR, Baker Botts, Enverus, and Dr. Fairchild, I believe that the work performed was necessary, and the time and labor to do the work was reasonable and commensurate with the nature, extent, difficulty, and complexity of the work done.

23. No portion of fees or expenses are for luxury items, such as limousine service, sporting events, alcoholic beverages, hotel movies, or other entertainment. The charges for copies, printing, overnight courier service, transcripts, and other expenses and costs were necessary for the prosecution of the case and are reasonable."

Patrick H. Peters III

Patrick H. Peters III

SWORN AND SUBSCRIBED before me on this 27 day of July 2021.

RACHEL SPENCE
NOTARY PUBLIC
STATE OF TEXAS
ID # 13012066-1
EXP. 02-17-2023

Rachel Spence

Notary Public in and for the State of Texas

STATE OF TEXAS §
§
COUNTY OF HARRIS §

AFFIDAVIT OF JUDY Y. LIU

Before me, the undersigned authority, on this date personally appeared Judy Y. Liu, known to me to be the person whose name is subscribed below, and being by me first duly sworn, stated upon oath as follows:

1. "My name is Judy Y. Liu. I am over 18 years of age, of sound mind, and fully competent to make this affidavit. Each statement of fact herein is true and of my own personal knowledge. I am employed by CenterPoint Energy Service Company, LLC, a subsidiary of CenterPoint Energy, Inc. ("CNP").

2. After law school, I joined the Houston office of Baker Botts L.L.P. As an associate in the Trial Department, I handled litigation and appellate matters in state and federal courts during my five years at Baker Botts.

3. I have been employed by CenterPoint Energy Service Company, LLC for approximately 18 years. In my various roles in the Legal Department, I have managed significant litigation for the Company in addition to advising management on a broad range of issues affecting our business and operations.

4. Over the course of my career, I have appeared, and hired and managed outside counsel and testifying and consulting experts, in numerous matters. As an Associate General Counsel for CenterPoint Energy Service Company, LLC, I have been responsible for reviewing and approving invoices from outside law firms and consultants.

5. As an Associate General Counsel for CenterPoint Energy Service Company, LLC, which is responsible for providing legal services to all business units of CNP, a Fortune 500 corporation, I am familiar with the rates of a broad range of lawyers and consultants, both those at small and large firms and solo practitioners, including the rates charged by such attorneys and consultants for work on regulatory matters.

6. Vineet Bhatia, Shawn Raymond, and Weston O'Black and the firm of Susman Godfrey LLP ("Susman") were retained by CNP and CenterPoint Energy Resources Corp. ("CERC" or the "Company") to provide legal services and advice related to the natural gas invoices and charges received by CERC from various suppliers during Winter Storm Uri. The Susman attorneys who worked on this matter have extensive experience representing parties in complex commercial litigation matters.

7. I have personally reviewed the Susman invoices submitted for recovery on behalf of the Company.

8. In deciding to retain Susman, CNP and CERC took into consideration the eight factors listed in Rule 1.04(b) of the Texas Disciplinary Rules of Professional Conduct:

(1) the time and labor required, novelty and difficulty of the questions involved and the skill requisite to perform the legal services properly;
(2) the likelihood that acceptance of employment will preclude other employment by the attorney;
(3) the customary fee charged in the locality for similar legal services;
(4) the amount of time involved and result achieved;
(5) time limitation imposed by the client or circumstances;
(6) the nature and length of the professional relationship with the client;
(7) the experience, reputation and ability of the lawyers involved; and
(8) whether the fee is fixed or contingent or uncertain of collection before the legal services are rendered.

9. CNP and CERC also considered the factors delineated by the Third Court of Appeals in *City of El Paso v. Public Utility Comm'n of Texas*, 916 S.W.2d 515 (Tex. App.—Austin 1995, writ dism'd by agr.):

(1) time and labor required;
(2) nature and complexity of the case;
(3) amount of money or value of property or interest at stake;
(4) extent of responsibilities the attorney assumes;
(5) whether the attorney loses other employment because of the undertaking; and
(6) benefits to the client from the services.

10. As noted above, I am familiar with fee arrangements, including alternative fee arrangements, for litigation counsel in Texas and elsewhere. Generally speaking, the rates charged or fee arrangement entered into with any individual lawyer or law firm will typically vary based on the level of experience possessed by the lawyer or firm performing the work, the size and reputation of the law firm in which the lawyer works, and the technical nature of the work performed. While the total fee paid to Susman for work in this case is an important factor, it is only one of many important factors to be considered. Equally important are factors such as the number of hours worked, the complexity of the issues involved, and the experience of the lawyers involved. That is, an experienced law firm in a complex case working through a fee arrangement, such as that agreed to between the CNP and CERC and Susman, may be able to more efficiently do the work and help to reach a more favorable resolution more quickly than a law firm working under an hourly-based fee arrangement.

11. I am familiar with many litigation lawyers in the Texas bar, and the lawyers at Susman enjoy excellent reputations for providing a high level of quality work on both complex and routine litigation matters. Susman works on matters of significant importance to Fortune 500 clients. In my experience, the fee arrangement with Susman is consistent with other Texas firms performing similar work in Texas.

12. In my opinion, the fees paid to Susman are reasonable and in the range of fees charged in Texas by firms with the same level of depth and expertise. The fees are also reasonable in light of the total amount of gas costs at issue in the matters handled by Susman and in light of the reduced gas cost amounts achieved by the Company as a result of Susman's representation. Similarly, in my opinion, the other expenses charged by Susman (i.e., copying, delivery service, etc.) are also reasonable and in line with costs charged by other law firms providing these types of legal services.

13. Included with the Company's Application and in support of Exhibit MAK-4 at Schedule D are invoices supporting $540,947 in actual legal and consulting expenses incurred by the Company through June 2021 and $1,200,000 estimated fees for legal and consulting services rendered in connection with Winter Storm Uri. The Company will update its actual and estimated legal and consulting expenses over the course of this proceeding.

14. The Susman legal expenses that the Company seeks to recover qualify as extraordinary costs because these legal and consulting services would not have been necessary but for Winter Storm Uri.

15. I have reviewed the billings of Susman submitted to CNP and CERC for legal and consulting services performed in providing legal and consulting services related to Winter Storm Uri and I affirm that those billings accurately reflect the agreement between Susman and CNP and CERC. The fee is reasonable and consistent with those charged by others for similar work and having the same level of expertise and experience with complex commercial issues. The charges as calculated are correct and there was no duplication of services and no double billing of charges.

16. Based upon my experience and review of the work done by Susman and the related invoices, I believe that the work performed was necessary, and the time and labor to do the work was reasonable and commensurate with the nature, extent, difficulty, and complexity of the work done.

17. No portion of fees or expenses are for luxury items, such as limousine service, sporting events, alcoholic beverages, hotel movies, or other entertainment. The charges for copies, printing, overnight courier service, transcripts, and other expenses and costs were necessary for the prosecution of the case and are reasonable."

Judy Y. Liu

SWORN AND SUBSCRIBED before me on this 27th day of July 2021.

NADINE C CROSS
NOTARY ID #98707-0
My Commission Expires
April 28, 2025

Nadine C Cross

Notary Public in and for the State of Texas

STATE OF TEXAS §
§
COUNTY OF HARRIS §

AFFIDAVIT OF TALMADGE CENTERS, JR.

BEFORE ME, the undersigned authority, on this day personally appeared Talmadge Centers, Jr. who having been placed under oath by me did depose as follows:

1. "My name is Talmadge Centers, Jr. I am over the age of eighteen (18) and fully competent to make this affidavit. I am employed as Vice President – Regional Gas Operations for CenterPoint Energy Resources Corp. The facts stated herein are true and correct based upon my personal knowledge.

2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

Further affiant sayeth not.

Tal Centers Jr.
Talmadge Centers, Jr.

SUBSCRIBED AND SWORN TO BEFORE ME by the said Talmadge Centers, Jr. on this 22nd day of July 2021.

Alice S Hart
Notary Public in and for the State of Texas

NOTARY PUBLIC
STATE OF TEXAS
ALICE S HART
NOTARY ID #130321-7
My Commission Expires
July 17, 2023

AN ACT

relating to certain extraordinary costs incurred by certain gas utilities relating to Winter Storm Uri and a study of measures to mitigate similar future costs; providing authority to issue bonds and impose fees and assessments.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 1232.002, Government Code, is amended to read as follows:

Sec. 1232.002. PURPOSE. The purpose of this chapter is to provide a method of financing for:

(1) the acquisition or construction of buildings; [~~and~~]

(2) the purchase or lease of equipment by executive or judicial branch state agencies; and

(3) customer rate relief bonds authorized by the Railroad Commission of Texas in accordance with Subchapter I, Chapter 104, Utilities Code.

SECTION 2. Section 1232.066(a), Government Code, is amended to read as follows:

(a) The board's authority under this chapter is limited to the financing of:

(1) the acquisition or construction of a building;

(2) the purchase or lease of equipment; [~~or~~]

(3) stranded costs of a municipal power agency; or

(4) customer rate relief bonds approved by the Railroad Commission of Texas in accordance with Subchapter I, Chapter 104, Utilities Code.

SECTION 3. Subchapter C, Chapter 1232, Government Code, is amended by adding Section 1232.1072 to read as follows:

Sec. 1232.1072. ISSUANCE OF OBLIGATIONS FOR FINANCING CUSTOMER RATE RELIEF PROPERTY. (a) The definitions in Section 104.362, Utilities Code, apply to terms used in this section.

(b) The authority may create an issuing financing entity for the purpose of issuing customer rate relief bonds approved by the Railroad Commission of Texas in a financing order, as provided by Subchapter I, Chapter 104, Utilities Code.

(c) An issuing financing entity created under this section is a duly constituted public authority and instrumentality of the state and is authorized to issue customer rate relief bonds on behalf of the state for the purposes of Section 103, Internal Revenue Code of 1986 (26 U.S.C. Section 103).

(d) The issuing financing entity must be governed by a governing board of three members appointed by the authority. A member of the governing board may be a current or former director of the authority. A member of the governing board serves without compensation but is entitled to reimbursement for travel expenses incurred in attending board meetings.

(e) The issuing financing entity must be formed in accordance with, be governed by, and have the powers, rights, and privileges provided for a nonprofit corporation organized under the Business Organizations Code, including Chapter 22 of that code, subject to the express exceptions and limitations provided by this section and Subchapter I, Chapter 104, Utilities Code. A single organizer selected by the executive director of the authority shall prepare the certificate of formation of the issuing financing entity under Chapters 3 and 22, Business Organizations Code. The certificate of formation must be consistent with the provisions of this section.

(f) The authority shall establish the issuing financing entity to act on behalf of the state as its duly constituted authority and instrumentality to issue customer rate relief bonds approved under Subchapter I, Chapter 104, Utilities Code.

(g) On a request to the authority from the Railroad Commission of Texas, the authority shall direct an issuing financing entity to issue customer rate relief bonds in accordance with a financing order issued by the railroad commission as provided in Subchapter I, Chapter 104, Utilities Code.

(h) Before the issuance of any customer rate relief bonds, the authority and the Railroad Commission of Texas shall ensure that adequate provision is made in any financing order for the recovery of all issuance costs and all other fees, costs, and expenses of the authority, the issuing financing entity, and any advisors or counsel hired by the authority or the entity for the purposes of this section during the life of the customer rate relief bonds.

(i) Customer rate relief bonds are limited obligations of the issuing financing entity payable solely from customer rate relief property and any other money pledged by the issuing financing entity to the payment of the bonds and are not a debt of this state, the Railroad Commission of Texas, the authority, or a gas utility.

(j) The Railroad Commission of Texas shall ensure that customer rate relief charges are imposed, collected, and enforced in an amount sufficient to pay on a timely basis all bond obligations, financing costs, and bond administrative expenses associated with any issuance of customer rate relief bonds.

(k) The authority and the Railroad Commission of Texas have all the powers necessary to perform the duties and responsibilities described by this section. This section shall be interpreted broadly in a manner consistent with the most cost-effective financing of customer rate relief property, including regulatory assets, extraordinary costs, and related financing costs approved by the Railroad Commission of Texas in accordance with Subchapter I, Chapter 104, Utilities Code.

(l) Any interest on the customer rate relief bonds is not subject to taxation by and may not be included as part of the measurement of a tax by this state or a political subdivision of this state.

(m) The authority shall make periodic reports to the Railroad Commission of Texas and the public regarding each financing made in accordance with Section 104.373(b), Utilities Code, and if required by the applicable financing order.

(n) The issuing financing entity shall issue customer rate relief bonds in accordance with and subject to other provisions of Title 9 applicable to the authority.

(o) The issuing financing entity may exercise the powers granted to the governing body of an issuer with regard to the issuance of obligations and the execution of credit agreements under Chapter 1371. A purpose for which bonds, obligations, or other evidences of indebtedness are issued under this section and Subchapter I, Chapter 104, Utilities Code, constitutes an eligible project for purposes of Chapter 1371 of this code.

(p) Assets of an issuing financing entity may not be considered part of any state fund and must be held outside the state treasury. The liabilities of the issuing financing entity may not be considered to be a debt of the state or a pledge of the state's credit. An issuing financing entity must be self-funded from customer rate relief property and established in accordance with Subchapter I, Chapter 104, Utilities Code. A state agency may provide money appropriated for the purpose to the issuing financing entity to provide for initial operational expenses of the issuing financing entity.

SECTION 4. Section 1232.108, Government Code, is amended to read as follows:

Sec. 1232.108. LEGISLATIVE AUTHORIZATION REQUIRED. Except as permitted by Section 1232.1072, 1232.109, 2166.452, or 2166.453, before the board may issue and sell bonds, the legislature by the General Appropriations Act or other law must have authorized:

(1) the specific project for which the bonds are to be issued and sold; and

(2) the estimated cost of the project or the maximum amount of bonded indebtedness that may be incurred by the issuance

and sale of bonds for the project.

SECTION 5. Chapter 104, Utilities Code, is amended by adding Subchapter I to read as follows:

SUBCHAPTER I. CUSTOMER RATE RELIEF BONDS

Sec. 104.361. PURPOSE; RAILROAD COMMISSION DUTY. (a) The purpose of this subchapter is to reduce the cost that customers would otherwise experience because of extraordinary costs that gas utilities incurred to secure gas supply and provide service during Winter Storm Uri, and to restore gas utility systems after that event, by providing securitization financing for gas utilities to recover those costs. The securitization financing mechanism authorized by this subchapter will:

(1) provide rate relief to customers by extending the period during which the costs described by this subsection are recovered from customers; and

(2) support the financial strength and stability of gas utility companies.

(b) The railroad commission shall ensure that securitization provides tangible and quantifiable benefits to customers, greater than would have been achieved absent the issuance of customer rate relief bonds.

Sec. 104.362. DEFINITIONS. In this subchapter:

(1) "Ancillary agreement" means a financial arrangement entered into in connection with the issuance or payment of customer rate relief bonds that enhances the marketability, security, or creditworthiness of customer rate relief bonds, including a bond, insurance policy, letter of credit, reserve

account, surety bond, interest rate or currency swap arrangement, interest rate lock agreement, forward payment conversion agreement, credit agreement, other hedging arrangement, or liquidity or credit support arrangement.

(2) "Authority" means the Texas Public Finance Authority.

(3) "Bond administrative expenses" means all costs and expenses incurred by the railroad commission, the authority, or any issuing financing entity to evaluate, issue, and administer customer rate relief bonds issued under this subchapter, including fees and expenses of the authority, any bond administrator, and the issuing financing entity, fees for paying agents, trustees, and attorneys, and fees for paying for other consulting and professional services necessary to ensure compliance with this subchapter, applicable state or federal law, and the terms of the financing order.

(4) "Bond obligations" means the principal of a customer rate relief bond and any premium and interest on a customer rate relief bond issued under this subchapter, together with any amount owed under a related ancillary agreement or credit agreement.

(5) "Credit agreement" has the meaning assigned by Section 1371.001, Government Code.

(6) "Customer rate relief bonds" means bonds, notes, certificates, or other evidence of indebtedness or ownership the proceeds of which are used directly or indirectly to recover, finance, or refinance regulatory assets approved by the railroad

commission, including extraordinary costs and related financing costs, and that are:

(A) issued by an issuing financing entity under a financing order; and

(B) payable from and secured by customer rate relief property and amounts on deposit in any trust accounts established for the benefit of the customer rate relief bondholders as approved by the applicable financing order.

(7) "Customer rate relief charges" means the amounts authorized by the railroad commission as nonbypassable charges to repay, finance, or refinance regulatory assets, including extraordinary costs, financing costs, bond administrative expenses, and other costs authorized by the financing order:

(A) imposed on and included in customer bills of a gas utility that has received a regulatory asset determination under Section 104.365;

(B) collected in full by a gas utility that has received a regulatory asset determination under Section 104.365, or its successors or assignees, or a collection agent, as servicer, separate and apart from the gas utility's base rates; and

(C) paid by all existing or future customers receiving service from a gas utility that has received a regulatory asset determination under Section 104.365 or its successors or assignees, even if a customer elects to purchase gas from an alternative gas supplier.

(8) "Customer rate relief property" means:

(A) all rights and interests of an issuing financing entity or any successor under a financing order, including the right to impose, bill, collect, and receive customer rate relief charges authorized in the financing order and to obtain periodic adjustments to those customer rate relief charges as provided in the financing order and in accordance with Section 104.370; and

(B) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified by Paragraph (A), regardless of whether the revenues, collections, claims, rights to payments, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payments, payments, money, or proceeds.

(9) "Financing costs" means any of the following:

(A) interest and acquisition, defeasance, or redemption premiums that are payable on customer rate relief bonds;

(B) a payment required under an ancillary agreement or credit agreement or an amount required to fund or replenish reserve or other accounts established under the terms of an indenture, ancillary agreement, or other financing document pertaining to customer rate relief bonds;

(C) issuance costs or ongoing costs related to supporting, repaying, servicing, or refunding customer rate relief bonds, including servicing fees, accounting or auditing fees, trustee fees, legal fees or expenses, consulting fees, administrative fees, printing fees, financial advisor fees or expenses, Securities and Exchange Commission registration fees, issuer fees, bond administrative expenses, placement and underwriting fees, capitalized interest, overcollateralization funding requirements including amounts to fund or replenish any reserve established for a series of customer rate relief bonds, rating agency fees, stock exchange listing and compliance fees, filing fees, and any other bond administrative expenses; and

(D) the costs to the railroad commission of acquiring professional or consulting services for the purpose of evaluating extraordinary costs under this subchapter.

(10) "Financing order" means an order adopted under Section 104.366 approving the issuance of customer rate relief bonds and the creation of customer rate relief property and associated customer rate relief charges for the recovery of regulatory assets, including extraordinary costs, related financing costs, and other costs authorized by the financing order.

(11) "Financing party" means a holder of customer rate relief bonds, including a trustee, a pledgee, a collateral agent, any party under an ancillary agreement, or other person acting for the holder's benefit.

(12) "Gas utility" means:

(A) an operator of natural gas distribution pipelines that delivers and sells natural gas to the public and that is subject to the railroad commission's jurisdiction under Section 102.001; or

(B) an operator that transmits, transports, delivers, or sells natural gas or synthetic natural gas to operators of natural gas distribution pipelines and whose rates for those services are established by the railroad commission in a rate proceeding filed under this chapter.

(13) "Issuing financing entity" means a special purpose nonmember, nonstock, nonprofit public corporation established by the authority under Section 1232.1072, Government Code.

(14) "Nonbypassable" means a charge that:

(A) must be paid by all existing or future customers receiving service from a gas utility that has received a regulatory asset determination under Section 104.365 or the gas utility's successors or assignees, even if a customer elects to purchase gas from an alternative gas supplier; and

(B) may not be offset by any credit.

(15) "Normalized market pricing" means the average monthly pricing at the Henry Hub for the three months immediately preceding the month during which extraordinary costs were incurred, plus contractual adders to the index price and other non-indexed gas procurement costs.

(16) "Regulatory asset" includes extraordinary costs:

(A) recorded by a gas utility in the utility's books and records in accordance with the uniform system of accounts prescribed for natural gas companies subject to the provisions of the Natural Gas Act (15 U.S.C. Section 717 et seq.) by the Federal Energy Regulatory Commission and generally accepted accounting principles; or

(B) classified as a receivable or financial asset under international financial reporting standards under the railroad commission's authorization in the Notice of Authorization for Regulatory Asset Accounting for Local Distribution Companies Affected by the February 2021 Winter Weather Event issued February 13, 2021.

(17) "Servicer" means, with respect to each issuance of customer rate relief bonds, the entity identified by the railroad commission in the financing order as servicer responsible for collecting customer rate relief charges from participating gas utilities, remitting all collected funds to the applicable issuing financing entity or the bond trustee, calculating true-up adjustments, and performing any other duties as specified in the financing order.

(18) "Winter Storm Uri" means the North American winter storm that occurred in February 2021.

Sec. 104.363. EXTRAORDINARY COSTS. For the purposes of this subchapter, extraordinary costs are the reasonable and necessary costs related to Winter Storm Uri, including carrying costs, placed in a regulatory asset and approved by the railroad commission in a regulatory asset determination under Section 104.365.

Sec. 104.364. JURISDICTION AND POWERS OF RAILROAD COMMISSION AND OTHER REGULATORY AUTHORITIES. (a) The railroad commission may authorize the issuance of customer rate relief bonds if the requirements of Section 104.366 are met.

(b) The railroad commission may assess to a gas utility costs associated with administering this subchapter. Assessments must be recovered from rate-regulated customers as part of gas cost.

(c) The railroad commission has exclusive, original jurisdiction to issue financing orders that authorize the creation of customer rate relief property. Customer rate relief property must be created and vested in an issuing financing entity and does not constitute property of the railroad commission or any gas utility.

(d) Except as provided by Subsection (c), this subchapter does not limit or impair a regulatory authority's plenary jurisdiction over the rates, charges, and services rendered by gas utilities in this state under Chapter 102.

Sec. 104.365. REGULATORY ASSET DETERMINATION. (a) The railroad commission, on application of a gas utility to recover a regulatory asset, shall determine the regulatory asset amount to be recovered by the gas utility. A gas utility may request recovery of a regulatory asset under this subchapter only if the regulatory asset is related to Winter Storm Uri.

(b) A gas utility desiring to participate in the customer rate relief bond process under a financing order by requesting recovery of a regulatory asset must file an application with the railroad commission on or before the 60th day after the effective date of the Act enacting this subchapter.

(c) If the railroad commission does not make a final determination regarding the regulatory asset amount to be recovered by a gas utility before the 151st day after the gas utility files the application, the railroad commission is considered to have approved the regulatory asset amount requested by the gas utility.

(d) The regulatory asset determination is not subject to reduction, impairment, or adjustment by further action of the railroad commission, except as authorized by Section 104.370.

(e) The regulatory asset determination is not subject to rehearing by the railroad commission and may be appealed only to a Travis County district court by a party to the proceeding. The appeal must be filed not later than the 15th day after the date the order is signed by the railroad commission.

(f) The judgment of the district court may be reviewed only by direct appeal to the Supreme Court of Texas. The appeal must be filed not later than the 15th day after the date of entry of judgment.

(g) All appeals shall be heard and determined by the district court and the Supreme Court of Texas as expeditiously as possible with lawful precedence over other matters. Review on appeal shall be based solely on the record before the railroad commission and briefs to the court and limited to whether the financing order:

(1) complies with the constitution and laws of this state and the United States; and

(2) is within the authority of the railroad commission to issue under this subchapter.

(h) The railroad commission shall establish a schedule, filing requirements, and a procedure for determining the prudence of the costs included in a gas utility's regulatory asset.

(i) To the extent a gas utility subject to this subchapter receives insurance proceeds, governmental grants, or other sources of funding that compensate or otherwise reimburse or indemnify the gas utility for extraordinary costs following the issuance of customer rate relief bonds, the gas utility may record the amount in a regulatory liability account and that amount shall be reviewed in a future proceeding. If an audit conducted under a valid gas purchase agreement identifies a change of greater than five percent to the total amount of the gas supply costs incurred during the event for which regulatory asset recovery was approved, the gas utility may record the amount in a regulatory asset or regulatory liability account and that amount shall be reviewed for recovery in a future proceeding.

Sec. 104.366. FINANCING ORDERS AND ISSUANCE OF CUSTOMER RATE RELIEF BONDS. (a) If the railroad commission determines that customer rate relief bond financing for extraordinary costs is the most cost-effective method of funding regulatory asset reimbursements to be made to gas utilities, the railroad commission, after the final resolution of all applications filed under Section 104.365, may request the authority to direct an issuing financing entity to issue customer rate relief bonds. Before making the request, the railroad commission must issue a financing order that complies with this section.

(b) To make the determination described by Subsection (a), the railroad commission must find that the proposed structuring, expected pricing, and proposed financing costs of the customer rate relief bonds are reasonably expected to provide benefits to customers by:

(1) considering customer affordability; and

(2) comparing:

(A) the estimated monthly costs to customers resulting from the issuance of customer rate relief bonds; and

(B) the estimated monthly costs to customers that would result from the application of conventional recovery methods.

(c) The financing order must:

(1) include a finding that the use of the securitization financing mechanism is in the public interest and consistent with the purposes of this subchapter;

(2) detail the total amount of the regulatory asset determinations to be included in the customer rate relief bond issuance;

(3) authorize the recovery of any tax obligation of the gas utilities arising or resulting from:

(A) receipt of customer rate relief bond proceeds; or

(B) collection or remittance of customer rate relief charges through the gas utilities' gas cost recovery mechanism or other means that the railroad commission determines reasonable;

(4) authorize the issuance of customer rate relief bonds through an issuing financing entity;

(5) include a statement of:

(A) the aggregated regulatory asset determination to be included in the principal amount of the customer rate relief bonds, not to exceed $10 billion for any separate bond issue;

(B) the maximum scheduled final maturity of the customer rate relief bonds, not to exceed 30 years, except that the legal final maturity may be longer based on rating agency and market considerations; and

(C) the maximum interest rate that the customer rate relief bonds may bear, not to exceed the maximum net effective interest rate allowed by law;

(6) provide for the imposition, collection, and mandatory periodic formulaic adjustment of customer rate relief charges in accordance with Section 104.370 by all gas utilities and successors of gas utilities for which a regulatory asset determination has been made under Section 104.365 to ensure that the customer rate relief bonds and all related financing costs will be paid in full and on a timely basis by customer rate relief charges;

(7) authorize the creation of customer rate relief property in favor of the issuing financing entity and pledge of customer rate relief property to the payment of the customer rate relief bonds;

(8) direct the issuing financing entity to disperse the proceeds of customer rate relief bonds, net of bond issuance costs, reserves, and any capitalized interest, to gas utilities for which a regulatory asset determination has been made under Section 104.365 and include the amounts to be distributed to each participating gas utility;

(9) provide that customer rate relief charges be collected and allocated among customers of each gas utility for

which a regulatory determination has been made under Section 104.365 through uniform monthly volumetric charges to be paid by customers as a component of the gas utility's gas cost or in another manner that the railroad commission determines reasonable; and

(10) reflect the commitment made by a gas utility receiving proceeds that the proceeds are in lieu of recovery of those costs through the regular ratemaking process or other mechanism to the extent the costs are reimbursed to the gas utility by customer rate relief bond financing proceeds.

(d) The financing order may provide for a centralized servicer to coordinate with participating gas utilities who bill and collect customer rate relief charges and to provide certain collection and forecast data required for calculating true-up adjustments. The financing order may not provide for the railroad commission, the authority, the issuing financing entity, or a participating utility to act as servicer.

(e) The principal amount determined by the railroad commission must be increased to include an amount sufficient to:

(1) pay the financing costs associated with the issuance, including all bond administrative expenses to be paid from the proceeds of the bonds;

(2) reimburse the authority and the railroad commission for any costs incurred for the issuance of the customer rate relief bonds and related bond administrative expenses;

(3) provide for any applicable bond reserve fund; and

(4) capitalize interest for the period determined necessary by the railroad commission.

(f) The authority, consistent with this subchapter and the terms of the financing order, shall:

(1) direct an issuing financing entity to issue customer rate relief bonds at the railroad commission's request, in accordance with the requirements of Chapter 1232, Government Code, and other provisions of Title 9, Government Code, that apply to bond issuance by a state agency;

(2) determine the methods of sale, types of bonds, bond forms, interest rates, principal amortization, amount of reserves or capitalized interest, and other terms of the customer rate relief bonds that in the authority's judgment best achieve the economic goals of the financing order and effect the financing at the lowest practicable cost; and

(3) reimburse the railroad commission, the authority, or any issuing financing entity for bond administrative expenses and other costs authorized under this subchapter.

(g) To the extent authorized in the applicable financing order, an issuing financing entity may enter into credit agreements or ancillary agreements in connection with the issuance of customer rate relief bonds.

(h) The financing order becomes effective in accordance with its terms. The financing order, together with the customer rate relief property and the customer rate relief charges authorized by the financing order, is irrevocable and not subject to reduction, impairment, or adjustment by further action of the railroad commission, except as provided under Subsection (j) and authorized by Section 104.370.

(i) The railroad commission shall issue a financing order under this section not later than the 90th day following the date of the conclusion of all proceedings filed under Section 104.365.

(j) A financing order is not subject to rehearing by the railroad commission. A financing order may be appealed only to a Travis County district court by a party to the proceeding. The appeal must be filed not later than the 15th day after the date the financing order is signed by the railroad commission.

(k) The judgment of the district court may be reviewed only by direct appeal to the Supreme Court of Texas. The appeal must be filed not later than the 15th day after the date of entry of judgment.

(l) All appeals shall be heard and determined by the district court and the Supreme Court of Texas as expeditiously as possible with lawful precedence over other matters. Review on appeal shall be based solely on the record before the railroad commission and briefs to the court and is limited to whether the financing order:

(1) complies with the constitution and laws of this state and the United States; and

(2) is within the authority of the railroad commission to issue under this subchapter.

(m) The railroad commission shall transmit a financing order to the authority after all appeals under this section have been exhausted.

(n) The authority shall direct an issuing financing entity to issue customer rate relief bonds as soon as practicable and not later than the 180th day after receipt of a financing order issued under this section, except that the authority may cause the issuance after the 180th day if necessary based on bond market conditions, the receipt of necessary approvals, and the timely receipt of necessary financial disclosure information from each participating gas utility.

(o) The issuing financing entity shall deliver customer rate relief bond proceeds net of upfront financing costs in accordance with the applicable financing order.

(p) For the benefit of the authority, the issuing financing entity, holders of customer rate relief bonds, and all other financing parties, the railroad commission shall guarantee in a financing order that the railroad commission will take all actions in the railroad commission's powers to enforce the provisions of the financing order to ensure that customer rate relief charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the customer rate relief bonds and all related financing costs and bond administrative expenses.

(q) The railroad commission shall make periodic reports to the public regarding each financing.

Sec. 104.367. PROPERTY RIGHTS. (a) Customer rate relief bonds are the limited obligation solely of the issuing financing entity and are not a debt of a gas utility or a debt or a pledge of the faith and credit of this state or any political subdivision of this state.

(b) Customer rate relief bonds are nonrecourse to the credit or any assets of this state or the authority. A trust fund created in connection with the issuance of customer rate relief bonds is not subject to Subtitle B, Title 9, Property Code.

(c) The rights and interests of an issuing financing entity or the successor under a financing order, including the right to receive customer rate relief charges authorized in the financing order, are only contract rights until pledged in connection with the issuance of the customer rate relief bonds, at which time the rights and interests become customer rate relief property.

(d) Customer rate relief property created under a financing order is vested ab initio in the issuing financing entity. Customer rate relief property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, notwithstanding that the imposition and collection of customer rate relief charges depends on further acts of the gas utility or others that have not yet occurred. The financing order remains in effect, and the customer rate relief property continues to exist, for the same period as the pledge of the state described by Section 104.374.

(e) All revenue and collections resulting from customer rate relief charges constitute proceeds only of a property right arising from the financing order.

(f) An amount owed by an issuing financing entity under an ancillary agreement or a credit agreement is payable from and secured by a pledge and interest in the customer rate relief property to the extent provided in the documents evidencing the ancillary agreement or credit agreement.

Sec. 104.368. PROPERTY INTEREST NOT SUBJECT TO SETOFF, COUNTERCLAIM, SURCHARGE, OR DEFENSE. The interest of an issuing financing entity or pledgee in customer rate relief property, including the revenue and collections arising from customer rate relief charges, is not subject to setoff, counterclaim, surcharge, or defense by the gas utility or any other person or in connection with the bankruptcy of the gas utility, the authority, or any other entity. A financing order remains in effect and unabated notwithstanding the bankruptcy of the gas utility, the authority, an issuing financing entity, or any successor or assignee of the gas utility, authority, or issuing financing entity.

Sec. 104.369. CUSTOMER RATE RELIEF CHARGES NONBYPASSABLE. A financing order must include terms ensuring that the imposition and collection of the customer rate relief charges authorized in the order are nonbypassable.

Sec. 104.370. TRUE-UP MECHANISM. (a) A financing order must include a formulaic true-up charge adjustment mechanism that requires that the customer rate relief charges be reviewed and adjusted at least annually by the servicer or replacement servicer, including a subservicer or replacement subservicer, at time periods and frequencies provided in the financing order, to:

(1) correct any overcollections or undercollections of the preceding 12 months; and

(2) ensure the expected recovery of amounts sufficient to provide for the timely payment of customer rate relief bond principal and interest payments and other financing costs.

(b) True-up charge adjustments must become effective not later than the 30th day after the date the railroad commission receives a true-up charge adjustment letter from the servicer or replacement servicer notifying the railroad commission of the pending adjustment.

(c) Any administrative review of true-up charge adjustments must be limited to notifying the servicer of mathematical or clerical errors in the calculation. The servicer may correct the error and refile a true-up charge adjustment letter, with the adjustment becoming effective as soon as practicable but not later than the 30th day after the date the railroad commission receives the refiled letter.

Sec. 104.371. SECURITY INTERESTS; ASSIGNMENT; COMMINGLING; DEFAULT. (a) Customer rate relief property does not constitute an account or general intangible under Section 9.106, Business & Commerce Code. The creation, granting, perfection, and enforcement of liens and security interests in customer rate relief property that secures customer rate relief bonds are governed by Chapter 1208, Government Code.

(b) The priority of a lien and security interest perfected under this section is not impaired by any later adjustment of customer rate relief charges under a mechanism adopted under Section 104.370 or by the commingling of funds arising from customer rate relief charges with other funds. Any other security interest that may apply to those funds is terminated when the funds are transferred to a segregated account for the issuing financing entity or a financing party. If customer rate relief property has been transferred to a trustee or another pledgee of the issuing financing entity, any proceeds of that property must be held in trust for the financing party.

(c) If a default or termination occurs under the customer rate relief bonds, a district court of Travis County, on application by or on behalf of the financing parties, shall order the sequestration and payment to the financing parties of revenue arising from the customer rate relief charges.

Sec. 104.372. BOND PROCEEDS IN TRUST. (a) The issuing financing entity may deposit proceeds of customer rate relief bonds issued by the issuing financing entity under this subchapter with a trustee selected by the issuing financing entity or the proceeds may be held by the comptroller in a dedicated trust fund outside the state treasury in the custody of the comptroller.

(b) Bond proceeds, net of the financing costs and reserves described by Subdivisions (2) and (3), including investment income, must be held in trust for the exclusive benefit of the railroad commission's policy of reimbursing gas utility costs and applied in accordance with the financing order. The issuing financing entity shall deliver the net proceeds, as provided in the applicable financing order, to:

(1) reimburse each gas utility the regulatory asset amount determined to be reasonable for that gas utility in the financing order;

(2) pay the financing costs of issuing the bonds; and

(3) provide bond reserves or fund any capitalized interest, as applicable.

(c) On full payment of the customer rate relief bonds and any related financing costs, any customer rate relief charges or other amounts held as security for the bonds shall be used to provide credits to gas utility customers as provided in the financing order.

Sec. 104.373. REPAYMENT OF CUSTOMER RATE RELIEF BONDS. (a) As long as any customer rate relief bonds or related financing costs remain outstanding, uniform monthly volumetric customer rate relief charges must be paid by all current and future customers that receive service from a gas utility for which a regulatory asset determination has been made under Section 104.365. A gas utility and its successors, assignees, or replacements shall continue to bill and collect customer rate relief charges from the gas utility's current and future customers until all customer rate relief bonds and financing costs are paid in full.

(b) The authority shall report to the railroad commission the amount of the outstanding customer rate relief bonds issued by the issuing financing entity under this subchapter and the estimated amount of annual bond administrative expenses.

(c) All revenue collected from the customer rate relief charges shall be remitted promptly by the applicable servicers to the issuing financing entity or the bond trustee for the customer rate relief bonds to pay bond obligations and ongoing financing costs, including bond administrative expenses, to ensure timely payment of bond obligations and financing costs.

(d) Customer rate relief property, including customer rate relief charges, may be applied only as provided by this subchapter.

(e) Bond obligations are payable only from sources provided for payment by this subchapter.

Sec. 104.374. PLEDGE OF STATE. (a) Customer rate relief bonds issued under this subchapter and any related ancillary agreements or credit agreements are not a debt or pledge of the faith and credit of this state or a state agency or political subdivision of this state. A customer rate relief bond, ancillary agreement, or credit agreement is payable solely from customer rate relief charges as provided by this subchapter.

(b) Notwithstanding Subsection (a), this state, including the railroad commission and the authority, pledges for the benefit and protection of the financing parties and the gas utility that this state will not take or permit any action that would impair the value of customer rate relief property, or, except as permitted by Section 104.370, reduce, alter, or impair the customer rate relief charges to be imposed, collected, and remitted to financing parties until the principal, interest and premium, and contracts to be performed in connection with the related customer rate relief bonds and financing costs have been paid and performed in full. Each issuing financing entity shall include this pledge in any documentation relating to customer rate relief bonds.

(c) Before the date that is two years and one day after the date that an issuing financing entity no longer has any payment obligation with respect to customer rate relief bonds, the issuing financing entity may not wind up or dissolve the financing entity's operations, may not file a voluntary petition under federal bankruptcy law, and neither the board of the issuing financing entity nor any public official nor any organization, entity, or other person may authorize the issuing financing entity to be or to become a debtor under federal bankruptcy law during that period.

The state covenants that it will not limit or alter the denial of authority under this subsection, and the provisions of this subsection are hereby made a part of the contractual obligation that is subject to the state pledge made in this section.

Sec. 104.375. TAX EXEMPTION. (a) The sale or purchase of or revenue derived from services performed in the issuance or transfer of customer rate relief bonds issued under this subchapter is exempt from taxation by this state or a political subdivision of this state.

(b) A gas utility's receipt of customer rate relief charges is exempt from state and local sales and use taxes and utility gross receipts taxes and assessments, and is excluded from revenue for purposes of franchise tax under Section 171.1011, Tax Code.

Sec. 104.376. RECOVERABLE TAX EXPENSE. A tax obligation of the gas utility arising from receipt of customer rate relief bond proceeds or from the collection or remittance of customer rate relief charges is an allowable expense under Section 104.055.

Sec. 104.377. ISSUING FINANCING ENTITY OR FINANCING PARTY NOT PUBLIC UTILITY. An issuing financing entity or financing party may not be considered to be a public utility or person providing natural gas service solely by virtue of the transactions described by this subchapter.

Sec. 104.378. NO PERSONAL LIABILITY. A commissioner of the railroad commission, a railroad commission employee, a member of the board of directors of the authority, an employee of the authority, or a director, officer, or employee of any issuing financing entity is not personally liable for a result of an exercise of a duty or responsibility established under this subchapter.

Sec. 104.379. CATASTROPHIC WEATHER EVENT STUDY. (a) The railroad commission shall conduct a study on measures to mitigate catastrophic weather events, including measures to:

(1) establish natural gas storage capacity to ensure a reliable gas supply, including location, ownership, and other pertinent factors regarding gas storage capacity;

(2) assess the advantages and disadvantages of requiring local distribution companies to use hedging tactics to avoid volatile customer rates; and

(3) assess the advantages and disadvantages of prohibiting spot market purchases during a catastrophic weather event that contribute to volatile customer rates.

(b) Not later than December 1, 2022, the railroad commission shall report the railroad commission's findings to the governor, the lieutenant governor, and the speaker of the house of representatives.

(c) This section expires August 31, 2023.

Sec. 104.380. SEVERABILITY. After the date customer rate relief bonds are issued under this subchapter, if any provision in this title or portion of this title or related provisions in Title 9, Government Code, are held to be invalid or are invalidated, superseded, replaced, repealed, or expire for any reason, that occurrence does not affect the validity or continuation of this subchapter or any other provision of this title or related provisions in Title 9, Government Code, that are relevant to the issuance, administration, payment, retirement, or refunding of customer rate relief bonds or to any actions of a gas utility, its successors, an assignee, a collection agent, or a financing party, which shall remain in full force and effect.

SECTION 6. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2021.

President of the Senate

Speaker of the House

I certify that H.B. No. 1520 was passed by the House on April 20, 2021, by the following vote: Yeas 139, Nays 5, 1 present, not voting; and that the House concurred in Senate amendments to H.B. No. 1520 on May 28, 2021, by the following vote: Yeas 130, Nays 12, 1 present, not voting.

Chief Clerk of the House

I certify that H.B. No. 1520 was passed by the Senate, with amendments, on May 26, 2021, by the following vote: Yeas 29, Nays 2.

Secretary of the Senate

APPROVED: ____________________

Date

____

Governor

CenterPoint Energy

Always There.®

Texas Gas Jurisdictions

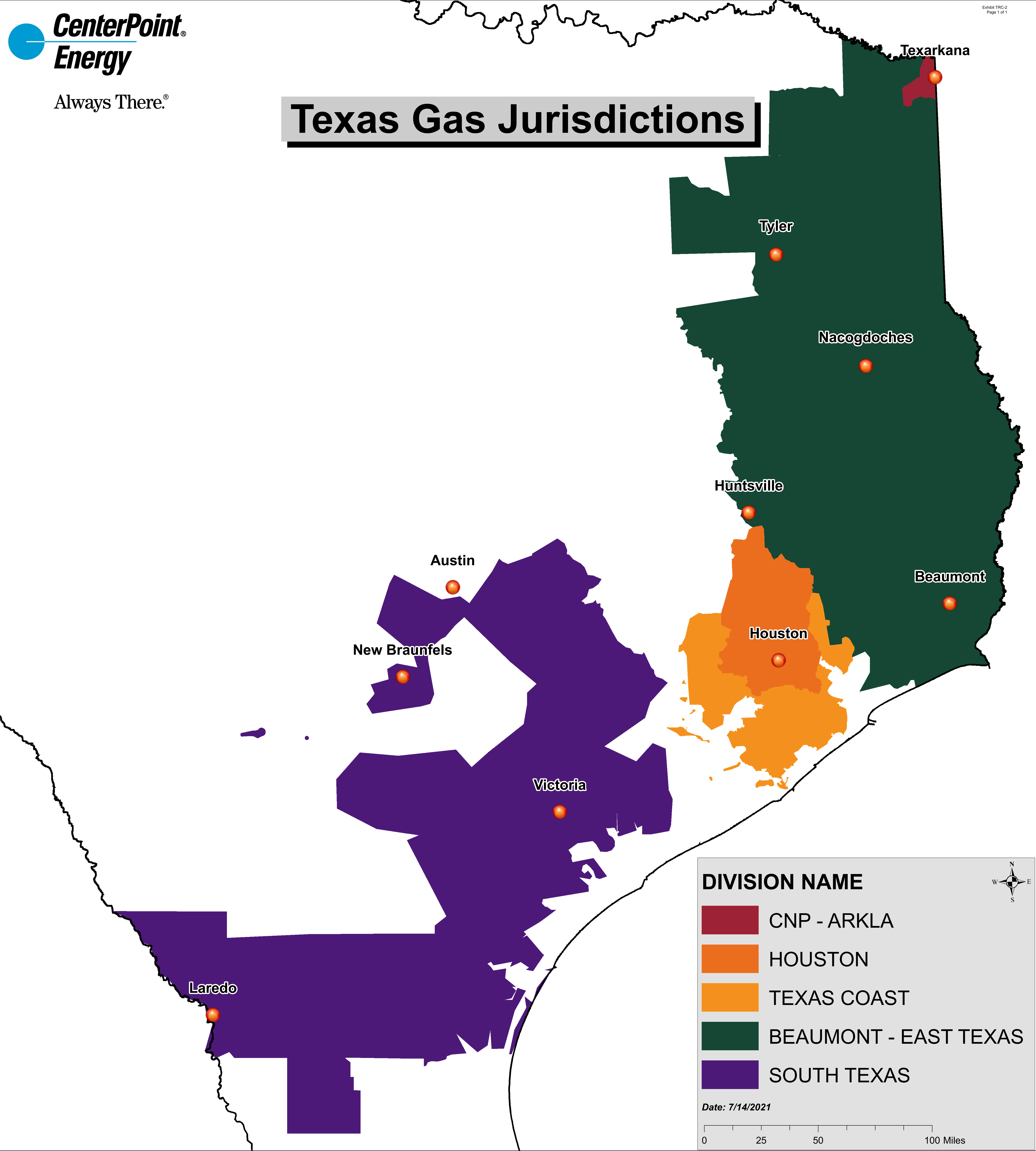


Exhibit TRC-3 is Voluminous
and will be provided electronically.

RAILROAD COMMISSION OF TEXAS

EMERGENCY ORDER

WHEREAS, after Notice of Emergency Meeting to consider this Emergency Order was duly posted on February 12, 2021 with the Secretary of State within the time period provided by law pursuant to Tex. Gov't Code Chapter 551, *et seq.*, the Railroad Commission of Texas ("Commission") determined that an Emergency Order is necessary to protect human needs customers in the State of Texas because of current conditions which threaten and health, safety and welfare of those customers, and determined that the existing regulations and Orders of the Commission do not sufficiently address the specific conditions of this emergency; and

WHEREAS, on February 12, 2021, the Governor of the State of Texas issued a State of Disaster in all 254 counties due to severe weather posing an imminent threat of widespread and severe property damage, injury, and loss of life due to prolonged freezing temperatures, heavy snow, and freezing rain statewide; and

WHEREAS, pursuant to the authority granted to the Commission in the Texas Utilities Code, the Commission has the authority to issue this Emergency Order affecting the operation of the gas utility systems in this state to prevent such threats to the public; and

WHEREAS, the transportation, delivery and/or sale of natural gas in the State of Texas for any other purpose other than serving human needs customers should be curtailed to the extent possible and necessary for the duration of this Emergency Order.

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE RAILROAD COMMISSION OF TEXAS that Rule 2 of Docket 489 is temporarily amended as follows:

RULE 2.

Until such time as the Commission has specifically approved a utilities curtailment program, the following priorities in descending order shall be observed:

A. Deliveries of gas by natural gas utilities to ~~for~~ residences, hospitals, schools, churches and other human needs customers, and deliveries to Local Distribution Companies which serve human needs customers.

B. Deliveries of gas to electric generation facilities which serve human needs customers.

~~B.~~C. Deliveries of gas to small industrials and regular commercial loads (defined as those customers using less than 3,000 MCF per day) and delivery of gas for use as pilot lights or in accessory or auxiliary equipment essential to avoid serious damage to industrial plants.

~~C.~~ D. Large users of gas for fuel or as a raw material where an alternate cannot be used and operation and plant production would be curtailed or shut down completely when gas is curtailed.

~~D.~~ E. Large users of gas for boiler fuel or other fuel users where alternate fuels can be used. This category is not to be determined by whether or not a user has actually installed alternate fuel facilities, but whether or not an alternate fuel "could" be used.

~~E.~~ F. Interruptible sales made subject to interruption or curtailment at Seller's sole discretion under contracts or tariffs which provide in effect for the sale of such gas as Seller may be agreeable to selling and Buyer may be agreeable to buying from time to time.

IT IS FURTHER ORDERED that gas utilities which have a specific curtailment plan/program that has been approved by the Commission shall ensure that their top two priorities in the plan/program are A and B as listed above for the duration of this Emergency Order.

IT IS FURTHER ORDERED that this Emergency Order is in effect until 11:59 p.m. Central Standard Time Friday, February 19, 2021, unless otherwise renewed by the Commission in a subsequent Emergency Order.

SIGNED this 12th day of February 2021.

RAILROAD COMMISSION OF TEXAS

DocuSigned by:
Christi Craddick
15494B7DF4CC424...
CHAIRMAN CHRISTI CRADDICK

DocuSigned by:
Wayne Christian
C1C746B4E446422...
COMMISSIONER WAYNE CHRISTIAN

DocuSigned by:
Jim Wright
EAAE94782E9F4AE...
COMMISSIONER JIM WRIGHT

ATTEST:

DocuSigned by:
Callie Farrar
3581C80DFDE0476...
SECRETARY

RAILROAD COMMISSION OF TEXAS

EMERGENCY ORDER

WHEREAS, after Notice of Emergency Meeting to consider this Emergency Order was duly posted on February 17, 2021 with the Secretary of State within the time period provided by law pursuant to Tex. Gov't Code Chapter 551, *et seq*., the Railroad Commission of Texas ("Commission") determined that an Emergency Order is necessary to protect human needs customers in the State of Texas because of current conditions which threaten and health, safety and welfare of those customers, and determined that the existing regulations and Orders of the Commission do not sufficiently address the specific conditions of this emergency; and

WHEREAS, on February 12, 2021, the Governor of the State of Texas issued a State of Disaster in all 254 counties due to severe weather posing an imminent threat of widespread and severe property damage, injury, and loss of life due to prolonged freezing temperatures, heavy snow, and freezing rain statewide; and

WHEREAS, pursuant to the authority granted to the Commission in the Texas Utilities Code, the Commission has the authority to issue this Emergency Order affecting the operation of the gas utility systems in this state to prevent such threats to the public;

WHEREAS, the transportation, delivery and/or sale of natural gas in the State of Texas for any other purpose other than serving human needs customers should be curtailed to the extent possible and necessary for the duration of this Emergency Order;

WHEREAS, on February 12, 2021, the Commission held a duly posted emergency meeting and issued an emergency order temporarily modifying current natural gas utility curtailment priorities to ensure the protection of human needs customers; and

WHEREAS, the emergency conditions that prompted the Commission's emergency order continue to exist;

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE RAILROAD COMMISSION OF TEXAS that the emergency order issued by the Railroad Commission on Friday, February 12, 2021 is hereby extended until Tuesday, February 23, 2021. The emergency order will remain in effect until 11:59 p.m. Central Standard Time on February 23, 2021 unless otherwise renewed by the Commission in a subsequent action.

SIGNED this 17th day of February 2021.

RAILROAD COMMISSION OF TEXAS

DocuSigned by:
Christi Craddick
15494B7DF4CC424...
CHAIRMAN CHRISTI CRADDICK

DocuSigned by:
Wayne Christian
C1C746B4F446422...
COMMISSIONER WAYNE CHRISTIAN

DocuSigned by:
Jim Wright
EAAE94782E0F4AE...
COMMISSIONER JIM WRIGHT

ATTEST:

DocuSigned by:
Callie Farrar
3581C80DFDE0476...
SECRETARY

CenterPoint Energy
1111 Louisiana Street
Houston, TX 77002-5231
P.O. Box 2628
Houston, TX 77252-2628

Dear Suppliers,

As a result of the freezing temperatures across Texas and the resulting operational and supply strain on the natural gas distribution system, all Transportation Services customers will need to self-curtail to idle operations or completely shut-in, **effective immediately Monday, February 15, 2021** until further notice. Under the curtailment provisions in the T-90 and T-91 Rate Schedules, Transportation Services customers will be curtailed "in the same manner as Company's end-use customers of the same classification based on the Company's then prevailing curtailment schedule.[1]" Additionally, the curtailment provisions in the T-90 and T-91 Rate Schedules state: "if any governmental or regulatory authority having jurisdiction over Company or its curtailment plan, by rule or order, establishes some other curtailment priority schedule or plan for Company, then Company shall comply with such rule or order (without any liability to Shipper for damages or otherwise)."

On February 12, 2021, the Railroad Commission of Texas issued an Emergency Order that addresses the priorities for curtailment.[2] Under the Emergency Order, the priorities for curtailment are as follows:

> Until such time as the Commission has specifically approved a utilities curtailment program, the following priorities in descending order shall be observed:
>
> A. Deliveries of gas by natural gas utilities to ~~for~~ residences, hospitals, schools, churches and other human needs customers, and deliveries to Local Distribution Companies which serve human needs customers.
>
> B. Deliveries of gas to electric generation facilities which serve human needs customers.
>
> ~~B.~~C. Deliveries of gas to small industrials and regular commercial loads (defined as those customers using less than 3,000 MCF per day) and delivery of gas for use as pilot lights or in accessory or auxiliary equipment essential to avoid serious damage to industrial plants.
>
> ~~C.~~ D. Large users of gas for fuel or as a raw material where an alternate cannot be used and operation and plant production would be curtailed or shut down completely when gas is curtailed.
>
> ~~D.~~ E. Large users of gas for boiler fuel or other fuel users where alternate fuels can be used. This category is not to be determined by whether or not a user has actually installed alternate fuel facilities, but whether or not an alternate fuel "could" be used.

As we understand this will potentially have a negative impact to the operations of your Customers, we will cease curtailment once the weather improves and the distribution system returns to stable pressures and capacity.

Should you have any questions or concerns, please reach out to your CNP Energy Sales and Transportation Services representative below.

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[1] The T-90 and T-91 are available online at: https://www.centerpointenergy.com/en-us/Documents/RatesandTariffs/HoustonGas/Rate-Schedule-T-90-H.pdf

[2] The Emergency Order is available online at: https://www.rrc.state.tx.us/media/cw3ewubr/emergency-order-021221-final-signed.pdf.

CenterPoint Energy
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Houston, TX 77002-5231
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Houston, TX 77252-2628

Regards,

CenterPoint Energy Sales and Transportation Services

Brian Gehlbach, brian.gehlbach@centerpointenergy.com, P: 713-859-6042
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> ~~B.~~C. Deliveries of gas to small industrials and regular commercial loads (defined as those customers using less than 3,000 MCF per day) and delivery of gas for use as pilot lights or in accessory or auxiliary equipment essential to avoid serious damage to industrial plants.
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>
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Regards,

CenterPoint Energy Sales and Transportation Services

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CASE NO. 00007064

APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX, CENTERPOINT ENERGY ARKLA AND CENTERPOINT ENERGY TEXAS GAS FOR CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION	**§ § § § § § § §**	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

DIRECT TESTIMONY

OF

MARY A. KIRK

ON BEHALF OF

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX,
CENTERPOINT ENERGY ARKLA,
AND
CENTERPOINT ENERGY TEXAS GAS

July 30, 2021

TABLE OF CONTENTS

LIST OF EXHIBITS

EXECUTIVE SUMMARY OF MARY A. KIRK

As the accounting witness in this case, I compile and attest to the books and records of CenterPoint Energy Resources Corp. ("CERC") d/b/a CenterPoint Energy Entex for the Texas PGA Jurisdictions of Beaumont/East Texas, Northeast Tyler Texas, Houston/Texas Coast and South Texas and CenterPoint Energy Arkla for the Texarkana PGA Jurisdiction, combined as CenterPoint Energy Texas Gas ("CenterPoint" or the "Company") as presented in this filing. My testimony supports the Company's request for recovery of extraordinary expenses resulting from the effects of the Winter Storm Uri. In summary, my testimony:

- demonstrates that the Company's recordkeeping practices comply with applicable rules of the Railroad Commission of Texas ("Commission");
- presents the total extraordinary cost of gas, fees, and other costs related to Winter Storm Uri; and

Together with the other witnesses presented by the Company, my testimony demonstrates that all of CERC's Extraordinary Costs were reasonably and necessarily incurred. In accordance with my filed testimony and the additional evidence presented by the Company through its presentation of witnesses and Schedules, the Commission should find that CERC's Extraordinary Costs were prudently incurred and are properly eligible for securitization for the benefit of Texas customers.

DIRECT TESTIMONY OF MARY A. KIRK

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND PRESENT TITLE.

A. My name is Mary A. Kirk. I am Director – Financial Accounting for CenterPoint Energy Service Company, LLC. My business address is 1111 Louisiana Street, Houston, Texas 77002.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of Houston-Clear Lake with a Bachelor of Science degree in Accounting. I began my career at CenterPoint Energy, Inc. ("CNP") and its predecessors in 1991. I began my role as Manager of Business Services in October 2006 and was promoted to Division Director in 2007. In April 2009, I became Finance Director of Gas Reporting and Performance, and in July 2012, I became Director - Financial Accounting for CNP. I am a Certified Public Accountant in the State of Texas.

Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF FINANCIAL ACCOUNTING?

A. As Director – Financial Accounting, I am responsible for the accounting books and records of CNP's regulated gas and electric businesses in the States of Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas, including financial accounting for gas and electric, regulatory reporting, and gas cost accounting for these business units. As such, I am responsible for ensuring that CNP has adequate staff, processes, and systems in place to meet its financial and regulatory accounting and reporting requirements for the jurisdictions within the aforementioned states.

In addition, I am responsible for the adequacy of certain internal controls and compliance with § 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") as it relates to CNP's regulated operations within the same jurisdictions.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes. I have testified before and filed testimony with the Commission in Gas Utilities Docket ("GUD") Nos. 9791 and 9902 and filed testimony with the Commission in GUD Nos. 10432, 10567, 10669 and 10920.

Q. HAVE YOU PRESENTED TESTIMONY IN PRIOR REGULATORY PROCEEDINGS BEFORE ANY OTHER REGULATORY AUTHORITIES?

A. Yes. I have filed testimony with the Arkansas Public Service Commission in Dockets 10-108-U, 15-098-U and 17-010-FR; the Public Utility Commission of Texas in Docket Nos. 44572, 45747, 47032 and 48226; and the Minnesota Public Utilities Commission in Docket No. G-008/GR-19-524. I have also supervised the compilation of accounting information used for periodic reporting requirements and various rate and regulatory proceedings before public utility commissions in the states of Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma, and Texas.

Q. HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A. Yes. I have prepared or supervised the preparation of the items listed in the List of Exhibits with the exception of Exhibit MAK-5 Affidavit of Brett Jerasa.

II. <u>SCOPE AND PURPOSE OF TESTIMONY</u>

Q. PLEASE DISCUSS THE PURPOSE OF YOUR TESTIMONY.

A. My testimony establishes that the books and records maintained for CERC are kept in accordance with the rules and regulations of the Commission. My testimony also describes the accounting system used by CERC for natural gas purchases and the regulatory asset that the Company has established pursuant to Commission's Notice of Authorization for Regulatory Asset Accounting for Local Distribution Companies affected by the 2021 Winter Weather Event ("Notice of Authorization"). Additionally, my testimony, in concert with the testimony of other Company witnesses, supports the reasonableness of CERC's gas purchases and other associated costs during Winter Storm Uri and the resulting regulatory asset balance that CERC seeks to securitize under the recently adopted Texas securitization statute[1] for the benefit of Texas customers.

Q. PLEASE BRIEFLY DISCUSS THE RECENTLY ADOPTED TEXAS SECURITIZATION STATUTE.

A. In May of 2021, the Texas Legislature passed House Bill 1520 ("H.B. 1520"), with the express intent of addressing certain extraordinary costs incurred by natural gas utilities in connection with the February 2021 Winter Weather Event ("Winter Storm Uri"). H.B. 1520 provides a method for financing for customer rate relief bonds as authorized by the Commission, which is more commonly referred to as securitization. The Governor signed the bill June 16, 2021. The Commission issued a Notice to Gas Utilities on June 17, 2021, outlining procedures for filing an application for regulatory asset determination on July 30, 2021.[2]

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[1] Gas Utility Regulatory Act ("GURA") §§ 104.361–.380

[2] *Procedure for Gas Utilities to File an Application for Regulatory Asset Determination Pursuant to H.B. No. 1520, Texas Utilities Code, chapter 104, subchapter I, and Participate in Securitization of Extraordinary Costs Incurred as a Result of the February 2021 Winter Weather Event*, Railroad Commission of Texas (June 2021) ("Notice to Operators").

Q. WHAT IS SECURITIZATION?

A. Securitization is a financing technique in which certain assets are legally isolated within a special purpose entity. This entity will then issue securities backed primarily by a statutory and regulatory right to receive a charge paid by utility customers. The bonds are backed by specific cash flows – in this case, the collection of the extraordinary gas purchases through customer rate relief charges. Securitizations are generally non-recourse to and bankruptcy-remote from any operating entity. The bonds typically self-amortize through payment of principal over time. Collections from utility customers sent to the special purpose entity provide the cash from which interest and principal payments are made.

Q. IS SECURITIZATION COMMON IN THE UTILITY INDUSTRY?

A. Yes. Securitization is used in the utility industry to spread out the customer impact of certain events (e.g., stranded costs due to asset retirement or market restructuring, natural disasters such as hurricanes and wildfires, etc.) over a longer period of time and at lower interest rates than would typically be available using other financing methods.

Securitization bonds generally contain credit-enhancing features that allow for a AAA rating from the agencies. Some examples of these features include, but are not limited to, the use of bankruptcy-remote special purpose entities, irrevocability of the financing order, certainty of cash flow through a property right to collect future surcharges, and the ability to update the customer surcharge for under/over collections.

Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF OTHER WITNESSES?

A. I sponsor the accounting Schedules supporting the requested Winter Storm Uri-related regulatory asset, including the underlying calculation of the extraordinary gas costs. Company witness Mr. Talmadge R. Centers, Jr. provides an overview of CERC's Texas local distribution systems operations, how the delivery system functions, and the operational activities undertaken related to Winter Storm Uri. Company witness Mr. Brian Wagaman provides an overview of the G Procurement Plan and supports the Extraordinary Costs incurred as a result of Winter Storm Uri. Finally, Ms. Bernadette Johnson, a principal with Enverus, Inc., provides a gas market analysis and independent evaluation of the Company's Gas Procurement Plan, and Dr. Bruce Fairchild, a principal with Financial Concepts and Applications, Inc., demonstrates that securitization is cost-effective and in the public interest.

III. <u>BOOKS AND RECORDS</u>

Q. HOW DOES THE COMPANY ENSURE THAT TRANSACTIONS ON ITS BOOKS AND RECORDS ARE PROPERLY RECORDED?

A. To ensure that transactions are properly recorded, CNP maintains a system of internal controls for itself and its subsidiaries, including CERC. Internal control is a process effected through policies and procedures implemented by the CNP Board of Directors, audit committee, management, and other personnel. The internal control process has two major objectives, which are to ensure:

- financial statements are fairly presented in conformity with Generally Accepted Accounting Principles ("GAAP") and contain no material misstatements; and

- compliance with applicable laws and regulations, including adherence to § 404 of Sarbanes-Oxley.

Q. PLEASE DISCUSS THE SYSTEM OF ACCOUNTS THAT THE COMPANY UTILIZES.

A. The books and records are maintained in accordance with 16 Texas Administrative Code ("TAC") § 7.310, which requires that the Company keep its books in accordance with the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA"). The USOA is prescribed by FERC for public utilities and natural gas companies subject to the provisions of the Federal Power Act and Natural Gas Act. FERC prescribes accounting classifications and instructions by which public utilities and natural gas companies achieve uniform accounting records for use in financial reporting, ratemaking, and other regulatory needs.[3] Transactions are classified consistent with the FERC USOA, with additional supplemental sub-accounts and minor modifications.

Q. DOES THE INFORMATION CONTAINED WITHIN THE COMPANY'S BOOKS AND RECORDS, AS WELL AS THE SUMMARIES AND EXCERPTS THEREFROM, QUALIFY FOR THE PRESUMPTION SET FORTH IN 16 TAC § 7.503?

A. Yes. The Company's system of internal controls and its adherence to the FERC USOA fully comply with 16 TAC § 7.503. Accordingly, the Company is entitled

[3] These classifications and instructions are found and defined in the Code of Federal Regulations 18 – Conservation of Power and Water Resources, Subchapter F – Accounts, Natural Gas Act, Part 201 – Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act.

to the presumption that costs contained within the books and records have been reasonably and necessarily incurred.

Q. PLEASE DESCRIBE THE PROCESS USED TO TEST INTERNAL CONTROLS.

A. On a quarterly basis, key controls are identified and tested to ensure they are working as expected. Controls are organized by business process and documented in various Risk and Control Matrices ("RCMs"). An RCM focuses on key business processes and activities that impact the financial statement balances and documents the related risks, mitigating controls, and supporting test information to validate the effectiveness of controls. The Company's Financial Controls Compliance department ("FCC") has an oversight role over the entire controls process. Responsibilities for controls are split among three distinct categories of individuals: (1) Process Owners; (2) Control Owners; and (3) Control Testers. Process Owners manage the controls within their respective RCMs. This includes, but is not limited to, the following:

- validating existing and new risks of material misstatement to the financial statements;
- maintaining awareness of business changes, how those changes affect the risks and control design or ownership, and communicating changes to FCC;
- identifying and assigning personnel to serve as Control Owners and Control Testers, and ensuring that those persons are adequately trained and understand the importance of their role;
- ensuring that all controls – both key and non-key – are being performed, with key controls also being tested; and

- reporting any instances of non-performance or ineffective control performance to FCC and working with FCC to remediate or redesign failed controls.

Control Owners are responsible for performing the controls – both key and non-key – and maintaining evidence of control performance. Control Testers are responsible for collecting evidence related to key control performance. Based on that evidence, Control Testers assess with a critical and independent mindset whether the key controls are operating as intended and report the results to FCC.

Q. ARE THE COMPANY'S TESTS OF INTERNAL CONTROL SUBJECT TO EXAMINATION BY AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM?

A. Yes. The Company's external auditor, Deloitte & Touche, LLP ("Deloitte"), conducts audits in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB"). Deloitte audits the internal control over financial reporting as of each year end for CNP, based on criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").[4] Deloitte works to gain an understanding of the Company's business processes and tests the design, implementation, and operating effectiveness of internal controls. On February 25, 2021, Deloitte issued an unqualified opinion on the effectiveness of CNP's internal control over financial reporting as of December 31, 2020.

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[4] *COSO Internal Control – Integrated Framework Principles* (2013) – Committee of Sponsoring Organizations of the Treadway Commission.

Q. WHAT PROCESS DOES DELOITTE USE TO PERFORM ITS EXAMINATION OF THE COMPANY'S BOOKS AND RECORDS?

A. PCAOB standards require that Deloitte plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Deloitte's audits also evaluate the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Deloitte's audits include performing procedures that: (1) assess the risks of material misstatement of the financial statements; and (2) respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Specifically, these procedures include, but are not limited to, inquiry with company personnel, observation of the performance of controls, inspection of documentation, reperformance of controls, and substantive testing. Substantive testing is the process whereby recorded balances are evaluated through a combination of detail sample selections, in which we provide supporting documentation to Deloitte, and the performance of analytical procedures.

Q. ARE ANY OTHER TYPES OF AUDITS OR REVIEWS OF THE COMPANY'S BOOKS AND RECORDS CONDUCTED ON A REGULAR BASIS?

A. Yes. There are several other types of reviews and safeguards that occur on a regular basis. The Company maintains an Account Reconciliation Policy (Exhibit MAK 1) that establishes all balance sheet accounts are assigned an owner and must be reconciled timely based upon an account risk ranking. During the month-end closing process, Accounting Managers utilize internal controls designed to ensure transactions are properly recorded and results are reasonable. The Company's Audit Services department prepares an annual audit plan that is enacted once approved by the Audit Committee of the Board of Directors. Directly related to gas supply and per the provisions of the Purchased Gas Adjustment ("PGA") tariff, the Company files with the Commission twice a year to establish rates, including a once a year true-up of the recovery of its distribution-related gas supply expenditures. For copies of each of the Company's PGA tariffs in effect within the Company's various jurisdictions in Texas ("PGA Jurisdictions"), please see Exhibit MAK-2.

Q. HOW DOES THE COMPANY RECORD AND TRACK THE PURCHASE OF GAS FOR CERC'S TEXAS PGA JURISDICTIONS IN ITS ACCOUNTING SYSTEM?

A. The Company uses its Quorum Gas Management System ("Quorum") to record and track the purchase of gas for CERC's Texas Divisions. Each month, commodity purchase estimates are recorded for the Production Month by the Gas Supply Portfolio Optimization Department ("Gas Supply") in Quorum, which then interfaces automatically with the Company's enterprise resource planning system ("SAP") to record gas costs expense and accrue the payable.

"Production Month" refers to the month in which gas flowed through the system for operational purposes. Due to the nature of the natural gas industry, real-time information is not available to record the actual amount of gas purchases for any given month. However, accrual accounting requires recording these purchases in the month of occurrence. These estimates are automatically reversed in the following month, or the "Accounting Month." In the Accounting Month, Gas Supply records the actual invoices within Quorum which then interfaces automatically with SAP to record the payable and the gas cost expense. For example, gas purchases that are received onto our system in the month of February will be estimated in that month for accrual accounting purposes, and those estimates will be reversed in March once actual amounts are known and recorded. In this example, February is the Production Month and March is the Accounting Month.

The invoice payments clear out the payable in the Accounting Month leaving a zero balance. If the payable is not zero after payments post, the entries are researched and resolved during the Accounting Month. The Company uses a separate payable general ledger account for items that remain in dispute between Gas Supply and the pipeline and are not yet paid or resolved. The Gas Cost Accounting Department reconciles on a quarterly basis the gas payable general ledger balance sheet accounts to ensure items are being recorded and resolved timely.

Q. WHICH COMPANY WITNESSES AND PERSONNEL SPONSOR THE SCHEDULES AND GAS COSTS PRESENTED FOR REVIEW IN THIS PROCEEDING?

A. As gas costs were incurred for Winter Storm Uri, I was a part of the team reviewing total amounts and calculation of the amounts determined to be normal and extraordinary. I have also reviewed each invoice to ensure the appropriate amounts are properly reflected and supported in this filing. As such, I sponsor the amounts reflected in and calculations used to prepare the Schedules presented in this proceeding. Mr. Brett Jerasa, through the affidavit attached to my testimony at Exhibit MAK-5, sponsors the commitment fee amount included in the Company's request and the interest rate associated with short-term carrying costs. Mr. Centers, and Mr. Wagaman co-sponsor the gas cost Schedules, and Mr. Centers co-sponsors the legal and consulting fee Schedules. In addition, Mr. Patrick Peters and Ms. Judy Liu provide affidavits in sponsorship of the legal and consulting fees Schedules. The list of schedules with sponsor is shown below in table MAK-1:

Table MAK-1
List of Schedules and Sponsor(s)

Schedule Number	Schedule Description	Sponsor
A	Summary of Regulatory Asset Costs	**Kirk**
B	Gas Costs Recovered (5 a.1) Method 1	**Kirk**
C	Extraordinary Gas Costs, including Penalties and Adjustments (5 a.2) Method 2	**Kirk**
C-1	Gas Contracts	**Wagaman**
C-2	Summary of Gas Cost Invoices	**Wagaman**
C-3	Average Normal Cost	**Kirk**
D	Summary of Legal and Consulting Expenses and Professional Fees	**Kirk/Peters**
D-1	Summary of Legal, Consulting and Professional Expenses	**Kirk/Peters**
E	Taxes	**N/A**
F	Interim Carrying Costs (March 2021 through August 2022)	**Kirk/Jerasa**
F-1	Interim Financing Supporting Documentation - Interest on Debt	**Kirk/Jerasa**
F-2	Commitment Fees Support	**Kirk**
F-3	Professional Fees Support	**N/A**
F-4	Other Capital Carrying Costs Support	**N/A**
G	Customer Information - Calendar Year 2020	**Kirk**
H	Summary Conventional Extraordinary Gas Cost Recovery Support	**Fairchild/Kirk**
H-1	Conventional Extraordinary Gas Cost Recovery Support	**Fairchild/Kirk**
H-2	Average Bill Impact	**Fairchild/Kirk**

Q. HOW ARE THE SCHEDULES PRESENTED IN THIS FILING?

A. The Schedules presented in this filing are in accordance with the filing requirements set forth by the Commission in the Notice to Operators issued pursuant to H.B. 1520.[5] A list of Schedules I sponsor can be seen in Exhibit MAK-4 – List of

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[5] GURA §104.365(h).

Filing Schedules. The results of these Schedules will be discussed later in my testimony.

Q. CNP RECENTLY ANNOUNCED THE SALE OF CERTAIN LOCAL DISTRIBUTION COMPANY ASSETS IN OKLAHOMA, ARKANSAS AND TEXARKANA, TEXAS. HOW IS THE COMPANY PRESENTING ANY EXTRAORDINARY GAS COSTS RELATED TO ASSETS THAT ARE SUBJECT TO THAT SALE?

A. Extraordinary gas costs associated with the Arkla Division and PGA area of Texarkana are presented separately in the Company's Schedules as a stand-alone Texas Division, consistent with the manner in which the Company's PGA tariffs operate. To this end, the Texarkana Winter Storm Uri extraordinary gas costs have been separately tracked and accounted for so that the new owner of those assets will have clear direction on how to account for, recover and remit any amounts authorized for securitization by the Commission. The Arkla extraordinary gas costs are presented in a separate set of Schedules and workpapers.

Q. DO THE SCHEDULES AND COSTS PRESENTED ACCURATELY REFLECT INFORMATION CONTAINED IN AND PROPERLY MAINTAINED IN THE BOOKS AND RECORDS OF CERC?

A. Yes. The Schedules and associated workpapers include detail support of transactions incurred by the Company and, include reconciliations to the amounts recorded on the books and records of CERC.

Q. HAS THE COMPANY UNDERTAKEN ANY ADDITIONAL INITIATIVES TO ENSURE, FROM AN ACCOUNTING PERSPECTIVE, THE ACCURACY OF GAS COSTS RECORDED DURING WINTER STORM URI?

A. Yes. The Company has undertaken an extensive review process for gas costs recorded during the Winter Storm Uri. This process is described within the Schedule workpapers,[6] which provides a narrative overview of invoice, contract, and general ledger support provided in this filing and the process used to tie out each invoice to the general ledger. In addition, I provide a flowchart showing the gas payable general ledger account flow in the Schedule workpapers.[7]

Additionally, the Company reviewed each invoice to ensure it was in accordance with the underlying contract. As I discuss later in my testimony, the Company identified several invoices that in the Company's view did not comply with the contractual terms. The Company did not pay the disputed amount of those invoices.

Q. IS THE COMPANY FILING ALL SUPPORTING GAS CONTRACTS AND ALL INVOICES IN CONNECTION WITH ITS REQUEST IN THIS PROCEEDING?

A. Yes. All available gas contracts and invoices for gas, financing and legal costs included in the requested regulatory asset are included as confidential workpapers as part of the filing.

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[6] Schedule C – Narrative WKPR (Confidential).
[7] Schedule C – General Ledger Payable Flow WKPR.

IV. FILING SCHEDULES

Q. PLEASE GIVE AN OVERVIEW OF THE REQUIRED FILING SCHEDULES.

A. The Commission required filing Schedules detailing and summarizing the cost incurred and expected to be incurred for Winter Storm Uri in the following categories:

- Schedule A summarizes the costs requested to be securitized of approximately $1.1 billion as shown on Schedules B through F;
- Schedules B and C calculate the two inputs used in the 'lesser of' calculation of total extraordinary gas costs eligible for securitization. Both calculations are adjusted for the resolution of legal disputes as I discuss later in my testimony, and result in approximately $1.1 billion of extraordinary gas costs.
    - Schedule B calculates the first input used in the 'lesser of' calculation of total extraordinary gas costs for securitization. It includes total gas costs and volumes incurred for the month of February along with accompanying gas cost recoveries for the same month through the Company's PGA. I refer to this calculation as the "Net Recovery Method;"
    - Schedule C includes the total gas related volumes and costs incurred for the month of February 2021 – both normal and extraordinary – by cost category. I refer to the calculation shown on this Schedule as the "Normalized Cost Method." Schedules C.1 lists the gas contracts that are filed confidentially for the months of January, February, and March

2021. Schedule C.2 lists the gas invoices that are filed confidentially for the months of January, February, and March 2021 including the volumes (both in Millions British Thermal Units ("MMBtu") and Millions Cubic Feet ("Mcf")) and dollar amounts for Texas. Schedule C.3 calculates the three-month November through January average normal costs using Henry Hub;

- Schedule D includes legal, consulting and professional fees incurred of approximately $0.9 million and expected to be incurred up to the estimated date of securitization, August 2022, of approximately $1.9 million for a total of approximately $2.8 million. Schedule D.1 includes the lists of invoices for legal and consulting and professional expenses;
- Schedule E reflects any tax impacts resulting from the deferral of costs. Other than timing differences, no other tax impacts exist under current rates, and as a result none are currently reflected on this schedule;
- Schedule F details the interim carrying costs for the period up to securitization, including interest on debt, commitment fees, professional fees and other capital carrying costs totaling approximately $56.2 million. Schedules F-1 through F-4 provide supporting calculations for each of the aforementioned costs, respectively;
- Schedule G provides the average number of customers and average volume for the calendar year 2020; and
- Schedule H calculates the extraordinary gas costs per Mcf under the current PGA tariff and for an alternative regulatory asset method of recovery over a

three-year period. The alternative regulatory asset method calculates carrying costs using the approved weighted average cost of capital from the most recent Texas Gulf rate case, as adjusted.[8] See Section V. B. Interim Financing below in my testimony for a description of the adjustments. Both of these calculations represent more traditional ratemaking recoveries methods. However, the use of the PGA Tariff would require the use of a regulatory asset for the Company to recover certain costs (e.g., legal and consulting, taxes, interim financing, etc.) not authorized for recovery within the PGA as shown on Schedule H, column (c). Schedule H-1 contains supporting calculations for these conventional recovery methods and Schedule H-2 provides average bill impact calculations based on a one-year recovery method.

The workpapers supporting these Schedules are prepared at the PGA Jurisdiction level. The Company is presenting a complete set of Schedules and workpapers prepared at a PGA Jurisdiction level for Arkla and Entex and a combined set of Schedules for CERC as shown on Exhibit MAK-4 List of Filing Schedules.

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[8] *Statement of Intent of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas, to Increase Rates in the Houston Division and Texas Coast* Division, GUD No. 10567, Final Order, Finding of Fact No. 43 (May 23, 2017).

Q. IN ADDITION TO THE REQUIRED FILING SCHEDULES, THE NOTICE TO OPERATORS REQUIRES UTILITIES TO INCLUDE ADDITIONAL INFORMATION IN IT'S FILING.[9] HAS THE COMPANY INCLUDED THIS INFORMATION IN ITS FILING?

A. Yes. The information required under Notice to Operators section 6 is included in the filing as shown in Table MAK-2.

Table MAK-2
List of Notice to Operators – Section 6 Information

Notice to Operators	Additional Items in Workpapers	Filing Location
6.a	General Ledger entries (by FERC account)	Schedule C Workpapers
6.a.i	Invoices	Ancillary Information*
6.a.i.1	Gas Purchases	See Gas Invoices*
6.a.i.2	Transportation	See Gas Invoices*
6.a.i.3	Other Gas Supply Expenses	See Gas Invoices*
6.a.i.4	Imbalances or other penalties and fees incurred	See Gas Invoices*
6.a.i.5	Adjustments	See Gas Invoices*
6.a.i.6	Meter Statements	See Gas Invoices*
6.a.i.7	Proof of Payment/Payment Arrangements	See Gas Invoices*
6.a.i.8	Gas Withdrawn from Storage	See Gas Invoices*
6.a.i.9	Gas Delivered to Storage	See Gas Invoices*
6.a.ii	Contracts	Ancillary Information*
6.a.ii.1	Gas Purchase	See Gas Contracts*
6.a.ii.2	Spot Purchases	See Gas Contracts*
6.a.ii.3	Transportation	See Gas Contracts*
6.a.iii	Customer Bills	Ancillary Information*
6.a.iii.1	Residential bill(s)	See Customer Bills*
6.a.iii.2	Commercial bill(s)	See Customer Bills*
6.b	Legal/Consulting Invoices	Ancillary Information*

* Denotes Workpapers provided Confidentially

[9] Notice to Operators at No. 6 (Jun. 17, 2021).

The Company has also prepared several additional workpapers to accompany these materials, including a narrative of general information to review the Schedules and to provide the relationship between each contract, invoice and general ledger journal entries.[10]

Q. THE NOTICE TO OPERATORS REQUIRES THE COMPANY TO INCLUDE IN ITS FILING INFORMATION FOR JANUARY AND MARCH 2021 SIMILAR TO WHAT IS REQUIRED FOR FEBRUARY 2021.[11] HAS THE COMPANY INCLUDED THIS INFORMATION IN ITS FILING?

A. Yes. The information required for January and March 2021 is included in the filing.

Q. DO THE SCHEDULES REFLECT THE INFORMATION ON THE BOOKS AND RECORDS OF THE COMPANY?

A. Yes. All actual information included in the Company's filing is true and correct and is tied to the books and records of the Company. The information in each Schedule is derived from the Company's accounting system, which is kept in accordance with the FERC USOA. Projected information is also included in the Schedules based on supportable forecasts.

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[10] Schedule C – Narrative WKPR (Confidential).
[11] Notice to Operators at No. 7 (Jun. 17, 2021).

V. REGULATORY ASSET AMOUNT AT JUNE 30, 2021

Q. DID CERC APPLY ANY PARTICULAR CRITERIA WHEN IDENTIFYING WHICH COSTS COULD BE RECORDED TO THE REGULATORY ASSET?

A. Yes. On February 13, 2021, the Commission issued its Notice of Authorization which states, in part, that the Commission "hereby authorizes each LDC to record in a regulatory asset account the extraordinary expenses associated with Winter Storm Uri, including but not limited to gas cost and other costs related to the procurement and transportation of gas supply." The Company interpreted 'other costs' to mean costs that would not have been incurred but for Winter Storm Uri, such as financing costs associated with obtaining funding for the extraordinary gas costs and legal costs. In addition, the Company incurred cost related to operations such as overtime, security, and materials. Mr. Centers discusses these costs further in his direct testimony. Additionally, all costs recorded to the Regulatory Asset were prudently incurred costs as described in the direct testimonies of Mr. Centers and Mr. Wagaman.

Absent the direction in the Commission's February 13 Notice, the gas costs deferred in the regulatory asset would have been included in the calculation of the Company's normal monthly PGA over/under-deferral.

Q. HAS CERC ESTABLISHED A REGULATORY ASSET FOR ITS TEXAS PGA JURISDICTIONS TO RECORD EXTRAORDINARY COSTS ASSOCIATED WITH WINTER STORM URI?

A. Yes, the Company has established a regulatory asset and deferred the extraordinary cost amounts through June 30, 2021, as shown by PGA Jurisdiction in Table MAK-3 below and in the detail of the Schedule workpapers:[12]

Table MAK-3
Regulatory Asset at June 30, 2021 by PGA Jurisdiction

Company	PGA Jurisdiction	Amount
ARKLA	Texarkana	$ 9,384,138
ENTEX	Beaumont/East Texas	68,120,997
ENTEX	Northeast Texas/Tyler	51,846,900
ENTEX	South Texas	41,507,209
ENTEX	Houston/Texas Coast	921,500,616
Regulatory Asset at June 30, 2021		**$ 1,092,359,860**

Q. WHAT TYPES OF COSTS ARE INCLUDED IN THE COMPANY'S REGULATORY ASSET?

A. The regulatory asset includes the cost of gas defined as extraordinary as calculated on Schedule A and other costs such as legal, financing and interest, consulting, and operational costs incurred as of June 30, 2021. Table MAK-4 below shows the regulatory asset amount by cost category, by PGA Jurisdiction:

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[12] Refer to Schedule B – Entex/Arkla Gas Cost Recoveries WKPR (Confidential); Schedule D – Entex/Arkla Other Gas Related Costs WKPR (Confidential); and Schedule F – Entex/Arkla Interest and Carrying Charges (Confidential).

Table MAK-4
Regulatory Asset at June 30, 2021
by Cost Category, by PGA Jurisdiction

PGA Jurisdiction	Extraordinary Gas Cost	Legal & Consulting	Financing & Interest	Operational	Total Regulatory Asset
Texarkana	$ 9,310,918	$ 7,461	$ 65,759	$ -	$ 9,384,138
Beaumont/East Texas	67,447,897	48,423	475,092	149,585	68,120,997
Northeast Texas/Tyler	51,437,952	47,075	361,873	-	51,846,900
South Texas	41,010,412	32,876	288,835	175,086	41,507,209
Houston/Texas Coast	913,098,141	731,802	6,430,097	1,240,576	921,500,616
Total	**$ 1,082,305,320**	**$ 867,637**	**$ 7,621,656**	**$ 1,565,247**	**$ 1,092,359,860**

Q. IS THE COMPANY REQUESTING THE FULL AMOUNT INCLUDED IN TABLES MAK-3 AND MAK-4 ABOVE FOR PURPOSES OF SECURITIZATION?

A. No. The Company is not requesting to securitize amounts identified as "Operational" in Table MAK-4. The request to recover operational costs deferred to the regulatory asset will be included in a future rate filing. The amount as of June 30, 2021, and exclusive of costs beyond that date, is shown below by PGA Jurisdiction in Table MAK-5:

Table MAK-5
Regulatory Asset for Securitized by PGA Jurisdiction
as of June 30, 2021

Company	PGA Jurisdiction	Amount
ARKLA	**Texarkana**	$ 9,384,138
ENTEX	**Beaumont/East Texas**	67,971,412
ENTEX	**Northeast Texas/Tyler**	51,846,900
ENTEX	**South Texas**	41,332,123
ENTEX	**Houston/Texas Coast**	920,260,040
Regulatory Asset for Securitization		**$ 1,090,794,613**

As discussed later in my testimony in Section VI. Future Costs Prior to Securitization, there are other costs beyond June 30, 2021, that the Company will be requesting as part of the Regulatory Asset for securitization.

A. Extraordinary Gas Costs

Q. HOW HAS THE COMPANY CALCULATED THE TOTAL AMOUNT OF EXTRAORDINARY GAS COSTS INCLUDED IN ITS REGULATORY ASSET?

A. Following the guidance in the Notice to Operators,[13] the Company calculated the extraordinary gas costs under two different methods on a PGA-Jurisdictional basis, and then deferred the lesser of the two resulting amounts to the regulatory asset. All of these figures and calculations can be seen in the Schedule workpapers.[14] Both methods reduced gas expenses to give equal consideration for any adjustments necessary to appropriately reflect resolution of invoice pricing disputes or *force majeure* claims.

The first calculation method is the Net Recovery Method, which takes the difference between the February 2021 gas revenues and gas expense. Adjustments were then made for recoveries related to *force majeure* or invoicing price disputes resolved. Using this methodology, the total amount of extraordinary gas costs is $1,090,946,330, as shown on Schedule B and in Table MAK-6 below:

Table MAK-6
Result of Net Recovery Method by PGA Jurisdiction

Company	PGA Jurisdiction	Amount
ARKLA	**Texarkana**	$ 9,699,227
ENTEX	**Beaumont/East Texas**	68,625,744
ENTEX	**Northeast Texas/Tyler**	51,437,952
ENTEX	**South Texas**	41,010,412
ENTEX	**Houston/Texas Coast**	920,172,994
Total Result of Net Recovery Method		**$1,090,946,330**

[13] Notice to Operators at No. 5.a.
[14] Refer to Schedule B – Entex/Arkla Gas Cost Recoveries WKPRs and Schedule C – Entex/Arkla Extraordinary Gas Cost WKPRs.

The second method is the Normalized Cost Method. This method utilizes the total cost of gas for February as the starting point for calculating the amount of extraordinary gas costs. In order to determine the amount of extraordinary gas cost, the Company used a two-step method. The first step evaluates gas costs on a per MMBtu basis to determine if the price is extraordinary, while the second step quantifies the amount that is extraordinary. The Company established a Threshold Price, whereby any transaction with a per MMBtu rate in excess of the threshold would contain an extraordinary component. For any transaction where the contractual price was quoted as an index price plus an adder rate, the adder was excluded from the per MMBtu rate used to compare against the Threshold Price in identifying extraordinary transactions. The Threshold Price was calculated as the minimum spot price for natural gas for the Houston Ship Channel (HSC) from February 12, 2021, to February 22, 2021. This yielded a Threshold Price of $3.835 per MMBtu.

Once it was determined that a transaction was extraordinary, then the total gas cost was bifurcated between extraordinary and normal. A normal level of gas cost per MMBtu, or a Baseline Price plus an adder rate where applicable, was calculated to represent what purchase prices would have reflected under normal winter conditions. This Baseline price was determined using a three-month average of Henry Hub First-of-the-Month Index prices from November 2020 through January 2021 in compliance with HB 1520.[15] This yielded a Baseline Price of $2.7933 per MMBtu. Thus, for transactions that are extraordinary, the amount that

[15] GURA §104.362(15).

is extraordinary is found by taking the difference between the total gas costs less the normal gas cost. Adjustments were then made for recoveries related to *force majeure* or invoicing price disputes resolved. Using this methodology, the total amount of extraordinary gas costs is $1,083,387,918, as shown on Schedule C and in Table MAK-7 below:

Table MAK-7
Result of Normalized Cost Method by PGA Jurisdiction

Company	PGA Jurisdiction	Amount
ARKLA	Texarkana	$ 9,310,918
ENTEX	Beaumont/East Texas	67,447,897
ENTEX	Northeast Texas/Tyler	52,382,435
ENTEX	South Texas	41,148,527
ENTEX	Houston/Texas Coast	913,098,141
Total Result of Normalized Cost Method		**$ 1,083,387,918**

The results of the Net Recovery Method were then compared with those of the Normalized Cost Method in order to arrive at the 'lesser of' amount on a PGA-Jurisdictional basis. The result of this comparison is the Extraordinary Gas Cost for Securitization that was deferred to the regulatory asset of $1,082,305,320, as shown on Schedule A and in Table MAK-8 below:

Table MAK-8
Lesser of Net Recovery Method and Normalized Cost Method by PGA Jurisdiction

Company	PGA Jurisdiction	Amount
ARKLA	Texarkana	$ 9,310,918
ENTEX	Beaumont/East Texas	67,447,897
ENTEX	Northeast Texas/Tyler	51,437,952
ENTEX	South Texas	41,010,412
ENTEX	Houston/Texas Coast	913,098,141
Total Lesser of Net Recovery Method and Normalized Cost Method		**$ 1,082,305,320**

Q. WHAT PROCESS WAS USED TO RECORD GAS COST DEFERRALS TO THE REGULATORY ASSET?

A. For the February Production/March Accounting Month, the Company used its normal process for recording gas cost expense and gas payables in Quorum as I described earlier in my testimony. After Quorum interfaced with SAP, but before PGA Over/Under deferral entries took place, the Company underwent its initial analysis of extraordinary gas costs and recorded an entry to the regulatory asset for Winter Storm Uri. This deferral amount was then adjusted in June 2021 based on language in the Notice to Operators and the resolution of disputes and legal claims.

B. Interim Financing

Q. DID THE COMPANY INCUR ANY EXPENSES ASSOCIATED WITH FINANCING FOR WINTER STORM URI?

A. Yes. As discussed by Mr. Jerasa in Exhibit MAK-5, in anticipation of the need for financing when faced with impending substantial estimated purchased gas costs, CERC entered into financing term loan commitments with lending institutions, resulting in $1.7 million of total incurred cost. The term loan commitments were secured to ensure CERC could finance the gas supply expenses in the event it was unable to access the capital markets before gas payments needed to occur. It was later determined the Company would be able to obtain financing for the extraordinary gas cost at a lower rate through the capital markets and the use of its own commercial paper. CenterPoint was then able to meet its financing needs through its internal "money pool" without utilizing this additional financing term loan facility.

CenterPoint participates in a "money pool" through which it can borrow or invest on a short-term basis. Funding needs are aggregated, and external borrowing or investing is based on the net cash position. The net funding requirements of the money pool are met with fixed and floating rate debt, and the sale of CERC's commercial paper.

Q. DID THE COMPANY DEFER THE EXPENSES ASSOCIATED WITH TERM LOAN FINANCING FOR WINTER STORM URI TO THE REGULATORY ASSET?

A. Yes. The term loan cost of $1.7 million was allocated to each of CERC's PGA Jurisdictions using the extraordinary gas cost per division as shown in Table MAK-9 below:

Table MAK-9
Allocation of Term Loan Financing Cost by PGA Jurisdiction

PGA Jurisdiction	Extraordinary Gas Cost Deferral	Allocation Percentages	Credit Facility Costs
Texarkana	$ 9,310,918	0.4678%	8,098
Beaumont/East Texas	67,447,897	3.3884%	58,657
Northeast Texas/Tyler	51,437,952	2.5841%	44,733
South Texas	41,010,412	2.0603%	35,666
Houston/Texas Coast	913,098,141	45.8718%	794,087
Total Texas	**$ 1,082,305,320**	**54.3724%**	**$ 941,241**
Other Jurisdictions	908,236,452	45.6276%	789,860
Total	**$ 1,990,541,772**	**100.0000%**	**$ 1,731,101**

The CenterPoint related amount of $941,241 is included in the Regulatory Asset.

Q. WERE THERE ANY COSTS ASSOCIATED WITH THE ISSUANCE OF THE FINANCING TERM SHEET?

A. Yes. The Company incurred approximately $8.6 million of issuance costs, of which approximately $4.6 million was allocated to Texas following the same allocation method used in Table MAK-9. This amount is included in the regulatory asset as shown in the Schedule workpapers[16] and is shown in Table MAK-10 below:

Table MAK-10
Allocation of Financing Discount and Issuance Cost by PGA Jurisdiction

PGA Jurisdiction	Extraordinary Gas Cost Deferral	Allocation Percentages	Financing Discount & Issuance Cost
Texarkana	$ 9,310,918	0.4700%	40,446
Beaumont/East Texas	67,447,897	3.3900%	291,726
Northeast Texas/Tyler	51,437,952	2.5800%	222,022
South Texas	41,010,412	2.0600%	177,273
Houston/Texas Coast	913,098,141	45.8700%	3,947,342
Total Texas	**$ 1,082,305,320**	**54.3700%**	**$ 4,678,809**
Other Jurisdictions	908,236,452	45.6300%	3,926,688
Total	**$ 1,990,541,772**	**100.0000%**	**$ 8,605,497**

Q. HAS THE COMPANY DEFERRED INTERIM FINANCING COSTS TO THE REGULATORY ASSET?

A. Yes. The Company has included interest on the deferred costs in the Regulatory Asset as of June 30, 2021.

Q. HOW HAS THE INTEREST BEEN CALCULATED?

A. Interest costs were calculated using the fixed rate on the external debt used as a source of interim financing of 0.7%, as shown in the Schedule workpapers.[17] This

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[16] Schedule D – Entex/Arkla Other Gas Related Costs WKPRs.
[17] Schedule F – Entex/Arkla Interest and Carrying Charges WKPRs.

rate of interest was converted into a monthly rate that was used to calculate interest costs on the regulatory asset balance monthly beginning March 25, 2021. The Company has deferred interest amounts through June 30, 2021, to the regulatory asset as shown by PGA Jurisdiction in Table MAK-11 below:

Table MAK-11
Interest as of June 30, 2021, by PGA Jurisdiction

Company	PGA Jurisdiction	Amount
ARKLA	Texarkana	$ 17,215
ENTEX	Beaumont/East Texas	124,709
ENTEX	Northeast Texas/Tyler	95,118
ENTEX	South Texas	75,896
ENTEX	Houston/Texas Coast	1,688,668
Total Interest as of June 30, 2021		**$ 2,001,606**

Q. HAS THE COMPANY INCLUDED CARRYING COSTS THROUGH JUNE 2021 IN THE REQUESTED REGULATORY ASSET?

A. No. The Company is requesting carrying costs related to the extraordinary gas costs for periods after June 30, 2021.

C. Legal, Consulting, and Professional Fees

Q. DID THE COMPANY INCUR ANY LEGAL EXPENSES ASSOCIATED WITH WINTER STORM URI?

A. Yes. As discussed in the testimony of Mr. Centers and the affidavits of Mr. Peters and Ms. Liu, the Company has incurred legal expenses associated with the procurement of natural gas during Winter Storm Uri. In some instances, invoice pricing disputes with suppliers arose where the Company is of the position that the amounts are not properly invoiced according to the terms of the underlying contractual arrangements. In those cases, the Company has not paid the full amount of these invoices (i.e., short-pay). Additionally, in some instances suppliers were unable to deliver agreed upon gas volumes, whether in part or in whole, under *force majeure* claims. In cases where a supplier was unable to provide agreed upon gas volumes, the Company was required to find replacement gas volumes on the open market. Please see the direct testimony of Mr. Wagaman for further discussion of these items. The Company has begun negotiations with the parties in order to resolve these disputes (i.e., short-pay and *force majeure*), and discussions are ongoing. Costs associated with these legal actions were assigned to the PGA Jurisdictions based on the dollar value in dispute. Texas Gas was assigned $556,442 as shown in the Schedule workpapers[18] and below in Table MAK-12.

Table MAK-12
Legal Costs for Legal Actions by PGA Jurisdiction

PGA Jurisdiction	Amount
Texarkana	$ 4,785
Beaumont/East Texas	29,036
Northeast Texas/Tyler	32,293
South Texas	21,082
Houston/Texas Coast	469,246
Texas Legal Costs for Legal Actions	**$ 556,442**
Other Non-Texas	215,215
Legal Costs for Legal Actions	**$ 771,657**

In addition, the Company has incurred legal expenses related to the Texas securitization legislation (H.B. 1520) and the development and support of this application. Any amounts deemed to be lobbying expenditures were not included in the Regulatory Asset and have been recorded below-the-line as required by FERC USOA. The remaining costs were allocated to the Texas Gas PGA

[18] Schedule D – Entex/Arkla Other Gas Related Costs WKPRs.

Jurisdictions based on total extraordinary gas costs and deferred to the regulatory asset as shown in the Schedule workpapers[19] and below in Table MAK-13:

Table MAK-13
Legal Costs for Securitization Filing by PGA Jurisdiction

Company	PGA Jurisdiction	Amount
ARKLA	**Texarkana**	$ 2,676
ENTEX	**Beaumont/East Texas**	19,387
ENTEX	**Northeast Texas/Tyler**	14,782
ENTEX	**South Texas**	11,794
ENTEX	**Houston/Texas Coast**	262,556
Securitization Filing Legal Costs		**$ 311,195**

Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO THE REGULATORY ASSET JUNE 30, 2021, BALANCE?

A. Yes. In June 2021, the Company favorably resolved a dispute with a supplier that had been short-paid and resolved a *force majeure* claim. Consequently, the Regulatory Asset balance was reduced, and this can be seen in the Schedule workpapers.[20]

Q. DO THE EXTRAORDINARY GAS COSTS CURRENTLY CONTAINED IN THE REGULATORY ASSET BALANCE REQUESTED IN THIS DOCKET REPRESENT THE TOTAL FINAL COSTS FOR WINTER STORM URI?

A. It is unclear at this time what the ultimate outcome of the remaining disputed gas costs (i.e., short-pay and *force majeure*) will be. Confidential Exhibit MAK-3 shows the total amount of short-pay outstanding that is in dispute.

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[19] *Id.*
[20] Schedule B – Entex Gas Cost Recoveries WKPR.

Q. HOW DOES THE COMPANY PROPOSE TO ADDRESS REIMBURSEMENT OR SETTLEMENT AMOUNTS THAT MAY BE REALIZED AT A LATER DATE, AFTER INITIAL FILING IN THIS DOCKET OR AFTER THE ISSUANCE OF A COMMISSION FINANCING ORDER?

A. If time allows prior to issuance of a Commission financing order, the Company will revise its requested amount in this Docket to reflect the resolution of any disputed items or *force majeure* claims. If this option is not available, in accordance with H.B. 1520, the Company proposes to record any reimbursement or settlement amounts realized after the issuance of a Commission financing order to a regulatory asset or liability account for review in a future proceeding.

Q. HOW IS THE COMPANY PROPOSING TO RECOVER THIS REGULATORY ASSET?

A. The Company is proposing to recover the regulatory asset balance through the securitization method as authorized under H.B. 1520.[21]

D. Summary of Regulatory Asset at June 30, 2021

Q. WHAT IS THE TOTAL AMOUNT OF THE REGULATORY ASSET FOR SECURITIZATION AS OF JUNE 30, 2021?

A. The total amount of the regulatory asset for securitization as of June 30, 2021, by PGA Jurisdiction is shown in Table MAK-14 below:

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[21] GURA §104.365(h).

Table MAK-14
Regulatory Asset as of June 30, 2021
by Cost Category by PGA Jurisdiction

Company	PGA Jurisdiction	Extraordinary Gas Cost	Legal & Consulting	Financing & Interest	Total Regulatory Asset
ARKLA	**Texarkana**	$ 9,310,918	$ 7,461	$ 65,759	$ 9,384,138
ENTEX	**Beaumont/East Texas**	67,447,897	48,423	475,092	67,971,412
ENTEX	**Northeast Texas/Tyler**	51,437,952	47,075	361,873	51,846,900
ENTEX	**South Texas**	41,010,412	32,876	288,835	41,332,123
ENTEX	**Houston/Texas Coast**	913,098,141	731,802	6,430,097	920,260,040
Total		**$1,082,305,320**	**$ 867,637**	**$ 7,621,656**	**$1,090,794,613**

VI. FUTURE COSTS PRIOR TO SECURITIZATION

A. Legal, Consulting, and Professional Fees

Q. DOES THE COMPANY EXPECT TO INCUR ADDITIONAL LEGAL EXPENSES ASSOCIATED UNDER THIS DOCKET?

A. Yes. The Company continues to incur legal and consulting expenses to support the Company's filing in this docket. Additionally, the Company expects to incur future legal costs associated with disputed gas costs that are ongoing. An estimated level of these costs, which total approximately $1.9 million is included as seen on Schedule D, line nos. 4 and 11 for legal and consulting and professional fees, respectively. This includes approximately $1.2 million that the Company was invoiced for during the month of July 2021 as seen in the Schedule workpapers.[22] Amounts incurred above the estimated level of legal and consulting costs will be deferred to the regulatory asset for recovery in a future proceeding.

[22] Schedule D – Entex/Arkla Other Gas Related Costs WKPRs.

Q. DOES THE COMPANY EXPECT TO INCUR COST FOR NOTICING CUSTOMERS FOR RATE CHANGES MADE UNDER THIS DOCKET?

A. Yes. The Company has estimated costs for providing notice to customers for changes to rates associated with securitization. An estimated level of these costs is included within Schedule D, line no. 11.

B. Taxes

Q. ARE THERE TAX IMPLICATIONS TO THE COMPANY AS A RESULT OF WINTER STORM URI?

A. There will be a timing difference between income taxes calculated on an accounting basis and income taxes calculated on a tax basis, but no net income tax implication is anticipated.

Q. CAN YOU PLEASE EXPLAIN THE INCOME TAX TIMING DIFFERENCE THAT ARISES FROM THE REGULATORY ASSET?

A. In the Company's accounting books, the costs associated with Winter Storm Uri have been deferred to a regulatory asset. For income tax purposes, however, the expenses have been deducted as incurred to the extent CNP has offsetting taxable income. This results in a book-tax difference and a deferred income tax liability is created to recognize the timing difference between when gas costs are incurred and when they are recovered. This difference is only temporary, as it will reverse when securitization proceeds are received.

It is my understanding that once the Company filing is approved by the Commission, the Company will recognize revenue from the proceeds along with a receivable and also recognize the gas cost expense (that had been deferred to the balance sheet) in its accounting books. On an income tax basis, income taxes will be calculated on the revenue; this will eliminate the deferred income tax liability. Since the deferred income tax liability will be eliminated, there will be no tax implications to the Company from securitization as long as tax rates remain constant from the time of the incurred expense until the received bond proceeds.

Q. PLEASE EXPLAIN WHAT WILL HAPPEN WHEN CUSTOMERS ARE BILLED THE SECURITIZATION SURCHARGE.

A. It is my understanding that the securitization surcharges will be treated as a pass-through similar to sales tax and there is no income tax impact.

C. Interim Financing

Q. HAS THE COMPANY INCLUDED RECOVERY OF INTERIM FINANCING COSTS IN THE REGULATORY ASSET?

A. Yes. The Company has included future interest and carrying charges beyond June 30, 2021, on the deferred costs included in the Regulatory Asset.

Q. HOW HAS THE INTEREST AND CARRYING CHARGES BEEN CALCULATED?

A. The Company has calculated interest and carrying charges through August of 2022, when the Company estimates that prospective securitization proceeds would be received. Interest has been calculated from July 2021 to March 2022 using the firm rate of 0.7% as described above in section V. B. – Interim Financing. For April 2022 through August 2022 interest and carrying costs were calculated using the approved weighted average cost of capital in the Company's Texas Gulf rate case, as adjusted.[23] This weighted average cost of capital was converted into a monthly

[23] GUD No. 10567, Finding of Fact No. 43.

rate that was used to calculate future interest and carrying costs on the regulatory asset balance from July 1, 2021, through August of 2022. The total amount of interest and carrying costs calculated for this timeframe is shown below in Table MAK-15:

Table MAK-15
Future Interest and Carrying Costs by PGA Jurisdiction

Company	PGA Jurisdiction	Amount
ARKLA	Texarkana	$ 417,508
ENTEX	Beaumont/East Texas	3,028,249
ENTEX	Northeast Texas/Tyler	2,306,734
ENTEX	South Texas	1,839,191
ENTEX	Houston/Texas Coast	40,992,639
Total Future Interest and Carrying Costs		**$ 48,584,321**

Q. HOW HAS THE WEIGHTED AVERAGE COST OF CAPITAL AS APPROVED BEEN ADJUSTED?

A. There are two notable modifications. First, the pre-tax weighted costs of equity used for the Texas Gulf division was modified to use a 21% federal income tax rate rather than the 35% federal income tax rate that was in effect at the time of the final order in that docket. Second, the pre-tax weighted cost of equity was adjusted to remove the gross-up for Texas Margin Tax since H.B. 1520 provides an exemption from margin tax for securitization amounts.[24] Each weighted average carrying cost rate was converted into a monthly rate that was used to calculate interest and carrying costs on the regulatory asset balance over the from July 1, 2021, through August of 2022. The total amount of interest and carrying costs calculated for this timeframe is shown in Table MAK-15 above.

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[24] *Id.* at Finding of Fact 44.

D. Summary of Future Costs

Q. WHAT IS THE TOTAL AMOUNT OF FUTURE COSTS BEING REQUESTED AS PART OF THE REGULATORY ASSET FOR SECURITIZATION?

A. The total estimated amount of future costs being requested as part of the regulatory asset for Securitization by PGA Jurisdiction is shown in Table MAK-16 below:

Table MAK-16
Future Costs Requested Under Securitization by Cost Category
by PGA Jurisdiction

Company	PGA Jurisdiction	Legal & Consulting	Financing & Interest	Noticing Costs	Total Future Costs
ARKLA	Texarkana	$ 5,807	$ 417,508	$ 215	$ 423,530
ENTEX	Beaumont/East Texas	134,331	3,028,249	1,557	3,164,137
ENTEX	Northeast Texas/Tyler	32,062	2,306,734	1,188	2,339,984
ENTEX	South Texas	31,702	1,839,191	948	1,871,841
ENTEX	Houston/Texas Coast	1,671,098	40,992,639	21,092	42,684,829
Total		**$ 1,875,000**	**$ 48,584,321**	**$ 25,000**	**$ 50,484,321**

VII. TOTAL REQUESTED REGULATORY ASSET FOR SECURITIZATION

Q. WHAT IS THE TOTAL AMOUNT BEING REQUESTED AS PART OF THE REGULATORY ASSET FOR SECURITIZATION?

A. The total amount being requested as part of the regulatory asset for securitization by PGA Jurisdiction is shown in Table MAK-17 below:

Table MAK-17
Total Requested Regulatory Asset Under Securitization
by Cost Category by PGA Jurisdiction

PGA Jurisdiction	Extraordinary Gas Cost	Legal & Consulting	Financing & Interest	Noticing Costs	Total Regulatory Asset
Texarkana	$ 9,310,918	$ 13,268	$ 483,267	$ 215	$ 9,807,668
Beaumont/East Texas	67,447,897	182,754	3,503,341	1,557	71,135,549
Northeast Texas/Tyler	51,437,952	79,137	2,668,607	1,188	54,186,884
South Texas	41,010,412	64,578	2,128,026	948	43,203,964
Houston/Texas Coast	913,098,141	2,402,900	47,422,736	21,092	962,944,869
Total	**$ 1,082,305,320**	**$ 2,742,637**	**$ 56,205,977**	**$ 25,000**	**$ 1,141,278,934**

VIII. STATEMENT OF COMMITMENT

Q. IF THE COMPANY RECEIVES PROCEEDS THROUGH THE PROPOSED SECURITIZATION WILL THE EXTRAORDINARY GAS COSTS BE INCLUDED IN THE NORMAL GAS RATEMAKING PROCESS OR ANY OTHER MECHANISM?

A. No. The Company will not request to recover the extraordinary gas cost recovered through securitization proceeds through the normal gas cost recovery process or through any other mechanism.

IX. CONCLUSION

Q. WHAT IS THE BALANCE FOR WHICH CERC SEEKS A REGULATORY ASSET DETERMINATION FOR RECOVERY THROUGH THE CUSTOMER RATE RELIEF BOND PROCESS?

A. As shown in Schedule A and on Table MAK-17 above, the total amount for which CERC seeks a regulatory asset determination for recovery through the customer rate relief bond process on behalf of its Texas PGA Jurisdictions is $1,141,278,934.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

STATE OF TEXAS §
§
COUNTY OF HARRIS §

AFFIDAVIT OF MARY A. KIRK

BEFORE ME, the undersigned authority, on this day personally appeared Mary A. Kirk who having been placed under oath by me did depose as follows:

1. "My name is Mary A. Kirk I am over the age of eighteen (18) and fully competent to make this affidavit. I am employed as Director – Financial Accounting for CenterPoint Energy Service Company, LLC The facts stated herein are true and correct based upon my personal knowledge.

2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

Further affiant sayeth not.

Mary A. Kirk
Mary A. Kirk

SUBSCRIBED AND SWORN TO BEFORE ME by the said Mary A. Kirk on this 22nd day of July 2021.

Alice S Hart
Notary Public in and for the State of Texas

NOTARY PUBLIC STATE OF TEXAS
ALICE S HART
NOTARY ID #130321-7
My Commission Expires
July 17, 2023

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

Policy

All balance sheet accounts ("Accounts") will be reconciled per the requirements below.

◆*Legacy Vectren companies continue to follow the previously established general ledger risk rankings, established levels of required review and auto-certification criteria. (Refer to Addendum for legacy VVC information).*◆

Purpose

The purpose of this Account Reconciliation Policy ("Policy") is to document account reconciliation requirements.

Reconciliation

An account reconciliation is a listing of items that comprise a G/L balance, called Reconciling Items. An account reconciliation is prepared by the Preparer. The Preparer must include in the listing all Reconciling Items that either are components of or should be components of the G/L balance for the period being reconciled. The difference between the G/L balance and the sum of the Reconciling items must be less than or equal to the Reconciling Item Threshold.

The Preparer should evaluate Reconciling Items that are components of the G/L balance to determine whether they are properly classified in an appropriate account and company code, are reasonable compared to expected transactions, and are otherwise appropriate components of the G/L balance for the period being reconciled. The Preparer will classify Reconciling Items as one of the three Reconciling Item Classes: List Component, Timing, or Required Adjustments.

The Preparer will support Reconciling Items classified as List Component or Timing with a sub-ledger or other supporting documentation. Supporting documentation containing confidential information (e.g. benefits, payroll, etc.) should be appropriately referenced within Blackline and stored in a network "shared folder." Reference should be clear enough such that a third-party reviewer would know how to obtain the information if necessary. The following are not appropriate supporting documents:

(1) A mathematical analysis of the activity in the general ledger (e.g. simply adding the debits and credits)
(2) A roll forward showing beginning balance plus a list of activity within the account when either the beginning balance or activity lack supporting documents

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

The Preparer shall classify as Required Adjustments those Reconciling Items that are not properly classified in an appropriate account and company code, are otherwise not an appropriate component of the G/L balance for the period being reconciled or are unidentifiable. If a Reconciling Item should be a component of the G/L balance but was not recorded, the Preparer should include it as a List Component with an offsetting Required Adjustment. The Preparer shall input an origination date from which Required Adjustments will be aged. An approximate origination date may be used if the actual date is not known.

For Required Adjustments, the Preparer is required to document a detailed action plan within the reconciliation to clear the reconciling item as soon as possible. Such plans must include what actions will be taken to clear the item, owner responsible for the actions (the Preparer, to the extent possible), related timing, and the offsetting financial statement impact. Approvers must understand and validate action plans for Required Adjustments. If the Required Adjustment is not cleared within 90 days of the origination date, the Preparer must re-evaluate and update the action plan at least quarterly.

Account Reconciliation Preparers, Approvers and Reviewers must certify the following:

- Account reconciliation has been prepared in accordance with the Account Reconciliation Policy,
- Sufficient supporting documentation is attached and substantiates the current balance,
- The item descriptions are clear and detailed, for example, originating date, correction entry if necessary, and expected clearing date,
- All List Components are supportive and not Required Adjustments,
- All timing items will resolve on their own and are not Required Adjustments, and
- All Required Adjustments are identified, and action plans are documented. Required Adjustment have been communicated per the guideline under Reconciling Items in this Policy.

If the Approver or Reviewer determines that the Preparer did not sufficiently perform the account reconciliation, or any of the above certifications have not been met, the Approver or Reviewer will identify a rejection reason and reject the reconciliation, sending it back to the Preparer for additional reconciliation procedures. Valid rejection codes are as follows:

- Improper application of GAAP
- Insufficient/unclear comments or prior comments not addressed

CenterPoint Energy

Policy Number: 07

- Missing/incorrect date
- Missing/insufficient supporting documentation or references
- Incorrect/incomplete item description
- Policies, Purpose, Procedures not current
- Incorrect item classification
- Insufficient follow-up of aged items
- Analysis Error
- Spelling/grammar/transposition error

Frequency

Accounts are required to be reconciled in accordance with its assessed Account Risk Ranking. Refer to Appendix I for additional detail on assigning account risk rankings. Reconciliations will be prepared, approved and reviewed based on the table below.

Risk Ranking	Characteristics***	Certifications	Base Frequency*
High	Reasonable potential for an account to be misstated by a material amount	Prepare, Approve, and Review	Monthly
Medium	More than remote but less than reasonable potential for an account to be misstated by a material amount	Prepare and Approve or System Certify	Quarterly**
Low	Remote potential for an account to be misstated by a material amount	Prepare and Approve or System Certify	At least once in a 12-month period

**A reconciliation may be set to require certification at a different frequency than the base frequency when justified (for example, when information for a High-risk account is only available quarterly). The justification will be documented and the change in frequency will be reflected as a modifier of the risk in Blackline (for example "High-Quarterly"). Blackline automatically updates the frequency on low risk accounts to quarterly (Low-Quarterly risk) in the period the account balance becomes greater than or equal to $500 thousand (absolute value).*

***Medium risk accounts with a balance below the Account Balance Reconciliation Threshold will only require an annual reconciliation.*

****Refer to the Materiality Assessment memo for analysis and determination of materiality.*

All G/L accounts, excluding those supported by an SAP subledger, shall be manually certified by the Preparer and Approver at least once during a twelve-month period.

Due Dates

Each period, account reconciliations are to be prepared by the 15th

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

workday of the following month and approved and reviewed in accordance with this policy by the 18th workday, unless SOX controls require accelerated preparation, approval, and review.

Responsibilities This table lists the responsibilities for this Policy:

Position	Responsibility
Preparer	• Prepare and Certify reconciliations as required in Blackline in accordance with this Policy • Understand the nature of and customary activity recorded within the account being certified • Determine and execute appropriate action plans to resolve Required Adjustments • Must be unique from the Approver and Reviewer for a given account and comply with Segregation of Duties Policy #24
Approver	• Reject reconciliations that cannot be certified and identify a rejection reason • Approve and Certify reconciliations as required in Blackline in accordance with this Policy • Understand and validate action plans to resolve Required Adjustments • Approver shall be at least an Accounting Supervisor or Accounting Manager, unless an Elected Approver or an Elected Reviewer has been approved • Must be unique from the Preparer and Reviewer for a given account and comply with Segregation of Duties Policy #24
Reviewer	• Second level of approval on high risk accounts (see approver responsibilities) • Reviewer shall be at least an Accounting Supervisor or Accounting Manager, unless an Elected Reviewer has been approved • Must be unique from the Preparer and Approver for a given account and comply with Segregation of Duties Policy #24
Accounting Manager	• Monitor to ensure reconciliations are Prepared, Approved and Reviewed as required in Blackline and communicate exceptions to their Director or above • Communicate Required Adjustments greater than or equal to the Required Adjustment Reconciling Item Threshold ($500 thousand) that remain outstanding at the end of a quarter to their Director and the Assistant Controller • Follow up with Preparers to ensure timely execution of action plans for Required Adjustments • Assign Preparers, Approvers, and Reviewers (as required) for each balance sheet account within their scope of responsibility • Elect Approvers and Reviewers and reassess Elected

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

	Approvers and Elected Reviewers as needed • Designate risk ranking for all accounts upon creation or unblocking and annual risk assessment • Evaluate during the Annual Risk Assessment that all accounts within their scope of responsibility have the correct risk ranking • Communicate deviations in risk ranking and provide reasoning to Blackline Administrator
Assistant Controller	• Evaluation of Required Adjustments greater than or equal to the Required Adjustment Reconciling Item Threshold ($500 thousand) that remain outstanding at the end of a quarter
Chief Accounting Officer	• Administer this Policy
Director or above	• Oversight and governance of the Annual Risk Assessment • Assess the thresholds in the Materiality Assessment Memo for reasonableness • Approval of system rights to become an Elected Approver or an Elected Reviewer
Corporate Master Data Coordinator	• Communicate changes to Master Data to Blackline Administrator
Blackline Administrator	• Periodic monitoring and maintenance of Blackline tool • Facilitates Risk Assessment and interim changes, as requested • Ensure completeness of company codes, accounts and balances within Blackline • Ensure all Accounts reflect the assigned Preparer, Approver, Reviewer (as required), including maintaining a list of Elected Approvers and Elected Reviewers approved by Directors, and Risk Ranking in Blackline • Ensure Blackline is configured to require reconciliation at the frequencies outlined in this Policy • Communicate threshold updates to Preparers, Approvers, and Reviewers
Financial Controls Compliance	• Update the Materiality Assessment Memo and provide the memo to Director or above for reasonableness assessment

Definitions This table provides definitions of terms used in this policy:

Term	Definition
Accounting Manager	Any Manager in Finance who has been assigned responsibilities for one or more general ledger balance sheet accounts.
Account Balance Reconciliation Threshold	Account balance below which Medium Risk accounts will only be required to be reconciled annually. Refer to the Materiality Assessment Memo annually for detailed analysis on threshold levels.

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

Accounting Supervisor	Any Supervisor in Finance who has been assigned ownership and associated responsibilities for one or more general ledger balance sheet accounts for any Business Unit.
Blackline	System to enable preparation, approval, review and documentation of account reconciliations.
Business Unit (BU)	The functional operating area that maintains and reports operating financial information.
Certification / Auto-Certification or Auto-Certified	Preparer, Approver, Reviewer or System generated indication that all account reconciliation procedures have been performed in accordance with this Policy for a given account reconciliation.
Company	CenterPoint Energy, Inc.
Elected Approver	An Analyst that can serve as an Approver. Election may be made by either an Accounting Supervisor or Accounting Manager at their team level. A Director or above shall approve of the election. The approval, and documentation of the approval, shall follow the same procedures as the Annual Risk Assessment.
Elected Reviewer	An Analyst that can serve as either an Approver or Reviewer. Election may be made by either an Accounting Supervisor or Accounting Manager at their team level. A Director or above shall approve of the election. The approval, and documentation of the approval, shall follow the same procedures as the Annual Risk Assessment.
Entity	The Company, or any corporation, partnership, trust, joint venture, firm, association, unincorporated organization, legal entity, or other enterprise in which the Company holds, directly or indirectly, a greater than 50% control.
General Ledger	The general ledger ("G/L") is a collection of all balance sheet and income statement accounts and represents the accumulation of all journal entries posted to those accounts. The G/L holds complete unconsolidated records of financial transactions made over the life of the company. Note that top-side and eliminating entries made to the Company's Consolidating Financial Statement are not included within the scope of this policy.
Key Accounts	Account reconciliations that serve as or are used in the performance of key controls in a Risk Control Matrix ("RCM"). These accounts will be reconciled per SOX guidance, marked as Key in Blackline, and excluded from auto-certification. While account reconciliation is itself a key control, the Key Account designation shall only be applied to account reconciliations referenced in other key controls.
Materiality	The memo documents management's materiality evaluation for

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

Assessment Memo	the (i) account balance reconciliation, (ii) reconciling item, and (iii) required adjustment reconciling item thresholds applicable under this policy.
Reconciling Item Classes	There are three different classes of reconciling items: (1) List Component – items that should be a component of the G/L balance (e.g., amortization). (2) Timing – items that should be a component of the G/L balance but require documentation around timing (e.g., deposits in transit). (3) Required Adjustment – items that should NOT be a component of the G/L balance and require a correcting entry (e.g., posted to incorrect account). Unidentified amounts above the Reconciling Item Threshold remaining on the reconciliation shall be classified as a Required Adjustment.
Required Adjustment Reconciling Item Threshold	$500 thousand; the amount at which the Reconciling Item Class “Required Adjustment” must be communicated to the Assistant Controller if the adjustment is not recorded in the same fiscal quarter.
Reconciling Item Threshold	Acceptable unexplained difference between G/L balance and Reconciling Items, below which Preparers, Approvers and Reviewers can certify accounts. Refer to the Materiality Assessment Memo annually for detailed analysis on threshold levels.

Record Retention Account reconciliations shall be retained within Blackline in accordance with the CNP Record Retention Policy.

Compliance Employees must comply with this Policy. Failure to comply with this Policy may result in disciplinary action up to and including termination.

Document History

Introduction This Policy was implemented in September 2003.

Document History Below are at least the last three revisions of this document, including all revisions within the last three months.

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

Date	By	Description
09/2017	Advance Finance Team	Revised to include Blackline considerations including, Account Risk Rankings, Materiality and Thresholds, Preparer and Approver roles, Reconciling Items Classifications, etc. Removed “review accounts” distinction; all accounts will be reconciled going forward.
12/2018	Accounting Integration Team	Modified policy to incorporate changes related to integration of legacy Vectren companies.
7/2019	Financial Services	Removed the requirement to classify cash and cash equivalent accounts as high risk.
01/2021	Account Reconciliation Review Team	Reorganized the policy sections and appendices. Updated term definitions. Accounts supported by SAP subledger (auto-certified) do not require manual intervention. Accrued liabilities qualify for auto-certification.

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

APPENDIX I – Account Risk Ranking

Account Risk Ranking

The following attributes should be considered in assigning risk to an account:

- Volume of transactions
- Routine or non-routine JE activity
- Whether the account is subject to or requires manual intervention
- Risk of material misstatement, potential for fraud or misstatement, including the nature of the underlying asset or liability (i.e. overstatement vs. understatement)
- Level of subjectivity; whether significant judgment or estimates are involved in determining the account balance
- Complexity of accounting or reporting processes/systems impacting the account
- Frequency of related party transactions
- Volatility of account balance
- Materiality of account balance
- Extent that new processes affect the account, including changes to systems, new accounting guidance or changes to processes or procedures which significantly impact transactions or balance in account
- Historical results/audit adjustments indicating problems with the account
- Level of regulatory oversight; legal/statutory filing requirements
- Whether the account is supported by an SAP or non-SAP sub- ledger
- Governmental or regulatory requirements related to the account or balances, including requirements for the frequency of reconciliations. (For example, in accordance with Securities and Exchange Commission Regulation AB Item 1122(d)(2)(vii) requires reconciliations are prepared on a monthly basis for all asset-backed securities related bank accounts, including custodial accounts and related bank clearing accounts)

The above is neither a comprehensive list nor necessarily applicable to each account. If considerations beyond the factors above affect the conclusion reached, the additional considerations must be documented during the annual risk assessment or in the request for an interim change.

Annual Risk Assessment

On an annual basis, the Blackline Administrator facilitates the risk assessment of all balance sheet accounts in order to determine account risk rankings. The risk assessment shall be finalized by Accounting Managers annually and risk ranking shall be effective with January Account Reconciliations for the following year. Annual risk ranking will be reviewed for reasonableness by a Director or above. Elected Approvers and Elected Reviewers shall also be reassessed during this process.

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

Process to Change an Account Risk

In order to make interim changes to an account risk ranking, Accounting Managers must send their request to Blackline Administrator, including the rationale. A Director or delegate shall approve of interim changes to attributes affecting risk ranking.

Documentation of approvals shall be retained in accordance with CNP retention policies.

Evidence Retention

The Blackline Administrator must retain the following information in accordance with CNP retention policies:

- The annual risk assessment document
- Materiality Assessment Memo and supporting analysis
- Risk-based rationale to change risk ranking

Auto-Certification Rules

The Company will systematically apply the following eligibility rules for Auto-Certifications of Account Reconciliations:

(1) Designated accounts where the G/L balance matches the SAP Sub- ledger balance (Modules contained within the SAP application)
(2) Clearing accounts with balance less than reconciling item threshold (accounts designed to have a zero balance after all transactions are posted for the period)
(3) Certain intercompany-balance tie-outs
(4) Prepaid or Accruable templates
(5) Account balance is zero and no activity for period
(6) Non-Editable Imported/Interfaced match
(7) Other Auto-Certification criteria will be determined upon account set up and assessed annually in the risk ranking analysis

The Blackline Administrator and Accounting Managers should use their professional judgment in selecting rules and accounts eligible for Auto-Certification. For example, certain sub-ledgers accounts may be auto-certified because sufficient internal controls govern the sub-ledger which ensures the correctness of the balance and activity of the account.

Blackline must not be configured to auto-certify High risk or Key accounts.

APPENDIX II – Templates

A template will be chosen upon initial account set up of an account. It can be changed as necessary by an Administrator. Professional judgment is required to identify the appropriate reconciliation template based on the nature of the account. Available templates include:

- General List - Provides means to enter or import items that make up the ending balance
- Sub-ledger Match - Matches sub ledger balance to the general ledger balance
- Bank Account Template - Matches bank account with or without matching – BAI (file format used by banks to transmit data to customers)
- Amortizable Prepaid - Tracks items that are paid in one period & expensed in future periods
- Accruable Template - Tracks items accrued in the current period and paid in a future period
- Schedule List - Allows users to summarize multiple accrual schedules together; allows multiple analytical views
- Calculated Balance Template - Document a detailed calculation that supports the general ledger balance
- Suspense Template - Reconciles accounts where amounts are temporarily recorded
- Associated Accounts - Compares one or more balance to a second set of one or more balances – e.g., intercompany-account or Statutory vs GAAP comparison

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

APPENDIX III – **Required Adjustment Presentation**

Below are two examples of Required Adjustments to an account reconciliation involving long term debt.

Facts: For both examples, assume there are four series of non-current senior notes outstanding, each with principle of $500 million, so the GL balance should be $2 billion.

Example 1: Reconciling Item is a component of the GL balance but should not be.

Facts: A fifth series of senior notes with principle of $500 million is a component of the GL balance. It matures within one year and should have been reclassed to current portion of long-term debt. The reclass was not recorded, so the GL balance is $2.5 billion.

Presentation: The Reconciling Item for the fifth series of senior notes is classified as a Required Adjustment.

	(in millions)
L – Debt 1	-500
L – Debt 2	-500
L – Debt 3	-500
L – Debt 4	-500
R – Debt 5 – not reclassed	-500
Subtotal	-2,500
Unidentified Difference	-
GL Balance	-2,500

Example 2: Reconciling Item is not a component of the GL balance but should be.

Facts: The fourth of the four series of non-current senior notes outstanding should be recorded to the GL, but the entry was not made, so the GL balance is $1.5 billion.

Presentation: A List Component is included for the fourth series of non-current senior notes, with an offsetting Required Adjustment.

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

	(in millions)
L – Debt 1	-500
L – Debt 2	-500
L – Debt 3	-500
L – Debt 4	-500
R – Debt 4 – not recorded	500
Subtotal	-1,500
Unidentified Difference	-
GL Balance	-1,500

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

APPENDIX IV - Legacy Vectren Information

Accounting Policy and Procedure Manual
Section: Balance Sheet Account Reconciliations
Updated: 8/20/2018

The Company's consolidation process is comprised of three groups; Utilities, Enterprises, and Corporate.

1. The Utilities are comprised of SIGECO (01), IGC (02), VEDO (03), and VUHI (09). Processing of transactions for the Utilities and Corporate (89, 99, etc.) are generally centralized and recorded in ORACLE through system interfaces. The Controller Group records account activity in ORACLE for these entities.

2. The Enterprises group is comprised of operating company VESCO, several holding companies, and several legacy investment companies. Processing of transactions for the operating companies is decentralized and account analysis and reconciliation activity is performed by accounting departments at each of the subsidiary companies (see Appendix B, C, D for reconciliation procedures). At each month end, the trial balances of these operating companies are loaded into ORACLE for financial reporting purposes. The Controller Group maintains the books and records of the holding companies and legacy investments in ORACLE.

3. Corporate is comprised of the parent activity (99) as well as Vectren Capital (89), Vectren Affiliated Utilities (82), White River Storage (83), and Ohio Valley Hub (84). The Controller Group maintains the books and records of these companies in ORACLE.

SCOPE: This Appendix covers all the accounts in the books and records of the above Oracle entities and applies to all Controller Group staff. The Controller Group has responsibility for those entities whose books and records are maintained centrally in ORACLE and also for ensuring the uploaded financial information from the nonutility subsidiaries is properly classified within ORACLE.

CORPORATE AND UTILITY APPROACH: Each general ledger account for each entity is assigned for reconciliation in the Blackline system, a cloud-based tool which houses the accounts and reconciliations. The Process Owner has been identified and the required frequency has been established. For each account, Blackline includes the detail general ledger account name, along with the assignments, frequency, and type of reconciliation. Reconciliation assignments are based on the current areas of responsibility and expertise. The frequency of reconciliation is based on an overall risk assessment of the account.

CenterPoint Energy

Policy Number: 07

Accounting and Control Policies

Account Reconciliation Policy

As a result of the risk assessment:

- High-risk accounts will be reconciled monthly as part of the monthly close procedures. Examples would be certain Transition and Restoration related cash accounts as mandated by Regulation AB, Recoverable fuel and gas costs, unbilled, and Accounts Receivable. Reconciling items will be communicated to Corporate Accounting Services to ensure they are reported to management.

- Medium risk accounts will be reconciled quarterly; specifically at the end of: March, June, September and December. Examples would be Payroll taxes/withholdings, Tax accounts, and Plant and Property.

- Low risk accounts and those balances which change infrequently will be reconciled annually for year-end December. Zero balance accounts are marked as such in Blackline and will auto-reconcile unless activity occurs during a month.

- All reconciliations will be required to be complete by the first day of the following month. (i.e. accounts need to be reconciled for month end May close by July 1)

Each month, Oracle account balances are imported into Blackline. Accounts with new activity are identified by Blackline and then assigned by an administrator, specifically Corporate Accounting Services who oversees the completion of all reconciliations. Assistance regarding assignments will be requested from department heads if needed. If the nature of an existing account changes, the reviewer can make frequency adjustment recommendations and Corporate Accounting Services will determine if the frequency can be updated based on risk.

PROCEDURES:
The Controller Group accountants are to ensure the Balance Sheet account reconciliations are completed and received timely from their areas of responsibility, the reconciliations are agreed to the trial balance, and they are independently reviewed. This ensures that relevant supporting documentation/information is provided to explain the balance in the account and any corrective action, required for reconciling items, is promptly taken. Accountants must ensure that relevant supporting documentation is attached to the reconciliation document and the Process Owner takes that corrective action. The Accountant is to provide financial advice to the areas to assist them with their reconciliations and to follow up with the areas to ensure that corrective action is taken. The Accountant should promptly refer any matters of concern to the appropriate Manager or Director for assistance and advice.

1. Review of Reconciliations

   1.1. The Controller Group Manager responsible for each reconciliation is responsible for monitoring the appropriate resolution, adjustment or other disposition of long outstanding reconciling items in the general ledger and seeing that items are communicated timely to the appropriate Director and to the Corporate Controller.

1.2. Reconciliation Groups for the Elimination companies are included in Blackline for each calendar quarter. These listings are reviewed for reasonableness only by the Corporate Services Manager since all elimination balances are created via journal entry reviewed during the consolidation process.

1.3. Evidence of management review and approval is maintained within Blackline. Exceptions for the timing of management review may be granted by the appropriate Director and/or the Controller.

1.4. In addition to review of any individual reconciliations, Corporate Accounting Services will ensure all reconciliations are complete, as evidenced by the dashboard in Blackline

1.5. The Controller and/or CFO will receive periodic updates on the reconciliation status from Corporate Accounting Services as well as Internal Audit, who occasionally performs agreed upon procedures, as directed by the Controller.

2. Certification procedures

2.1. The Controller Group Managers will attest via their Sarbanes Oxley certification to Internal Audit that all reconciliations are complete and available for review if requested.

Each Controller Group Manager who reviews reconciliations or assigns a designated reviewer will be responsible for ensuring their assigned accounts are complete and certified.

3. Quality Assurance

3.1. A reconciliation dashboard will be monitored by Corporate Services and communicated each month to management. The dashboard will include the following: number and percent of accounts unreconciled; number and percent of accounts auto-reconciled; number and percent of accounts reconciled.

3.2. In addition to the review of the dashboard, the Corporate Accounting Services may request any review notes provided to preparers by the respective managers.

3.3. Corporate Accounting Services may provide feedback and ask questions on all reconciliations.

3.4. Reconciling items on high risk accounts will be communicated to Corporate Accounting Services or the individual department head to ensure they are reported appropriately to management.

The Corporate Accounting Services will communicate to management those individuals whose reconciliations or follow up items are not completed timely.

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A/ CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
HOUSTON DIVISION AND TEXAS COAST DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-15T

This Cost of Gas Clause shall apply to all general service rate schedules of CenterPoint Energy Entex in the Texas Coast Division and Houston Division ("the Company").

A. DEFINITIONS

1. **Cost of Purchased Gas** (G): The Company's best estimate of the cost of natural gas (per Mcf) to be purchased for resale hereunder during the period that the PGA Rate is to be effective. The cost of natural gas shall include the cost of gas supplies purchased for resale hereunder, upstream transportation capacity charges, storage capacity charges, the cost of gas withdrawn from storage less the cost of gas injected into storage, and any transaction-related fees, gains or losses and other transaction costs associated with the use of various financial instruments used by the Company to stabilize prices. Any costs associated with the use of financial instruments entered into after June 1, 2017, shall be approved in advance and in writing by the Director of the Oversight and Safety Division of the Commission.
2. **Purchase/Sales Ratio** (R): A ratio determined by dividing the total volumes purchased by the Company for general service customers for the twelve (12) month period ending the preceding August 31 Production Month by the sum of the volumes sold to general service customers during the same period. For the purpose of this computation, all volumes shall be stated at 14.65 p.s.i.a. Such ratio as determined shall in no event seek to recover more than 5% lost and unaccounted for gas loss unless expressly authorized by the applicable regulatory authority.
3. **Production Month**: The month that gas cost related activities are completed.
4. **Accounting Month**: The month gas related activities are posted on the books and records of the Company.
5. **Commodity Cost**: The Cost of Purchased Gas multiplied by the Purchase Sales Ratio.
6. **Purchased Gas Adjustment** (PGA): The rate per billing unit or the total calculation under this Cost of Gas Clause, consisting of the commodity cost, a reconciliation component (RC) and related fees and taxes.
   PGA Rate (per Mcf sold) = $[(G * R) \pm RC]$ rounded to the nearest $0.0001
   PGA Rate (per Ccf sold) = PGA Rate (per Mcf sold) $\div$ 10
7. **General Service Customer**: residential, small commercial and large volume customers.
8. **Reconciliation Audit**: An annual review of the Company's books and records for each twelve month period ending with the May Production Month to determine the amount of over or under collection occurring during such twelve month period. The audit shall determine:
   a. the total amount paid for gas purchased by the Company to provide service to its general service customers during the period;
   b. the revenues received from operation of the provisions of this Cost of Gas Clause
   c. the total amount of refunds made to customers during the period and any other revenues or credits received by the Company as a result of gas purchases or operation of this Cost of Gas Clause;
   d. an adjustment, if necessary, for lost and unaccounted for gas during the period identified in A2 in excess of five (5) percent of purchases;
   e. The Company shall seek review and approval from the Commission for any Federal Energy Regulatory Commission (FERC) Intervention costs incurred for the benefit of customers prior to their inclusion in the cost of gas calculation. Those costs are limited to reasonable non-employee experts, non-employee attorney fees and prudently incurred travel expenses;
   f. the gas cost portion of bad debt expense;
   g. schedule of reconciliation items related to over-recoveries of surcharges previously approved by the Railroad Commission; and
   h. other amounts properly credited to the cost of gas not specifically identified herein.

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A/ CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
HOUSTON DIVISION AND TEXAS COAST DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-15T

9. **Reconciliation Component** (RC): The amount to be returned to or recovered from customers each month from the August billing cycle through July billing cycle as a result of the Reconciliation Audit.
10. **Reconciliation Account**: The account maintained by the Company to assure that over time it will neither over nor under collect revenues as a result of the operation of this Cost of Gas Clause. Entries shall be made monthly to reflect but not necessarily limited to:
    a. the total amounts paid to the Company's supplier(s) for gas applicable to general service customers as recorded on the Company's books and records;
    b. any upstream transportation charges;
    c. the cost of gas withdrawn from storage less the cost of gas injected into storage;
    d. fixed storage charges;
    e. the revenues produced by the operation of this Cost of Gas Clause; and
    f. refunds, payments, or charges provided for herein or as approved by the regulatory authority;
    g. The Company shall seek review and approval from the Commission for any Federal Energy Regulatory Commission (FERC) Intervention costs incurred for the benefit of customers prior to their inclusion in the cost of gas calculation. Those costs are limited to reasonable non-employee experts, non-employee attorney fees and prudently incurred travel expenses;
    h. the gas cost portion of bad debt expense;
    i. schedule of reconciliation items related to over-recoveries of surcharges previously approved by the Railroad Commission; and
    j. other amounts properly credited to the cost of gas not specifically identified herein.
11. **Carrying Charge for Gas in Storage**: A return on the Company’s investment for gas in storage.

B. COST OF GAS = Purchased Gas Adjustment (PGA)

In addition to the cost of service as provided under its general service rate schedule(s), the Company shall bill each general service customer for the Cost of Gas incurred during the billing period. The Cost of Gas shall be clearly identified on each customer bill.

C. DETERMINATION AND APPLICATION OF THE RECONCILIATION COMPONENT

If the Reconciliation Audit reflects either an over recovery or under recovery of revenues, such amount, plus or minus the amount of interest calculated pursuant to Section D below, if any, shall be divided by the general service sales volumes, adjusted for the effects of weather and growth, for the last preceding August billing cycle through July billing cycle. The Reconciliation Component so determined to collect any revenue shortfall or to return any excess revenue shall be applied for a twelve month period beginning with the next following August billing cycle and continuing through the next following July billing cycle at which time it will terminate until a new Reconciliation Component is determined.

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A/ CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
HOUSTON DIVISION AND TEXAS COAST DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-15T

D. PAYMENT FOR USE OF FUNDS

Concurrently with the Reconciliation Audit, the Company shall determine the amount by which the Cost of Gas was over or under collected for each month within the period of audit. If the sum of the monthly balances reflects an over collection during the period, the Company shall credit into the Reconciliation Account during August an amount equal to the average annual balance multiplied by 6%.

If the sum of the monthly balances reflects an under collection during the period, the Company shall debit into the Reconciliation Account during August an amount equal to the average annual balance multiplied by 6%.

E. CARRYING CHARGE FOR GAS IN STORAGE

A carrying charge for gas in storage will be calculated based on the arithmetic average of the beginning and ending balance of gas in storage inventory for the prior calendar month times the pre-tax rate of return as determined in Docket No. GUD 10567 and as revised in GUD 10749, and will be reflected on the customer's bill.

F. SURCHARGE OR REFUND PROCEDURES

In the event that the rates and charges of the Company's supplier are retroactively reduced and a refund of any previous payments is made to the Company, the Company shall make a similar refund to its general service customers. Similarly, the Company may surcharge its general service customers for retroactive payments made for gas previously delivered into the system. The entire amount of refunds or charges shall be entered into the Reconciliation Account as they are collected from or returned to the customers.

For the purpose of this Section the entry shall be made on the same basis used to determine the refund or charge component of the Cost of Gas and shall be subject to the calculation set forth in Section D, Payment for Use of Funds, above.

G. COST OF GAS STATEMENT

The Company shall file a copy of the Cost of Gas Statement with the Regulatory Authority by the beginning of each billing month. (The Company shall file such initial Statement as soon as is reasonably possible.) The Cost of Gas Statement shall set forth:

1. the Cost of Purchased Gas;
2. that cost multiplied by the Purchase/Sales Ratio;
3. the amount of the cost of gas caused by any surcharge or refund;
4. the Reconciliation Component;
5. the Cost of Gas which is the total of items (2) through (4); and
6. the Carrying Charge for Gas in Storage.

The statement shall include all data necessary for the Customers and Regulatory Authority to review and verify the calculation of the Cost of Gas and the Carrying Charge for Gas in Storage. The date on which billing using the Cost of Gas and the Carrying Charge for Gas in Storage is to begin (bills prepared) is to be specified in the statement.

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A/ CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
HOUSTON DIVISION AND TEXAS COAST DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-15T

H. ANNUAL RECONCILIATION REPORT

The Company shall file an annual report with the Regulatory Authority which shall include but is not necessarily limited to:

1. A tabulation of volumes of gas purchased and costs incurred listed by account or type of gas, supplier and source by month for the twelve months ending with the May Production Month will be available upon request;
2. A tabulation of gas units sold to general service customers and related Cost of Gas Clause revenues for the twelve month period ending with the May Production Month will be available upon request;
3. A tabulation of any amounts properly credited against Cost of Gas; and
4. A summary of all other costs and refunds made during the year and the status of the Reconciliation Account. This report shall be filed concurrently with the Cost of Gas Statement for August.

The Annual Report shall be filed in a format similar to the example format that follows.

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A/ CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
HOUSTON DIVISION AND TEXAS COAST DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-15T

ANNUAL RECONCILIATION REPORT
TWELVE MONTH ENDING

A. COST OF PURCHASED GAS

		TOTAL PURCHASES	
		Mcf @ 14.65	**$ Dollars**
Prior Period Adjustments		-	$ -
Year	Month 1	-	-
Year	Month 2	-	-
Year	Month 3	-	-
Year	Month 4	-	-
Year	Month 5	-	-
Year	Month 6	-	-
Year	Month 7	-	-
Year	Month 8	-	-
Year	Month 9	-	-
Year	Month 10	-	-
Year	Month 11	-	-
Year	Month 12	-	-
Total		-	$ -

B. COST OF GAS REVENUE

		TOTAL SALES	
		Mcf @ 14.65	**$ Dollars**
Prior Period Adjustments		-	$ -
Year	Month 1	-	-
Year	Month 2	-	-
Year	Month 3	-	-
Year	Month 4	-	-
Year	Month 5	-	-
Year	Month 6	-	-
Year	Month 7	-	-
Year	Month 8	-	-
Year	Month 9	-	-
Year	Month 10	-	-
Year	Month 11	-	-
Year	Month 12	-	-
Total		-	$ -

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A/ CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
HOUSTON DIVISION AND TEXAS COAST DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-15T

ANNUAL RECONCILIATION REPORT
TWELVE MONTH ENDING

C. MONTHLY BALANCE

	TOTAL PURCHASES	TOTAL COG REVENUE	(OVER) / UNDER COLLECTION OF COG	ADJUSTMENTS	~~GROSS RECEIPTS & FRANCHISE TAX~~	BAD DEBTS	FERC PARTICIPATION EXPENSES	OTHER CREDITS	CUMULATIVE BALANCE	CUMULATIVE BALANCE EXCLUDING INTEREST
	$ Dollars	$ Dollars	$ Dollars	$ Dollars	~~$ Dollars~~	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars
Ending Balance Brought Forward									$ -	$ -
Prior Period Adjustments	$ -	$ -	$ -	$ -	~~$~~	$ -	$ -	$ -	$ -	$ -
Year Month 1	-	-	-	-		-	-	-	-	-
Year Month 2	-	-	-	-		-	-	-	-	-
Year Month 3	-	-	-	-		-	-	-	-	-
Year Month 4	-	-	-	-		-	-	-	-	-
Year Month 5	-	-	-	-		-	-	-	-	-
Year Month 6	-	-	-	-		-	-	-	-	-
Year Month 7	-	-	-	-		-	-	-	-	-
Year Month 8	-	-	-	-		-	-	-	-	-
Year Month 9	-	-	-	-		-	-	-	-	-
Year Month 10	-	-	-	-		-	-	-	-	-
Year Month 11	-	-	-	-		-	-	-	-	-
Year Month 12	-	-	-	-		-	-	-	-	-
Total	$ -	$ -	$ -	$ -	~~$~~	$ -	$ -	$ -		

~~1 Prior Years Interest Calc~~

12 months Average (O)/U Balance	$ -

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A/ CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
HOUSTON DIVISION AND TEXAS COAST DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-15T

ANNUAL RECONCILIATION REPORT
TWELVE MONTH ENDING

D. SALES VOLUMES

		Actual Mcf @ 14.65
Year	Month 1	-
Year	Month 2	-
Year	Month 3	-
Year	Month 4	-
Year	Month 5	-
Year	Month 6	-
Year	Month 7	-
Year	Month 8	-
Year	Month 9	-
Year	Month 10	-
Year	Month 11	-
Year	Month 12	-
	Total	-

E. Interest on PGA Balance

12 months Average (O)/U Balance	$	-
Interest Rate		6.00%
Total Interest on (O)/U Balance	$	-

F. Reconciliation Component

TME Cumulative (O)/U Balance Excluding Interest	**$**	-
UAF Adjustment		
Total Interest on (O)/U Balance		-
Total	$	-
Divided By:		
Sales Volume		-
RECONCILIATION COMPONENT	$	- Per Mcf

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
SOUTH TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-16

This Cost of Gas Clause shall apply to all general service rate schedules of CenterPoint Energy Entex in the South Texas Division ("the Company").

A. DEFINITIONS

1. **Cost of Purchased Gas** (G): The Company's best estimate of the cost of natural gas (per Mcf) to be purchased for resale hereunder during the period that the PGA Rate is to be effective. The cost of natural gas shall include the cost of gas supplies purchased for resale hereunder, upstream transportation capacity charges, storage capacity charges, the cost of gas withdrawn from storage less the cost of gas injected into storage, and any transaction-related fees, gains or losses and other transaction costs associated with the use of various financial instruments used by the Company to stabilize prices. Any costs associated with the use of financial instruments entered into after March 1, 2018, shall be approved in advance and in writing by the Director of the Oversight and Safety Division of the Commission.
2. **Purchase/Sales Ratio** (R): A ratio determined by dividing the total volumes purchased by the Company for general service customers for the twelve (12) month period ending the preceding August 31 Production Month by the sum of the volumes sold to general service customers during the same period. For the purpose of this computation, all volumes shall be stated at 14.65 p.s.i.a. Such ratio as determined shall in no event seek to recover more than 5% lost and unaccounted for gas loss unless expressly authorized by the applicable regulatory authority.
3. **Production Month**: The month that gas cost related activities are completed.
4. **Accounting Month**: The month gas related activities are posted on the books and records of the Company.
5. **Commodity Cost**: The Cost of Purchased Gas multiplied by the Purchase Sales Ratio.
6. **Purchased Gas Adjustment** (PGA): The rate per billing unit or the total calculation under this Cost of Gas Clause, consisting of the commodity cost, a reconciliation component (RC) and related fees and taxes.
   PGA Rate (per Mcf sold) = $[(G * R) \pm RC]$ rounded to the nearest \$0.0001
   PGA Rate (per Ccf sold) = PGA Rate (per Mcf sold) $\div$ 10
7. **General Service Customer**: residential, small commercial and large volume Customers.
8. **Reconciliation Audit**: An annual review of the Company's books and records for each twelve month period ending with the May Production Month to determine the amount of over or under collection occurring during such twelve month period. The audit shall determine:
   a. the total amount paid for gas purchased by the Company to provide service to its general service customers during the period;
   b. the revenues received from operation of the provisions of this Cost of Gas Clause
   c. the total amount of refunds made to customers during the period and any other revenues or credits received by the Company as a result of gas purchases or operation of this Cost of Gas Clause;
   d. an adjustment, if necessary, for lost and unaccounted for gas during the period identified in A2 in excess of five (5) percent of purchases;
   e. The Company shall seek review and approval from the Commission for any Federal Energy Regulatory Commission (FERC) Intervention costs incurred for the benefit of customers prior to their inclusion in the cost of gas calculation. Those costs are limited to reasonable non-employee experts, non-employee attorney fees and prudently incurred travel expenses;
   f. the gas cost portion of bad debt expense;
   g. schedule of reconciliation items related to over-recoveries of surcharges previously approved by the Railroad Commission; and
   h. other amounts properly credited to the cost of gas not specifically identified herein.

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
SOUTH TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-16

9. **Reconciliation Component** (RC): The amount to be returned to or recovered from customers each month from the August billing cycle through July billing cycle as a result of the Reconciliation Audit.
10. **Reconciliation Account**: The account maintained by the Company to assure that over time it will neither over nor under collect revenues as a result of the operation of this Cost of Gas Clause. Entries shall be made monthly to reflect but not necessarily limited to:
    a. the total amounts paid to the Company's supplier(s) for gas applicable to general service customers as recorded on the Company's books and records;
    b. any upstream transportation charges;
    c. the cost of gas withdrawn from storage less the cost of gas injected into storage;
    d. fixed storage charges;
    e. the revenues produced by the operation of this Cost of Gas Clause; and
    f. refunds, payments, or charges provided for herein or as approved by the regulatory authority;
    g. The Company shall seek review and approval from the Commission for any Federal Energy Regulatory Commission (FERC) Intervention costs incurred for the benefit of customers prior to their inclusion in the cost of gas calculation. Those costs are limited to reasonable non-employee experts, non-employee attorney fees and prudently incurred travel expenses;
    h. the gas cost portion of bad debt expense;
    i. schedule of reconciliation items related to over-recoveries of surcharges previously approved by the Railroad Commission; and
    j. other amounts properly credited to the cost of gas not specifically identified herein.
11. **Carrying Charge for Gas in Storage**: A return on the Company's investment for gas in storage.

B. COST OF GAS = Purchased Gas Adjustment (PGA)

In addition to the cost of service as provided under its general service rate schedule(s), the Company shall bill each general service customer for the Cost of Gas incurred during the billing period. The Cost of Gas shall be clearly identified on each Customer bill.

C. DETERMINATION AND APPLICATION OF THE RECONCILIATION COMPONENT

If the Reconciliation Audit reflects either an over recovery or under recovery of revenues, such amount, plus or minus the amount of interest calculated pursuant to Section D below, if any, shall be divided by the general service sales volumes, adjusted for the effects of weather and growth, for the last preceding August billing cycle through July billing cycle. The Reconciliation Component so determined to collect any revenue shortfall or to return any excess revenue shall be applied for a twelve month period beginning with the next following August billing cycle and continuing through the next following July billing cycle at which time it will terminate until a new Reconciliation Component is determined.

D. PAYMENT FOR USE OF FUNDS

Concurrently with the Reconciliation Audit, the Company shall determine the amount by which the Cost of Gas was over or under collected for each month within the period of audit. If the sum of the monthly balances reflects an over collection during the period, the Company shall credit into the Reconciliation Account during August an amount equal to the average annual balance multiplied by 6%.

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
SOUTH TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-16

If the sum of the monthly balances reflects an under collection during the period, the Company shall debit into the Reconciliation Account during August an amount equal to the average annual balance multiplied by 6%.

E. CARRYING CHARGE FOR GAS IN STORAGE

A carrying charge for gas in storage will be calculated based on the arithmetic average of the beginning and ending balance of gas in storage inventory for the prior calendar month times the pre-tax rate of return as determined in GUD No. 10669 and will be reflected on the customer’s bill.

F. SURCHARGE OR REFUND PROCEDURES

In the event that the rates and charges of the Company's supplier are retroactively reduced and a refund of any previous payments is made to the Company, the Company shall make a similar refund to its general service customers. Similarly, the Company may surcharge its general service customers for retroactive payments made for gas previously delivered into the system. The entire amount of refunds or charges shall be entered into the Reconciliation Account as they are collected from or returned to the customers.

For the purpose of this Section the entry shall be made on the same basis used to determine the refund or charge component of the Cost of Gas and shall be subject to the calculation set forth in Section D, Payment for Use of Funds, above.

G. COST OF GAS STATEMENT

The Company shall file a copy of the Cost of Gas Statement with the Regulatory Authority by the beginning of each billing month. (The Company shall file such initial Statement as soon as is reasonably possible.) The Cost of Gas Statement shall set forth:

1. the Cost of Purchased Gas;
2. that cost multiplied by the Purchase/Sales Ratio;
3. the amount of the cost of gas caused by any surcharge or refund;
4. the Reconciliation Component;
5. the Cost of Gas which is the total of items (2) through (4); and
6. the Carrying Charge for Gas in Storage.

The statement shall include all data necessary for the Customers and Regulatory Authority to review and verify the calculation of the Cost of Gas and the Carrying Charge for Gas in Storage. The date on which billing using the Cost of Gas and the Carrying Charge for Gas in Storage is to begin (bills prepared) is to be specified in the statement.

H. ANNUAL RECONCILIATION REPORT

The Company shall file an annual report with the Regulatory Authority which shall include but is not necessarily limited to:

1. A tabulation of volumes of gas purchased and costs incurred listed by account or type of gas, supplier and source by month for the twelve months ending with the May Production Month will be available upon request;
2. A tabulation of gas units sold to general service customers and related Cost of Gas Clause revenues for the twelve month period ending with the May Production Month will be available upon request;
3. A tabulation of any amounts properly credited against Cost of Gas; and

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
SOUTH TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-16

4. A summary of all other costs and refunds made during the year and the status of the Reconciliation Account. This report shall be filed concurrently with the Cost of Gas Statement for August.

The Annual Report shall be filed in a format similar to the example format that follows.

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
SOUTH TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-16

ANNUAL RECONCILIATION REPORT
TWELVE MONTH ENDING

A.	COST OF PURCHASED GAS	TOTAL PURCHASES	
		Mcf @ 14.65	$ Dollars
Prior Period Adjustments		-	$ -
Year	Month 1	-	-
Year	Month 2	-	-
Year	Month 3	-	-
Year	Month 4	-	-
Year	Month 5	-	-
Year	Month 6	-	-
Year	Month 7	-	-
Year	Month 8	-	-
Year	Month 9	-	-
Year	Month 10	-	-
Year	Month 11	-	-
Year	Month 12	-	-
Total		-	$ -

B.	COST OF GAS REVENUE	TOTAL SALES	
		Mcf @ 14.65	$ Dollars
Prior Period Adjustments		-	$ -
Year	Month 1	-	-
Year	Month 2	-	-
Year	Month 3	-	-
Year	Month 4	-	-
Year	Month 5	-	-
Year	Month 6	-	-
Year	Month 7	-	-
Year	Month 8	-	-
Year	Month 9	-	-
Year	Month 10	-	-
Year	Month 11	-	-
Year	Month 12	-	-
Total		-	$ -

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
SOUTH TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-16

ANNUAL RECONCILIATION REPORT
TWELVE MONTH ENDING

C.	MONTHLY BALANCE

		TOTAL PURCHASES	TOTAL COG REVENUE	(OVER) / UNDER COLLECTION OF COG	ADJUSTMENTS	BAD DEBTS	FERC LITIGATION	OTHER CREDITS	CUMULATIVE BALANCE	CUMULATIVE BALANCE EXCLUDING INTEREST
		$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars
Ending Balance Brought Forward									$ -	$ -
Prior Period Adjustments		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Year	Month 1	-	-	-	-	-	-	-	$ -	$ -
Year	Month 2	-	-	-	-	-	-	-	$ -	$ -
Year	Month 3	-	-	-	-	-	-	-	$ -	$ -
Year	Month 4	-	-	-	-	-	-	-	$ -	$ -
Year	Month 5	-	-	-	-	-	-	-	$ -	$ -
Year	Month 6	-	-	-	-	-	-	-	$ -	$ -
Year	Month 7	-	-	-	-	-	-	-	$ -	$ -
Year	Month 8	-	-	-	-	-	-	-	$ -	$ -
Year	Month 9	-	-	-	-	-	-	-	$ -	$ -
Year	Month 10	-	-	-	-	-	-	-	$ -	$ -
Year	Month 11	-	-	-	-	-	-	-	$ -	$ -
Year	Month 12	-	-	-	-	-	-	-	$ -	$ -
	Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -		

12 months Average (O)/U Balance	$ -

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
SOUTH TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-16

ANNUAL RECONCILIATION REPORT
TWELVE MONTH ENDING

D.	SALES VOLUMES	Actual Mcf @ 14.65	Normalized Mcf @ 14.65
Year	Month 1	-	-
Year	Month 2	-	-
Year	Month 3	-	-
Year	Month 4	-	-
Year	Month 5	-	-
Year	Month 6	-	-
Year	Month 7	-	-
Year	Month 8	-	-
Year	Month 9	-	-
Year	Month 10	-	-
Year	Month 11	-	-
Year	Month 12	-	-
	Total	-	-

E.	Interest on PGA Balance	
12 months Average (O)/U Balance	$	-
Interest Rate		6.00%
Total Interest on (O)/U Balance	$	-

F.	Reconciliation Component		
	Cumulative (O)/U Balance	$	-
	Total Current Interest on (O)/U Balance	$	-
	Total	$	-
	Divided By:		
	Sales Volume [1]		-

RECONCILIATION COMPONENT	$0.0000 Per Mcf
RECONCILIATION COMPONENT	$0.0000 Per Ccf

1) Normalized volume for South Texas Correction Factor

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
BEAUMONT/EAST TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-17

This Cost of Gas Clause shall apply to all general service rate schedules of CenterPoint Energy Entex in the Beaumont/East Texas Division ("the Company").

A. DEFINITIONS

1. **Cost of Purchased Gas** (G): The Company's best estimate of the cost of natural gas (per Mcf) to be purchased for resale hereunder during the period that the PGA Rate is to be effective. The cost of natural gas shall include the cost of gas supplies purchased for resale hereunder, upstream transportation capacity charges, storage capacity charges, the cost of gas withdrawn from storage less the cost of gas injected into storage, and any transaction-related fees, gains or losses and other transaction costs associated with the use of various financial instruments used by the Company to stabilize prices. Any costs associated with the use of financial instruments entered into after March 1, 2020, shall be approved in advance and in writing by the Director of the Oversight and Safety Division of the Commission. The cost of purchased gas may also include costs related to the purchase and transportation of Renewable Natural Gas (RNG). Renewable Natural Gas is the term used to describe pipeline-compatible gaseous fuel derived from biogenic or other renewable sources that has lower lifecycle carbon-dioxide-equivalent (CO2e) emissions than geologic natural gas. The cost of purchased gas may also include the cost of carbon emission offsets purchased and retired in association with natural gas supplies.
2. **Purchase/Sales Ratio** (R): A ratio determined by dividing the total volumes purchased by the Company for general service customers for the twelve (12) month period ending the preceding August 31 Production Month by the sum of the volumes sold to general service customers during the same period. For the purpose of this computation, all volumes shall be stated at 14.65 p.s.i.a. Such ratio as determined shall in no event seek to recover more than 5% lost and unaccounted for gas loss unless expressly authorized by the applicable regulatory authority.
3. **Production Month**: The month that gas cost related activities are completed.
4. **Accounting Month**: The month gas related activities are posted on the books and records of the Company.
5. **Commodity Cost**: The Cost of Purchased Gas multiplied by the Purchase Sales Ratio.
6. **Purchased Gas Adjustment** (PGA): The rate per billing unit or the total calculation under this Cost of Gas Clause, consisting of the commodity cost, a reconciliation component (RC) and related fees and taxes.
   PGA Rate (per Mcf sold) = $[(G * R) \pm RC]$ rounded to the nearest \$0.0001
   PGA Rate (per Ccf sold) = PGA Rate (per Mcf sold) ÷ 10
7. **General Service Customer**: residential, small commercial and large volume Customers.
8. **Reconciliation Audit**: An annual review of the Company's books and records for each twelve month period ending with the June Production Month to determine the amount of over or under collection occurring during such twelve-month period. The audit shall determine:
   a. the total amount paid for gas purchased by the Company to provide service to its general service customers during the period;
   b. the revenues received from operation of the provisions of this Cost of Gas Clause;
   c. the total amount of refunds made to customers during the period and any other revenues or credits received by the Company as a result of gas purchases or operation of this Cost of Gas Clause;
   d. an adjustment, if necessary, for lost and unaccounted for gas during the period identified in A2 in excess of five (5) percent of purchases;
   e. The Company shall seek review and approval from the Commission for any Federal Energy Regulatory Commission (FERC) Intervention costs incurred for the benefit of customers prior to their inclusion in the cost of gas calculation. Those costs are limited to reasonable non-employee experts, non-employee attorney fees and prudently incurred

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
BEAUMONT/EAST TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-17

travel expenses;
f. the gas cost portion of bad debt expense;
g. schedule of reconciliation items related to over-recoveries of surcharges previously approved by the Railroad Commission; and
h. other amounts properly credited to the cost of gas not specifically identified herein.

9. **Reconciliation Component** (RC): The amount to be returned to or recovered from customers each month from the September billing cycle through August billing cycle as a result of the Reconciliation Audit.
10. **Reconciliation Account**: The account maintained by the Company to assure that over time it will neither over nor under collect revenues as a result of the operation of this Cost of Gas Clause. Entries shall be made monthly to reflect but not necessarily limited to:
    a. the total amounts paid to the Company's supplier(s) for gas applicable to general service customers as recorded on the Company's books and records;
    b. any upstream transportation charges;
    c. the cost of gas withdrawn from storage less the cost of gas injected into storage;
    d. fixed storage charges;
    e. the revenues produced by the operation of this Cost of Gas Clause; and
    f. refunds, payments, or charges provided for herein or as approved by the regulatory authority;
    g. The Company shall seek review and approval from the Commission for any Federal Energy Regulatory Commission (FERC) Intervention costs incurred for the benefit of customers prior to their inclusion in the cost of gas calculation. Those costs are limited to reasonable non-employee experts, non-employee attorney fees and prudently incurred travel expenses;
    h. the gas cost portion of bad debt expense;
    i. schedule of reconciliation items related to over-recoveries of surcharges previously approved by the Railroad Commission; and
    j. other amounts properly credited to the cost of gas not specifically identified herein.
11. **Carrying Charge for Gas in Storage**: A return on the Company’s investment for gas in storage.

B. COST OF GAS = Purchased Gas Adjustment (PGA)

In addition to the cost of service as provided under its general service rate schedule(s), the Company shall bill each general service customer for the Cost of Gas incurred during the billing period. The Cost of Gas shall be clearly identified on each Customer bill.

C. DETERMINATION AND APPLICATION OF THE RECONCILIATION COMPONENT

If the Reconciliation Audit reflects either an over recovery or under recovery of revenues, such amount, plus or minus the amount of interest calculated pursuant to Section D below, if any, shall be divided by the general service sales volumes, adjusted for the effects of weather and growth, for the last preceding September billing cycle through August billing cycle. The Reconciliation Component so determined to collect any revenue shortfall or to return any excess revenue shall be applied for a twelvemonth period beginning with the next following September billing cycle and continuing through the next following August billing cycle at which time it will terminate until a new Reconciliation Component is determined.

D. PAYMENT FOR USE OF FUNDS

Concurrently with the Reconciliation Audit, the Company shall determine the amount by which the Cost of

**CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
BEAUMONT/EAST TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-17**

Gas was over or under collected for each month within the period of audit. If the sum of the monthly balances reflects an over collection during the period, the Company shall credit into the Reconciliation Account during August an amount equal to the average annual balance multiplied by 6%.

If the sum of the monthly balances reflects an under collection during the period, the Company shall debit into the Reconciliation Account during August an amount equal to the average annual balance multiplied by 6%.

E. CARRYING CHARGE FOR GAS IN STORAGE

A carrying charge for gas in storage will be calculated based on the arithmetic average of the beginning and ending balance of gas in storage inventory for the prior calendar month times the pre-tax rate of return as determined in GUD No. 10920 and will be reflected on the customer's bill.

F. SURCHARGE OR REFUND PROCEDURES

In the event that the rates and charges of the Company's supplier are retroactively reduced and a refund of any previous payments is made to the Company, the Company shall make a similar refund to its general service customers. Similarly, the Company may surcharge its general service customers for retroactive payments made for gas previously delivered into the system. The entire amount of refunds or charges shall be entered into the Reconciliation Account as they are collected from or returned to the customers.
For the purpose of this Section the entry shall be made on the same basis used to determine the refund or charge component of the Cost of Gas and shall be subject to the calculation set forth in Section D, Payment for Use of Funds, above.

G. COST OF GAS STATEMENT

The Company shall file a copy of the Cost of Gas Statement with the Regulatory Authority by the beginning of each billing month. (The Company shall file such initial Statement as soon as is reasonably possible.) The Cost of Gas Statement shall set forth:

1. the Cost of Purchased Gas;
2. that cost multiplied by the Purchase/Sales Ratio;
3. the amount of the cost of gas caused by any surcharge or refund;
4. the Reconciliation Component;
5. the Cost of Gas which is the total of items (2) through (4); and
6. the Carrying Charge for Gas in Storage.

The statement shall include all data necessary for the Customers and Regulatory Authority to review and verify the calculation of the Cost of Gas and the Carrying Charge for Gas in Storage. The date on which billing using the Cost of Gas and the Carrying Charge for Gas in Storage is to begin (bills prepared) is to be specified in the statement.

H. ANNUAL RECONCILIATION REPORT

The Company shall file an annual report with the Regulatory Authority which shall include but is not necessarily limited to:

1. A tabulation of volumes of gas purchased and costs incurred listed by account or type of gas, supplier and source by month for the twelve months ending with the June Production Month will be available upon request;

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
BEAUMONT/EAST TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-17

2. A tabulation of gas units sold to general service customers and related Cost of Gas Clause revenues for the twelve- month period ending with the May Production Month will be available upon request;
3. A tabulation of any amounts properly credited against Cost of Gas; and
4. A summary of all other costs and refunds made during the year and the status of the Reconciliation Account. This report shall be filed concurrently with the Cost of Gas Statement for September.

The Annual Report shall be filed in a format similar to the example format that follows.

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
BEAUMONT/EAST TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-17

ANNUAL RECONCILIATION REPORT
TWELVE MONTH ENDING

A.	COST OF PURCHASED GAS	TOTAL PURCHASES	
		Mcf @ 14.65	$ Dollars
Prior Period Adjustments		-	$ -
Year	Month 1	-	-
Year	Month 2	-	-
Year	Month 3	-	-
Year	Month 4	-	-
Year	Month 5	-	-
Year	Month 6	-	-
Year	Month 7	-	-
Year	Month 8	-	-
Year	Month 9	-	-
Year	Month 10	-	-
Year	Month 11	-	-
Year	Month 12	-	-
Total		-	$ -

B.	COST OF GAS REVENUE	TOTAL SALES	
		Mcf @ 14.65	$ Dollars
Prior Period Adjustments		-	$ -
Year	Month 1	-	-
Year	Month 2	-	-
Year	Month 3	-	-
Year	Month 4	-	-
Year	Month 5	-	-
Year	Month 6	-	-
Year	Month 7	-	-
Year	Month 8	-	-
Year	Month 9	-	-
Year	Month 10	-	-
Year	Month 11	-	-
Year	Month 12	-	-
Total		-	$ -

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
BEAUMONT/EAST TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-17

ANNUAL GAS COST RECONCILIATION FILING
TWELVE MONTH ENDING

C. MONTHLY BALANCE

	TOTAL PURCHASES	TOTAL COG REVENUE	(OVER) / UNDER COLLECTION OF COG	INTEREST	ADJUSTMENTS	BAD DEBTS	FERC LITIGATION	OTHER CREDITS	CUMULATIVE BALANCE	CUMULATIVE BALANCE EXCLUDING INTEREST
	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars	$ Dollars
Ending Balance Brought Forward									$	$
Prior Period Adjustments	$	$	$	$	$	$	$	$	$	$
Year Month 1									$	$
Year Month 2									$	$
Year Month 3									$	$
Year Month 4									$	$
Year Month 5									$	$
Year Month 6									$	$
Year Month 7									$	$
Year Month 8									$	$
Year Month 9									$	$
Year Month 10									$	$
Year Month 11									$	$
Year Month 12									$	$
						-			$	$
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		

12 months Average (O)/U Balance		$

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
BEAUMONT/EAST TEXAS DIVISION
RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-17

ANNUAL GAS COST RECONCILIATION FILING
TWELVE MONTH ENDING

D. SALES VOLUMES

		Actual Mcf @ 14.65	Normalized Mcf @ 14.65
Year	Month 1	-	-
Year	Month 2	-	-
Year	Month 3	-	-
Year	Month 4	-	-
Year	Month 5	-	-
Year	Month 6	-	-
Year	Month 7	-	-
Year	Month 8	-	-
Year	Month 9	-	-
Year	Month 10	-	-
Year	Month 11	-	-
Year	Month 12	-	-
	Total	-	-

E. Interest on PGA Balance

12 months Average (O)/U Balance	$	-
Interest Rate		6.00%
Total Current Interest on (O)/U Balance	$	-

F. Reconciliation Component

Cumulative (O)/U Balance	$	-
Total Current Interest on (O)/U Balance	$	-
Total	$	-
Divided By:		
Sales Volume [1]		-

RECONCILIATION COMPONENT	**$0.0000 Per Mcf**
RECONCILIATION COMPONENT	**$0.0000 Per Ccf**

1) Normalized volume for Beaumont/East Texas Correction Factor

1. GAS SUPPLY RATE (GSR)

1.1. GAS SUPPLY RATE (GSR) APPLICABILITY AND REQUIREMENTS

The charges for gas sales service contained in Arkla's total billing to sales customers shall include the cost of gas sold as identified in this Rider. For purposes of this Rider the cost of gas sold shall include the sum of all gas purchased for Arkla's customers, upstream transportation charges, storage charges, the cost of gas withdrawn from storage less the cost of gas injected into storage, any transaction-related fees, gains or losses and other transaction costs associated with the use of various financial instruments used by Arkla to stabilize prices.

1.2. DEFINITIONS

1.2.1. Cost of Gas Sold - For purposes of this clause the cost of gas sold during a month shall be the sum of all gas purchased for the customers, transportation and storage charges, the cost of gas withdrawn from storage less the cost of gas injected into storage, and any transaction-related fees, gains or losses and other transaction costs associated with the use of various financial instruments to stabilize gas prices.

1.2.2. Lost and Unaccounted for Gas (LUFG) – For purposes of this clause LUFG will be the portion of the Cost of Gas Sold that is not delivered to sales or transportation customers. More specifically it will contain Shrinkage, Company Used gas, and Remaining LUFG (RLUFG). Shrinkage is calculated by rate classification at the time of billing and represents a calculation of gas delivered but not measured to customers due to known departures from the Ideal Gas Laws. Company Used Gas is gas measured directly to Arkla facilities, and RLUFG is total LUFG less

Shrinkage and Company Used Gas. Arkla shall not be allowed to recover LUFG in excess of 5%, computed on an annual basis.

1.2.3. Fixed Transportation Charges - Charges incurred for transporting gas to Arkla's system that do not vary with the volume of gas being transported, including, for example, pipeline Firm Transportation (FT) and No Notice Transportation (NNT) demand and/or reservation fees.

1.2.4. Fixed Storage Charges - Charges incurred for storing gas that do not vary with the volume of gas injected into or withdrawn from storage, including, for example, Firm Storage Service (FSS) demand and/or reservation fees.

1.2.5. Fixed Gas Supply Charges - Charges incurred for the acquisition of gas supply that do not vary with the volume of gas purchased, including, for example, supply demand and/or reservation fees.

1.3. GSR FILINGS

1.3.1. Scheduled GSR Filings:

Arkla shall make two Scheduled GSR Filings each year: a Winter Season GSR and a Summer Season GSR. The Winter Season GSR shall be effective for billings rendered to customers during the months of November through the following March. The Summer Season GSR shall be effective for bills rendered to customers during the months of April through the following October.

The Winter Season GSR filing shall contain rates reflecting: (1) the then current estimate of gas cost revenue requirement for the period between the effective date of filing and the next Summer Season GSR; and, (2) all of the annual actual cost (true-up or secondary adjustment factor) adjustments and any refund factor adjustments relating to or arising during the immediately preceding 12 months ending August each year.

The Summer Season GSR filing shall contain rates reflecting: (1) the then current estimate of gas cost revenue requirements for the period between the effective date of the Summer Season GSR and the effective date of its next Winter Season GSR; and, (2) maintaining all of the actual cost of gas adjustment (annual true-up or secondary adjustment) and any refund adjustments.

1.3.2. Unscheduled GSR Filings:

Should a projected under or over recovery balance arise during any seasonal PGA period which exceeds ten percent (10%) of the projected annual gas cost per the most recent scheduled PGA filing, then the Company may propose an Unscheduled PGA filing.

If an Unscheduled PGA Filing is made, that filing: (1) must contain rates reflecting the then current estimate of the gas cost revenue requirement for the period from the effective date of such filing to the next scheduled filing, and (2) must maintain all of the actual cost of gas adjustment (annual true-up or secondary adjustment factors) and any refund adjustment factors.

The Unscheduled PGA Factor shall remain in effect only until the next scheduled PGA Filing.

1.3.3. Scheduled and any Unscheduled GSR filings shall be filed with the Commission by the last business day of the month immediately preceding the month the proposed new GSR factor will be implemented.

1.4. ALLOCATION OF COSTS

1.4.1. Calculation of Demand Cost Component:

Calculating demand costs - The demand gas cost revenue requirement component shall be the annual total of the gas costs that do not vary with the actual consumption, such as fixed transportation and storage costs, fixed gas supply charges, and fixed financial charges associated with financial instruments purchased to stabilize prices.

Calculating demand cost allocation- The demand cost component of each season's filing shall be calculated by multiplying the total annual projected demand costs by the appropriate allocation factors for those demand costs for the respective RS-1, and the non- TSO SCS, and LCS customers.

1.4.2. Calculation of Commodity Cost Component:

Calculating commodity costs by season - The commodity gas cost revenue requirement component of each season's GSR shall be the sum of all gas cost purchased for sales customers other than demand costs or LUFG costs, such as variable transportation costs, gas supply commodity costs, and the transaction costs associated with the use of futures contracts and options and other prudently incurred costs associated with various financial instruments purchased by Arkla to stabilize gas supply rates. The commodity gas costs shall include the commodity cost of storage withdrawals and injections. Arkla will utilize any technique or method it deems reasonable for purposes of estimating the commodity cost component of each seasonal filing.

Seasonal Commodity Cost Allocation - the seasonal commodity costs assigned to RS-1 and non-TSO SCS and LCS customers will be determined by multiplying the Seasonal Commodity Cost by the ratio of estimated sales volumes for the respective classes in that season. For purposes of Commodity allocation and the establishment of Commodity rates, the SCS-1 class will be combined and considered as one class.

1.4.3. LUFG Allocation:
For purposes of LUFG allocation, and the establishment of LUFG rates, the SCS-1 class will be combined and considered as one class. LUFG will be allocated to the respective rate classes based on the factors established below for each of the components of LUFG:

Shrinkage – for each rate class (including regular sales and TSO customers) shall be determined based on cost causation.

Company Used Gas – shall be determined by the direct measurement of the gas consumed by Arkla facilities, and allocated to each rate class (including regular sales and TSO customers) based on the ratio of the number of customers in each class and the total for such classes.

Remaining LUFG (RLUFG) – shall be defined as the difference between (a) total LUFG; and (b) the sum of Shrinkage and Company Used Gas established above. It shall be allocated to the respective customer classes as follows:

55% based on the volumes for the most recent twelve-month-ending August period of the rate classes (including regular sales and TSO customers).

35% based on the demand components for the rate classes (including regular sales and TSO customers).

10% based on the annualized number of customers of the rate classes (including regular sales and TSO customers) as of the most recent twelve-month-ending August period.

1.5. RATE CALCULATION

RS-1 Customers - The GSR for Residential customers will be a per Ccf rate that is determined by summing the allocated costs in Parts 1.4.2. and 1.4.3. above and dividing that total by the projected seasonal volumes for the residential class and adding that result to the per Ccf rate determined by dividing the allocated annual costs in Part 1.4.1. by the estimated annual sales volumes.

SCS and LCS Customers - The commodity portion of the rate for non-TSO customers will be determined by respectively summing the allocated costs in Parts 1.4.2. and 1.4.3. above and dividing that total by the projected seasonal volumes for the respective classes. SCS-1 customers will be combined and considered as one class for purposes of determining the commodity portion of the rate. While the calculation will be made in Ccf, it will be appropriately translated to MMBtu as needed.

The demand portion of the rate for LCS non-TSO customers will be charged to the customers based on their assigned CD's in MMBtu. The rate will be determined by dividing the respective classes allocated costs in Part 1.4.1. above by their respective annualized CD's. Since the demand charges are part of an overall non-specific set of upstream contracts, the support for their allocations will be provided in the schedules supporting the filing.

1.6. <u>SPECIAL PROVISION REGARDING TSO CUSTOMERS</u>

LUFG costs - Customers under the TSO option may provide LUFG-in-Kind gas volumes. The LUFG-in-Kind (volumetric delivery requirement) for each customer's account will be determined based on the most recent twelve-month ended August period and expressed as a percentage of the gas delivered for the customer's account at the customer's point of consumption. The percentage will be determined by dividing the allocated volumes of total LUFG in the respective class (SCS or LCS) by the total estimated sales volumes in their respective class.

Assignment of Surcharges to TSO Customers - In the event an LCS-1 or SCS-1 customer changes its supply service election at the end of the contract term from the system supply option (SSO), the amount of the deferred gas cost account attributable to that customer shall be charged or distributed to that customer, whichever is applicable. The charging to or distribution of the deferred gas cost account attributable to that customer shall be removed or added to the deferred gas cost account of the applicable rate schedule.

1.7 <u>DEFERRED PURCHASED GAS COST ACCOUNTS</u>

Arkla shall establish and maintain a Deferred Gas Cost Account(s) in which shall be recorded any over or under recovery resulting from the operation of the GSR procedure. Such over or under recovery by class shall be determined monthly by comparison of the actual Cost of Gas Sold as defined above for each cost month to the gas cost revenue recovery for the same revenue month as the cost month. The accumulated balance of over or under recovered gas costs, plus the carrying charge described below, shall be used to determine the surcharge. The surcharge shall be computed annually by dividing each class' cumulative balance over recoveries or under recoveries as of the end of each August by the respective class' estimated volumes of sales for the projected twelve-month period. The surcharge shall be filed annually and will be included with the Scheduled Winter Season GSR Filing and shall be rounded to the nearest $0.0001 per Ccf. The surcharge shall remain in effect until the earlier of: (1) superseded by a subsequent surcharge calculated according to this provision or, (2) the beginning of the second revenue month following the month in which the full recovery or refund is accomplished if such full recovery or refund is accomplished prior to the end of the established recovery period.

A carrying charge shall be included in the monthly under or over recovery balance resulting from the monthly comparison of the actual Cost of Gas Sold to the revenue recovery resulting from the application of the prescribed GSR, and a carrying charge shall be included in the monthly under or over recovery balance applicable to the surcharge. The monthly carrying charge shall be determined by multiplying the average of the beginning and ending month balance of under or over recovery for the cost month times the rate of interest applicable to customer deposits.

1.8. DEMAND ALLOCATION

It is recognized that over time as customer classifications change or demand levels change, the accuracy of the originally approved demand factors may deteriorate. Arkla can request a change in the allocation procedures with a minimum three month lead time prior to the filing date for the seasonal filings. Changes under this provision are limited to changes required to restore the accuracy of the originally approved demand factors and shall be not be used by either Arkla or Staff to implement changes in allocation methodologies that would normally require a general rate application.

1.9. REFUND PROVISION

If an increase in the cost of gas paid or payable to Arkla shall be reduced by the final order of a duly constituted regulatory body or the final decree of a court, if appealed thereto, and such increase shall have been reflected in Arkla's rate to the extent and in the manner specified in this GSR, Arkla shall report to the Commission the receipt of any refunds resulting from such final order or decree. Thereupon, Arkla shall submit for the Commission's approval a plan to make equitable disposition of such refund monies to the extent such monies represent increased charges paid by its customers as result of this GSR; provided, however, that if the amount to be refunded to customers hereunder with respect to a particular refund received does not amount to more than one-tenth cent per Ccf, then Arkla will apply that refund as a credit in its cost of gas computations hereunder for the month in which it receives the refund from its supplier. Nothing in this clause shall be construed to require refunds or a reduction of Arkla's rate as a result of such an order reducing the cost of gas where the original increase in the cost of gas has not been reflected in Arkla's billings for its sales to customers under this rate schedule.

1.10. APPLICABLE RATE SCHEDULES

Residential Firm Sales Service (RS-1)
Small Commercial Firm Sales Service (SCS-1)
Large Commercial Firm Service (LCS-1)

TEXARKANA, TEXAS SERVICE AREA

First Revised Sheet No. 2-1.1/9

Replacing: Original Sheet No. 2-1.1/1

CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Arkansas Gas
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART II – Rider Schedule No. 1

Title: GAS SUPPLY RATE (GSR) Effective: September 1, 2017

1. GAS SUPPLY RATE (GSR)

1.1. GAS SUPPLY RATE (GSR) APPLICABILITY AND REQUIREMENTS

The charges for gas sales service contained in Company's total billing to sales customers shall include the cost of gas sold as identified in this Rider. For purposes of this Rider the cost of gas sold shall include the sum of all gas purchased for Company's customers, upstream transportation charges, storage charges, the cost of gas withdrawn from storage less the cost of gas injected into storage, any transaction-related fees, gains or losses and other transaction costs associated with the use of various financial instruments used by Company to stabilize prices.

1.2. DEFINITIONS

1.2.1. Cost of Gas Sold - For purposes of this clause the cost of gas sold during a month shall be the sum of all gas purchased for the customers, transportation and storage charges, the cost of gas withdrawn from storage less the cost of gas injected into storage, and any transaction-related fees, gains or losses and other transaction costs associated with the use of various financial instruments to stabilize gas prices.

1.2.2. Lost and Unaccounted for Gas (LUFG) – For purposes of this clause LUFG will be the portion of the Cost of Gas Sold that is not delivered to sales or transportation customers. LUFG is calculated as purchase volumes less sales volumes. More specifically it will contain Shrinkage, Company Used gas, and Remaining LUFG (RLUFG). Shrinkage is calculated by rate classification at the time of billing and represents a calculation of gas delivered but not measured to customers due to known departures from the Ideal Gas Laws. Company Used Gas is gas measured directly to Company facilities, and RLUFG is total LUFG less Shrinkage and Company Used Gas. Company shall not be allowed to recover LUFG in excess of 5%, computed on an annual basis.

TEXARKANA, TEXAS SERVICE AREA

Original Sheet No. 2-1.2/9

Replacing: Sheet No.

CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Arkansas Gas
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART II – Rider Schedule No. 1

Title: GAS SUPPLY RATE (GSR) Effective: September 1, 2017

1.2.3. Fixed Transportation Charges - Charges incurred for transporting gas to Company's system that do not vary with the volume of gas being transported, including, for example, pipeline Firm Transportation (FT) and No Notice Transportation (NNT) demand and/or reservation fees.

1.2.4. Fixed Storage Charges - Charges incurred for storing gas that do not vary with the volume of gas injected into or withdrawn from storage, including, for example, Firm Storage Service (FSS) demand and/or reservation fees.

1.2.5. Fixed Gas Supply Charges - Charges incurred for the acquisition of gas supply that do not vary with the volume of gas purchased, including, for example, supply demand and/or reservation fees.

1.3. GSR FILINGS

1.3.1. Scheduled GSR Filings:

Company shall make two Scheduled GSR Filings each year: a Winter Season GSR and a Summer Season GSR. The Winter Season GSR shall be effective for billings rendered to customers during the months of November through the following March. The Summer Season GSR shall be effective for bills rendered to customers during the months of April through the following October.

The Winter Season GSR filing shall contain rates reflecting: (1) the then current estimate of gas cost revenue requirement for the period between the effective date of filing and the next Summer Season GSR; and, (2) all of the annual actual cost (true-up or secondary adjustment factor) adjustments and any refund factor adjustments relating to or arising during the immediately preceding 12 months ending August each year.

TEXARKANA, TEXAS SERVICE AREA

Original Sheet No. 2-1.3/9

Replacing: Sheet No.

CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Arkansas Gas
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART II – Rider Schedule No. 1

Title: GAS SUPPLY RATE (GSR) Effective: September 1, 2017

The Summer Season GSR filing shall contain rates reflecting: (1) the then current estimate of gas cost revenue requirements for the period between the effective date of the Summer Season GSR and the effective date of its next Winter Season GSR; and, (2) maintaining all of the actual cost of gas adjustment (annual true-up or secondary adjustment) and any refund adjustments.

1.3.2. Unscheduled GSR Filings:
Should a projected under or over recovery balance arise during any seasonal GSR period which exceeds ten percent (10%) of the projected annual gas cost per the most recent scheduled GSR filing, then the Company may propose an Unscheduled GSR filing.

If an Unscheduled GSR Filing is made, that filing: (1) must contain rates reflecting the then current estimate of the gas cost revenue requirement for the period from the effective date of such filing to the next scheduled filing, and (2) must maintain all of the actual cost of gas adjustment (annual true-up or secondary adjustment factors) and any refund adjustment factors.

The Unscheduled GSR Factor shall remain in effect only until the next scheduled GSR Filing.

1.3.3. Scheduled and any Unscheduled GSR filings shall be filed with the Commission by the last business day of the month immediately preceding the month the proposed new GSR factor will be implemented.

1.4. ALLOCATION OF COSTS

1.4.1. Calculation of Demand Cost Component:
Calculating demand costs - The demand gas cost revenue requirement component shall be the annual total of the gas costs that do not vary with

TEXARKANA, TEXAS SERVICE AREA

Original Sheet No. 2-1.4/9

Replacing: Sheet No.

CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Arkansas Gas
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART II – Rider Schedule No. 1

Title: GAS SUPPLY RATE (GSR) Effective: September 1, 2017

the actual consumption, such as fixed transportation and storage costs, fixed gas supply charges, and fixed financial charges associated with financial instruments purchased to stabilize prices.

Calculating demand cost allocation- The demand cost component of each season's filing shall be calculated by multiplying the total annual projected demand costs by the appropriate allocation factors for those demand costs for the respective RS-1, and the non- TSO SCS customers (defined as the factor representing the peak day demand for the non-TSO SCS-1, non-TSO SCS-2, and non-TSO SCS-3 customers), and LCS customers.

1.4.2. Calculation of Commodity Cost Component:
Calculating commodity costs by season - The commodity gas cost revenue requirement component of each season's GSR shall be the sum of all gas cost purchased for sales customers other than demand costs or LUFG costs, such as variable transportation costs, gas supply commodity costs, and the transaction costs associated with the use of futures contracts and options and other prudently incurred costs associated with various financial instruments purchased by Company to stabilize gas supply rates. The commodity gas costs shall include the commodity cost of storage withdrawals and injections. Company will utilize any technique or method it deems reasonable for purposes of estimating the commodity cost component of each seasonal filing.

Seasonal commodity cost allocation - the seasonal commodity costs assigned to RS-1 and non-TSO SCS and LCS customers will be determined by multiplying the Seasonal Commodity Cost by the ratio of estimated sales volumes for the respective classes in that season. For purposes of Commodity allocation and the establishment of Commodity rates, the SCS-1, SCS-2, and SCS-3 classes will be combined and considered as one class.

TEXARKANA, TEXAS SERVICE AREA

Original Sheet No. 2-1.5/9

Replacing: Sheet No.

CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Arkansas Gas
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART II – Rider Schedule No. 1

Title: GAS SUPPLY RATE (GSR) Effective: September 1, 2017

1.4.3. LUFG Allocation:
For purposes of LUFG allocation, and the establishment of LUFG rates, the SCS-1, SCS-2, and SCS-3 classes will be combined and considered as one class. For purposes of calculating the allocation percentages only, LUFG-in-Kind will be added to LUFG and will be known as True LUFG. True LUFG will be allocated to the respective rate classes based on the factors established below for each of the components of LUFG:

Shrinkage – for each rate class (including regular sales and TSO customers) shall be determined based on cost causation.

Company Used Gas – shall be determined by the direct measurement of the gas consumed by Company facilities, and allocated to each rate class (including regular sales and TSO customers) based on the ratio of the number of customers in each class and the total for such classes.

Remaining LUFG (RLUFG) – shall be defined as the difference between (a) total True LUFG; and (b) the sum of Shrinkage and Company Used Gas established above. It shall be allocated to the respective customer classes as follows:

55% based on the volumes for the most recent twelve-month-ending August period of the rate classes (including regular sales and TSO customers).

35% based on the demand components for the rate classes (including regular sales and TSO customers).

10% based on the annualized number of customers of the rate classes (including regular sales and TSO customers) as of the most recent twelve-month-ending August period.

TEXARKANA, TEXAS SERVICE AREA

Original Sheet No. 2-1.6/9

Replacing: Sheet No.

CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Arkansas Gas
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART II – Rider Schedule No. 1

Title: GAS SUPPLY RATE (GSR) Effective: September 1, 2017

The sum of the allocated LUFG volumes for the three LUFG components will be used to develop an allocation percentage by class to be applied to the LUFG cost.

1.5. RATE CALCULATION

RS-1 Customers - The GSR for Residential customers will be a per Ccf rate that is determined by summing the allocated costs in Parts 1.4.2. and 1.4.3. above and dividing that total by the projected seasonal volumes for the residential class and adding that result to the per Ccf rate determined by dividing the allocated annual costs in Part 1.4.1. by the estimated annual sales volumes.

SCS and LCS Customers - The commodity portion of the rate for non-TSO customers will be determined by respectively summing the allocated costs in Parts 1.4.2. and 1.4.3. above and dividing that total by the projected seasonal volumes for the respective classes. SCS-1, SCS-2, and SCS-3 customers will be combined and considered as one class for purposes of determining the commodity portion of the rate. While the calculation will be made in Ccf, it will be appropriately translated to MMBtu as needed.

The demand portion of the rate for LCS non-TSO customers will be charged to the customers based on their assigned CD's in MMBtu. The rate will be determined by dividing the respective classes allocated costs in Part 1.4.1. above by their respective annualized CD's. Since the demand charges are part of an overall non-specific set of upstream contracts, the support for their allocations will be provided in the schedules supporting the filing.

Allocation and Demand Rate Calculation for SCS-1, SCS-2, and SCS-3 Customers – The costs allocated to the combined SCS-1, SCS-2, and SCS-3 customer classes will be based on the allocation of costs as described in paragraph 1.4.1. The demand portion of the rate for the non-TSO SCS-1 customers and the non-TSO SCS-2

TEXARKANA, TEXAS SERVICE AREA

Original Sheet No. 2-1.7/9

Replacing: Sheet No.

CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Arkansas Gas
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART II – Rider Schedule No. 1

Title: GAS SUPPLY RATE (GSR) Effective: September 1, 2017

customers (during the November-March period) will be determined by dividing the costs attributable to the SCS customer class reduced by the anticipated demand revenue paid by SCS-2 class in the summer period (April – October) and further reduced by the demand revenue paid by the SCS-3 class for the entire year (September – August), by the sum of the projected annualized SCS-1 volumes and the projected SCS-2 winter volumes (November-March). The demand portion of the rate for the non-TSO SCS-2 customer class in the summer period (April – October) will be $0.01984 per Ccf. The demand portion of the rate for the non-TSO SCS-3 customer class will be $0.04310 per Ccf for the entire period (November – October).

1.6. SPECIAL PROVISION REGARDING TSO CUSTOMERS

LUFG costs - Customers under the TSO option may provide LUFG-in-Kind gas volumes. The LUFG-in-Kind (volumetric delivery requirement) for each customer's account will be determined based on the most recent twelve-month ended August period and expressed as a percentage of the gas delivered for the customer's account at the customer's point of consumption. The percentage will be determined by dividing the allocated volumes of total LUFG in the respective class (SCS or LCS) by the total estimated sales volumes in their respective class.

Assignment of Surcharges to TSO Customers - In the event an LCS-1, SCS-1, or SCS-3 customer changes its supply service election at the end of the contract term from the system supply option (SSO), the amount of the deferred gas cost account attributable to that customer shall be charged or distributed to that customer, whichever is applicable. The charging to or distribution of the deferred gas cost account attributable to that customer shall be removed or added to the deferred gas cost account of the applicable rate schedule.

1.7 DEFERRED PURCHASED GAS COST ACCOUNTS

TEXARKANA, TEXAS SERVICE AREA

Original Sheet No. 2-1.8/9

Replacing: Sheet No.

CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Arkansas Gas
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART II – Rider Schedule No. 1

Title: GAS SUPPLY RATE (GSR) Effective: September 1, 2017

Company shall establish and maintain a Deferred Gas Cost Account(s) in which shall be recorded any over or under recovery resulting from the operation of the GSR procedure. Such over or under recovery by class shall be determined monthly by comparison of the actual Cost of Gas Sold as defined above for each cost month to the gas cost revenue recovery for the same revenue month as the cost month. The accumulated balance of over or under recovered gas costs, plus the carrying charge described below, shall be used to determine the surcharge. The surcharge shall be computed annually by dividing each class' cumulative balance over recoveries or under recoveries as of the end of each August by the respective class' estimated volumes of sales for the projected twelve-month period. The surcharge shall be filed annually and will be included with the Scheduled Winter Season GSR Filing and shall be rounded to the nearest $0.0001 per Ccf. The surcharge shall remain in effect until the earlier of: (1) superseded by a subsequent surcharge calculated according to this provision or, (2) the beginning of the second revenue month following the month in which the full recovery or refund is accomplished if such full recovery or refund is accomplished prior to the end of the established recovery period.

A carrying charge shall be included in the monthly under or over recovery balance resulting from the monthly comparison of the actual Cost of Gas Sold to the revenue recovery resulting from the application of the prescribed GSR, and a carrying charge shall be included in the monthly under or over recovery balance applicable to the surcharge. The monthly carrying charge shall be determined by multiplying the average of the beginning and ending month balance of under or over recovery for the cost month times the rate of interest applicable to customer deposits.

1.8. DEMAND ALLOCATION
It is recognized that over time as customer classifications change or demand levels change, the accuracy of the originally approved demand factors may deteriorate. Company can request a change in the allocation procedures with a minimum three month lead time prior to the filing date for the seasonal filings. Changes under this

TEXARKANA, TEXAS SERVICE AREA

Original Sheet No. 2-1.9/9

Replacing: Sheet No.

CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Arkansas Gas
(Name of Company)

Kind of Service: Natural Gas Class of Service: All

PART II – Rider Schedule No. 1

Title: GAS SUPPLY RATE (GSR) Effective: September 1, 2017

provision are limited to changes required to restore the accuracy of the originally approved demand factors and shall be not be used by either Company or the applicable regulator to implement changes in allocation methodologies that would normally require a general rate application.

1.9. REFUND PROVISION

If an increase in the cost of gas paid or payable to Company shall be reduced by the final order of a duly constituted regulatory body or the final decree of a court, if appealed thereto, and such increase shall have been reflected in Company's rate to the extent and in the manner specified in this GSR, Company shall report to the Commission the receipt of any refunds resulting from such final order or decree. Thereupon, Company shall submit for the Commission's approval a plan to make equitable disposition of such refund monies to the extent such monies represent increased charges paid by its customers as result of this GSR; provided, however, that if the amount to be refunded to customers hereunder with respect to a particular refund received does not amount to more than one-tenth cent per Ccf, then Company will apply that refund as a credit in its cost of gas computations hereunder for the month in which it receives the refund from its supplier. Nothing in this clause shall be construed to require refunds or a reduction of Company's rate as a result of such an order reducing the cost of gas where the original increase in the cost of gas has not been reflected in Company's billings for its sales to customers under this rate schedule.

1.10. APPLICABLE RATE SCHEDULES

Residential Firm Sales Service (RS-1)
Small Commercial Firm Sales Service (SCS-1)
Small Commercial Firm Sales Service – Off-Peak (SCS-2)
Small Commercial Firm Sales Service– NGV (SCS-3)
Large Commercial Firm Service (LCS-1)
Unmetered Gas Light Firm Sales Service (GL-1)

Exhibit MAK-3 is Confidential
and will be provided pursuant to the terms of the Protective Order.

Schedules	Description	Combined	Arkla	Entex
Table of Contents	Table of Contents	X	X	X
A	Summary of Regulatory Asset Costs	X	X	X
B	Gas Costs Recovered (5 a.1) Method 1	X	X	X
C	Extraordinary Gas Costs, including Penalties and Adjustments (5 a.2) Method 2	X	X	X
C-1	Gas Contracts	X	X	X
C-2	Summary of Gas Cost Invoices	X	X	X
C-3	Average Normal Cost	X	X	X
D	Summary of Legal and Consulting Expenses and Professional Fees	X	X	X
D-1	Summary of Legal, Consulting and Professional Expenses	X	X	X
E	Taxes	X	X	X
F	Interim Carrying Costs (March 2021 through March 2022)	X	X	X
F-1	Interim Financing Supporting Documentation - Interest on Debt	X	X	X
F-2	Commitment Fees Support	X	X	X
F-3	Professional Fees Support	X	X	X
F-4	Other Capital Carrying Costs Support	X	X	X
G	Customer Information - Calendar Year 2020	X	X	X
H	Summary Conventional Extraordinary Gas Cost Recovery Support	X	X	X
H-1	Conventional Extraordinary Gas Cost Recovery Support	X	X	X
H-2	Average Bill Impact	X	X	X
Workpapers				
A WKPR	NA	-	-	-
B WKPR	Schedule B - Arkla Gas Costs Recoveries WKPR	-	X	-
	Schedule B - Entex Gas Costs Recoveries WKPR		-	X
C WKPR	Schedule C - Arkla Extraordinary Gas Cost WKPR	-	X	-
	Schedule C - Entex Extraordinary Gas Cost WKPR	-	-	X
	Schedule C - Narrative WKPR	-	X	X
	Schedule C - Arkla General Ledger Journal Entries January WKPR	-	X	-
	Schedule C - Arkla General Ledger Journal Entries February WKPR	-	X	-
	Schedule C - Arkla General Ledger Journal Entries March WKPR	-	X	-
	Schedule C - Entex General Ledger Journal Entries January WKPR	-	-	X
	Schedule C - Entex General Ledger Journal Entries February WKPR	-	-	X
	Schedule C - Entex General Ledger Journal Entries March WKPR	-	-	X
	Schedule C - General Ledger Payable Flow WKPR	-	X	X
C-1 WKPR	Schedule C - Arkla Contracts Detail WKPR	-	X	-
	Schedule C - Entex Contracts Detail WKPR	-	-	X
C-2 WKPR	Schedule C - Arkla January Gas Invoices WKPR	-	X	-
	Schedule C - Arkla February Gas Invoices WKPR	-	X	-
	Schedule C - Arkla March Gas Invoices WKPR	-	X	-
	Schedule C - Entex January Gas Invoices WKPR	-	-	X
	Schedule C - Entex February Gas Invoices WKPR	-	-	X
	Schedule C - Entex March Gas Invoices WKPR	-	-	X
C-3 WKPR	NA	-	-	-
D WKPR	Schedule D - Arkla Other Gas Relates Costs WKPR	-	X	-
	Schedule D - Entex Other Gas Relates Costs WKPR	-	-	X
D-1 WKPR	NA	-	-	-
E WKPR	NA	-	-	-
F (F-1) WKPR	Schedule F - Arkla Interest and Carrying Charges WKPR	-	X	-
F (F-1) WKPR	Schedule F - Entex Interest and Carrying Charges WKPR	-	-	X
F (F-2) WKPR	Schedule D - Arkla Other Gas Relates Costs WKPR	-	X	-
F (F-2) WKPR	Schedule D - Entex Other Gas Relates Costs WKPR	-	-	X
F (F-3) WKPR	NA	-	-	-
F (F-4) WKPR	Schedule F - Arkla Interest and Carrying Charges WKPR	-	X	-
	Schedule F - Entex Interest and Carrying Charges WKPR	-	-	X
F-1 WKPR	Schedule F - Arkla Interest WKPR	-	X	-
	Schedule F - Entex Interest WKPR	-	-	X
F-2 WKPR	Schedule D - Arkla Other Gas Relates Costs WKPR	-	X	-
	Schedule D - Entex Other Gas Relates Costs WKPR	-	-	X
F-3 WKPR	NA	-	-	-
F-4 WKPR	Schedule F - Arkla Interest and Carrying Charges WKPR	-	X	-
	Schedule F - Entex Interest and Carrying Charges WKPR	-	-	X
G WKPR	Schedule G - Arkla Customer Information WKPR	-	X	-
	Schedule G - Entex Customer Information WKPR	-	-	X
H WKPR	Schedule H - Arkla Conventional Recovery WKPR	-	X	-
	Schedule H - Entex Conventional Recovery WKPR	-	-	X
	Schedule D - Arkla Other Gas Relates Costs WKPR	-	X	-
	Schedule D - Entex Other Gas Relates Costs WKPR	-	-	X
H-1 WKPR	NA	-	-	-
H-2 WKPR	NA	-	-	-
List of PDFs				
Gas Invoices	Arkla Gas Invoices	-	X	-
	Entex Gas Invoices	-	-	X
Gas Contracts	Arkla Gas Contracts	-	X	-
	Entex Gas Contracts	-	-	X
Customer Bills	Arkla Customer Bills		X	X
	Entex Customer Bills		X	X
Other Non-Gas Support	Legal Invoices	-	X	X
	Financing Term Loans	-	X	X
	Financing Term Sheet $1.7B	-	X	X

STATE OF TEXAS §
§
COUNTY OF Harris §

AFFIDAVIT OF BRETT A. JERASA

BEFORE ME, the undersigned authority, on this day personally appeared Brett A. Jerasa, known to me to be the person whose name is subscribed below, and being by me first duly sworn, stated upon oath as follows.

1. "My name is Brett A. Jerasa. I am over the age of eighteen (18) and fully competent to make this affidavit. Each statement of fact herein is true and of my own personal knowledge. I am employed by CenterPoint Energy Services Company, LLC, a subsidiary of CenterPoint Energy, Inc. ("CNP").

2. As part of my responsibilities, I am responsible for the short-term and long-term financing activities of CNP and its subsidiaries, including CenterPoint Energy Resources Corp. ("CERC"). I am also responsible for banking relationships and treasury operations, among other functions. I am responsible for arranging the corporate financings and bank credit facilities for CNP and its utility subsidiaries.

3. CERC incurred extraordinary gas cost expenses as a result of Winter Storm Uri and needed to secure external financing to pay for those costs. Specifically, CERC financed the immediate liquidity needed via external borrowings and cash from operations. On February 24, 2021, CERC received financing commitments totaling $1.7 billion for a 364-day term loan facility to bridge potential working capital needs.

4. CERC incurred legal and bank fees and expenses associated with the term loan commitments. The term loan commitments were secured to ensure CERC could finance the gas supply expenses in the event it was unable to access the capital markets before gas payments needed to occur.

5. In the immediate aftermath of the winter storm, CERC prudently and swiftly acted to secure liquidity to pay its gas invoices. As the ultimate amount of the gas cost plus the impact to CERC's credit and access to capital markets was unknown, CERC secured $1.7 billion in term loan commitments from a group of banks. The loan commitments required the payment of a commitment fee. The Texas portion of the commitment fee is approximately $1.7 million. This commitment ensured the company would remain solvent in spite of the looming gas invoice payments. Although, the term loan was not funded because the Company was able to secure financing in the capital markets at a lower cost of debt than the term loan, the commitment fee was a cost incurred due to Winter Storm Uri and is thus eligible for securitization.

6. On March 2, 2021, CERC closed on the offering and sale of $1.7 billion of senior notes comprised of $1.0 billion of floating rate senior notes due 2023 and $700 million of 0.70%

senior notes due 2023. The liquidity raised by these long-term notes replaced the term loan commitments, which were allowed to expire. The senior notes were issued at a lower coupon than the expected borrowing cost under the term loan agreement. In addition, CERC issued approximately $400 million of commercial paper on March 25, 2021 to fund the remaining portion of gas supply expenses.

7. CERC used these funds, along with internally generated cash from operations, to pay for the approximate $2.1 billion gas expense incurred in its six-state footprint. As of March 31, 2021, CERC's ratio of total indebtedness to total capitalization was 61.5%, up from a ratio of 48.9% as of December 31, 2020, an increase of 12 percentage points. In order to stay in compliance with the debt covenants of its Amended and Restated Credit Agreement dated as of February 4, 2021, CERC must maintain a ratio of less than 65%.

8. Financing the gas supply cost had a material impact on CERC's leverage, though since CERC remained below its debt covenant ratio it did not require additional equity from its parent company. We continue to monitor CERC's debt ratio and the parent company will contribute capital as needed until the incremental gas cost is recovered and CERC pays down the associated debt. CERC was able to access the capital markets to finance the event because it was financially healthy enough to do so. It is important that CERC de-levers in a timely way to return to its financial profile before the event. Timely deleverage will also position CNP to be better able to withstand other unplanned weather events such as a hurricane. Reimbursement of Winter Storm Uri extraordinary gas costs through securitization by April 1, 2022, will reduce the risk that CERC might have to exceed an indebtedness ratio of 65% and will enable CERC to continue to access capital markets to fund necessary investment at reasonable rates.

9. The commitment fee is just and reasonable and consistent with financing expenses incurred by CERC in the regular course of business.

10. The commitment fee of $1.7 million and offering and sale of $1.7 billion of senior notes on March 2, 2021 would not have occurred but for Winter Storm Uri. As a result, they constitute extraordinary costs that were incurred during the month of February 2021 to provide service to the Company's customers.

Further affiant sayeth not.

Brett A. Jerasa

SUBSCRIBED AND SWORN TO BEFORE ME by the said Brett A. Jerasa on this 23rd day of July, 2021.

Notary Public, State of Texas

PETRA CUSTER
NOTARY ID #12683270-2
My Commission Expires
March 16, 2025

CASE NO. 00007064

APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX, CENTERPOINT ENERGY ARKLA AND CENTERPOINT ENERGY TEXAS GAS FOR CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION	**§ § § § § § § §**	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

DIRECT TESTIMONY

OF

BRIAN S. WAGAMAN

ON BEHALF OF

**CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX,
CENTERPOINT ENERGY ARKLA
AND
CENTERPOINT ENERGY TEXAS GAS**

July 30, 2021

TABLE OF CONTENTS

LIST OF EXHIBITS

EXECUTIVE SUMMARY OF BRIAN S. WAGAMAN

CenterPoint Energy Resources Corp. ("CERC") d/b/a CenterPoint Energy Entex, CenterPoint Energy Arkla, and CenterPoint Energy Texas Gas ("CenterPoint" or the "Company") currently purchases gas and contracts with 26 different gas pipelines to provide gas delivery service to individual delivery points within the Company's natural gas divisions in Texas. My testimony supports the Company's request for a prudence determination and securitization of Extraordinary Costs incurred by CERC on behalf of its Texas customers during Winter Storm Uri. More specifically, my testimony:

- Provides an overview of CERC's gas procurement planning process, the allocation of pipeline fees and annual gas costs;
- Describes the diverse nature of CERC's Purchased Gas Adjustment ("PGA") areas in Texas; and
- Provides a description of the Company's efforts to procure gas during the February 2021 Winter Weather Event ("Winter Storm Uri").

Together with the other witnesses presented by the Company, my testimony demonstrates that all of CERC's Extraordinary Costs were reasonably and necessarily incurred. In accordance with my filed testimony and the additional evidence presented by the Company through its presentation of witnesses and schedules, the Railroad Commission of Texas ("Commission") should find that CERC's Extraordinary Costs were prudently incurred and are properly eligible for securitization for the benefit of Texas customers.

DIRECT TESTIMONY OF BRIAN S. WAGAMAN

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND PRESENT TITLE.

A. My name is Brian S. Wagaman. I am the Vice President of Gas Supply for CERC.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I have a Bachelor of Science degree in Mechanical Engineering from Penn State University and a Master of Business Administration (Finance) from Rider University. Additionally, I am a licensed Professional Engineer (License #14717) in the State of Arkansas and have completed both the Utility Executive Course at the University of Idaho and the American Gas Association's Executive Leadership Development Program in Washington, D.C. My prior experience includes working 17 years in natural gas engineering and operations at Public Service Electric and Gas Company in New Jersey where I was a field Engineer, Area Manager, and Asset Strategy Leader. I joined CERC in 2010 and have spent time as a Business Analyst in Little Rock, AR, Engineering Director for our Louisiana/Mississippi Region, and most recently Director of Gas Control and Supply Administration before assuming my current position in June 2021.

In my current position as Vice President of Gas Supply, I am responsible for the supply service activities feeding our natural gas distribution operations in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma, Texas, Indiana, and Ohio. These services include supply forecasting, administration reporting, contract management, on-system transportation service administration, gas control, company-owned storage/peak-shaving operations, settlements and supply purchasing.

Q. HAVE YOU TESTIFIED IN PRIOR REGULATORY PROCEEDINGS BEFORE ANY OTHER REGULATORY AUTHORITIES?

A. Yes. I have testified in Indiana in Utility Regulatory Commission Cause No. 45468.

Q. HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A. Yes. I have prepared or supervised the preparation of the exhibits listed in the table of contents.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. PLEASE DISCUSS THE PURPOSE OF YOUR TESTIMONY.

A. My testimony demonstrates that the Company's gas purchasing practices and gas supply costs in Texas were reasonable, necessary, and prudent during Winter Storm Uri. My testimony also describes how implementing the Company's Gas Procurement Plan[1] mitigated pricing impacts from Winter Storm Uri for CenterPoint's customers. I also support the Company's request that charges incurred during Winter Storm Uri be considered "Extraordinary Costs" as that term is used in the recently adopted Texas securitization statute.[2] Together with the other evidence presented by the Company in this proceeding, my testimony explains why the Commission should find that the Company's Extraordinary Costs are

[1] *See* Confidential Exhibit BSW-1.
[2] Gas Utilities Regulatory Act §§ 104.361–.380.

reasonable and should be included in any securitization of statewide Extraordinary Costs related to Winter Storm Uri.

Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF OTHER WITNESSES?

A. Company witnesses Talmadge Centers and Mary Kirk also present testimony in support of the Company's request for a prudence determination and securitization of Extraordinary Costs. Mr. Centers describes the operational conditions faced by the Company during Winter Storm Uri and Ms. Kirk describes CERC's accounting of the costs related to Winter Storm Uri. Ms. Bernadette Johnson, a principal with Enverus, Inc., provides a gas market analysis and independent evaluation of the Company's Gas Procurement Plan. Finally, Dr. Bruce Fairchild, a principal with Financial Concepts and Applications, Inc., provides an analysis that demonstrates securitization provides tangible and quantifiable benefits for customers, is the most cost-effective method of funding the Company's regulatory asset balance, and is in the public interest.

III. OVERVIEW OF THE COMPANY'S GAS PROCUREMENT PLANNING PROCESS, ALLOCATION OF PIPELINE FEES, AND GAS COSTS

Q. PLEASE DESCRIBE THE COMPANY'S GAS PROCUREMENT PLAN.

A. Each spring, the Company's Gas Supply department prepares a gas procurement plan that has three primary sections: (1) a high-level overview of the planning objectives and parameters that should be considered when developing a gas procurement plan, (2) a review of the prior year's plan compared to the actual results, and (3) the current year's plan for gas purchasing activity. The plan, attached to my testimony as Confidential Exhibit BSW-1, also includes:

- a natural gas market overview and forecast;
- pipeline transportation and storage capacity under contract;
- Gas Supply design day calculation;
- a summary of the SENDOUT® model results that provide guidance regarding the appropriate amount of price hedging and hedge products to use in the Company's gas supply portfolio; and
- a 12-month forecast of the Company's portfolio gas cost (methane only).

Q. COULD YOU PLEASE PROVIDE A GENERAL OVERVIEW OF CERC'S LOCAL DISTRIBUTION OPERATIONS IN TEXAS?

A. CERC delivers natural gas and transportation services to approximately 1.77 million sales customers and 4,077 transportation customers in Texas. The Texas gas distribution system is comprised of approximately 34,000 miles of distribution and transmission mains and 1,861,300 service lines providing natural gas service to 337 cities, towns and communities. CERC has gas purchasing contracts with over 80 suppliers in Texas. Per the Company's 2020 Texas Gas Procurement Plan, based on a 10-year average as the normal weather, we plan to deliver over 94.5 Bcf of natural gas annually to its Texas customers. The actual demand for the 2020 – 2021 annual season was 99.0 Bcf.

Q. WHAT IS THE PLANNING OBJECTIVE OF THE GAS PROCUREMENT PLAN?

A. The Company's objective in development of the Gas Procurement Plan is to provide a diversified gas supply portfolio consisting of an appropriate combination of gas supply contracts, storage and hedging instruments that yield a balance of reliability, reduced price volatility, and reasonable price.

To this end, the Company's gas supply procurement strategy is focused on adequacy, flexibility, reliability of supply, and stable price. CenterPoint primarily sells gas to residential and small commercial markets, and thus, volumes of gas sold are closely related to weather temperatures. The Company's supply portfolio must be sufficiently flexible to accommodate inherently unpredictable changes in demand. The Gas Procurement Plan must consider all demand scenarios from unusually warm weather to severely cold weather so that it experiences no curtailment of human needs customers and avoids penalties for not purchasing minimum contracted volumes.

Finally, an important part of the Gas Procurement Plan is to review the actual performance of the plan to the objectives and parameters presented in its prior year. This includes an evaluation that measures hedging program performance and hedge effectiveness for the entire service footprint and each individual service area.

Q. HOW DOES THE TYPE OF CUSTOMER SERVED BY THE COMPANY IMPACT ITS GAS PROCUREMENT PLAN AND THE MANNER IN WHICH THE CUSTOMER PAYS FOR GAS SERVICE?

A. The Company's customers fall into two broad classes: sales (firm service human needs) customers and transportation customers. Most of the customers who receive gas service from the Company are sales customers: residential and small commercial (often referred to as "human needs" customers). The Company is responsible for procuring gas on the market, arranging delivery to the Company's distribution system, and delivering that gas to sales customer meters without interruption (i.e. providing firm service to those customers) 365 days per year. With this customer type having its demand highly correlated to weather, its highest demand days are during cold temperatures when supplies are most difficult to obtain. Sales customers pay the Company for their natural gas through a specific PGA tariff.

Transportation customers, who are larger commercial and industrial customers, are responsible for purchasing their own gas in the open market and arranging transportation into the Company's distribution system. Transportation customers therefore only pay the Company to move gas across our distribution system from upstream pipelines to the customers' meter. Transportation customers do not receive and therefore do not pay for gas through the PGA; the Company's obligations are limited to transportation of the gas these customers arrange to be delivered to their meter through the Company's distribution system.

Q. PLEASE EXPLAIN THE RELIABILITY STANDARD THAT THE GAS PROCUREMENT PLAN ATTEMPTS TO ACHIEVE ON AN ONGOING BASIS.

A. Gas must be available when sales customers demand it, under a wide variety of operating and market conditions. CenterPoint's goal is to have reliable supplies of gas under contract. Complementing those contracts is gas in storage fields that, when combined with the flowing gas under contract, are adequate to meet the needs of its customers demand and flexible enough to meet varying load conditions. (i.e.

unusually warm or severely cold weather). CenterPoint requires firm transportation, firm storage, and a balanced supply portfolio, so that it experiences no curtailment of human needs customers and does not incur pipeline penalties.

Q. PLEASE EXPLAIN THE PLAN'S OBJECTIVE OF REDUCED PRICE VOLATILITY.

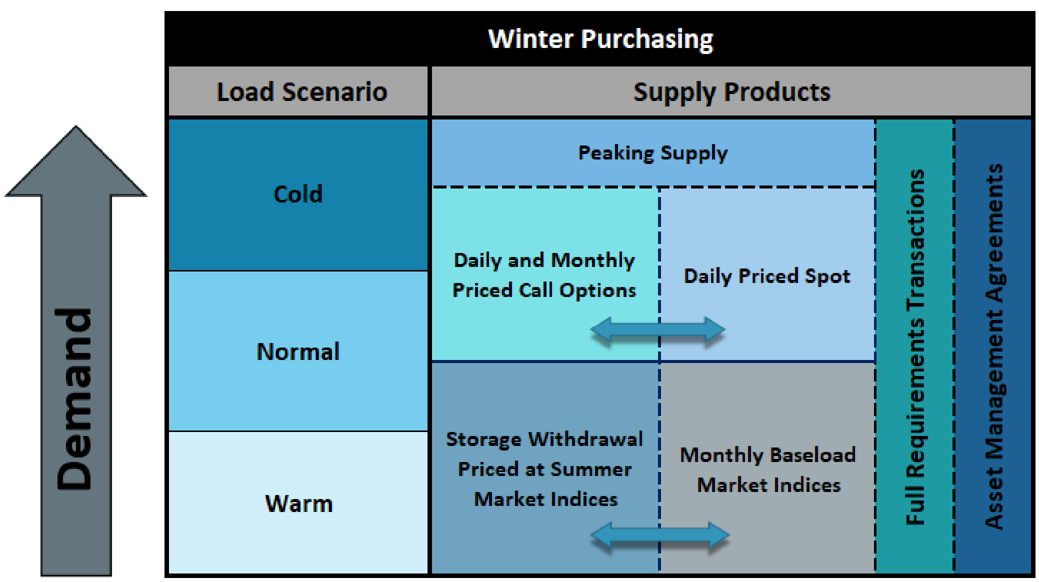
A. The objective of reduced-price volatility is simply to stabilize gas supply cost. The mixture of supply at market price, storage withdrawal price, price hedges and the PGA mechanism is designed to stabilize CenterPoint gas supply cost such that its billed gas supply rate is not subject to severe month-to-month changes that would otherwise occur if all gas purchased was subject to short term market influences.

Q. WHAT TYPES OF SUPPLY ARE INCLUDED IN THE COMPANY'S GAS PROCUREMENT PLAN?

A. The Company's gas supply products in Texas consist of baseload, storage, call-options, daily, peaking supply, full requirements transaction and Asset Management Agreements ("AMAs"). Baseload contracts are those in which the buyer commits to purchase quantities of gas every day for the term of the contract, unless excused by *force majeure*. During warmer months when demand is lower, the Company buys gas and stores it in third-party storage facilities to be withdrawn and utilized in higher demand winter months. The Company purchases daily swing gas, which consists of flexible contracts that allow purchases under certain conditions or as needed. These swing gas contracts sometimes take the form of daily call options, which allow purchases of quantities of gas at defined prices, under certain conditions. While referred to as "daily," during holidays and weekends, standard "daily" products actually span multiple days, with an equal amount of supply being delivered each day, all at the same cost. Some example "daily" offerings include:

- Standard Daily: Transact on Weekday 1 for delivery on Weekday 2 (i.e. transact on Wednesday for delivery on Thursday);
- Standard Weekend: Transact on Friday for delivery on Saturday, Sunday, and Monday;
- Holiday Daily: Transact on Weekday 1 for delivery on Holiday and the following Weekday (i.e. transact on Tuesday for delivery on Wednesday holiday and normal weekday Thursday); and
- Holiday Weekend: Transact on Friday for delivery on Saturday, Sunday, Monday, & Tuesday (which is what we saw February 12th to 16th for President's Day).

The general approach for covering daily demands for the different load scenarios can be depicted using the following diagram:



Q. HOW ARE THESE CONTRACTS USED?

A. In warmer weather, baseload and storage withdrawals are used interchangeably depending on the amount of storage the Company is committed to using. Monthly baseload is designed to provide stability of supply for a portion of our warmest scenario every day of the winter season. Gas withdrawn from storage at the average injection price is sourced from firm and no-notice storage providing stability of both supply and price for the winter season.

In colder weather, call options and daily priced swing gas are also used interchangeably and serve that portion of gas requirements that fluctuate daily depending upon customers' demand. In areas covered by full requirements transactions or AMAs, the managing agent will provide the gas supply necessary to meet CenterPoint's full, daily requirement under any weather condition.

Q. HOW DOES THE COMPANY PLAN ITS NECESSARY UPSTREAM PIPELINE CAPACITY NEEDS?

A. In order for the Company to determine what its necessary upstream pipeline capacity requirements are, it must determine the Design Day load. The Design Day analysis uses variables such as the peak demand, actual winter daily load, load growth/decline, and weather conditions for the coldest day experienced. To comply with pipelines' hourly flow rate restrictions, the Company uses Design Hour to represent the coldest hour temperature on the Design Day. The Company then adds a 2-5% increase for the desired reserve margin capacity. The built-in reserve margin provides flexibility for unpredictable variations between our model results and actual peak hourly flow. These two numbers determine the amount of transportation capacity it needs to contract for in order to meet all the obligations to transport gas to its distribution system. The table below shows the next 5 years forecasted design hourly capacity requirements starting with Winter 2020 – 2021.

	Winter 20 - 21	Winter 21 - 22	Winter 22- 23	Winter 23 - 24	Winter 24 - 25 (3)
Net Upstream Capacity	2,482,619	2,482,619	2,482,619	2,482,619	2,482,619
Propane Air - (1& 2)	30,000	46,500	55,000	55,000	55,000
Total System Capacity	**2,512,619**	**2,529,119**	**2,537,619**	**2,537,619**	**2,537,619**
Forecasted Design Hour	**2,423,185**	**2,459,977**	**2,496,689**	**2,530,976**	**2,565,652**
Year over Year Design Hour Change		36,792	36,712	34,287	34,676
Reserve Margin Capacity	89,434	69,142	40,930	6,643	(28,033)
Percentage Reserve Margin	**3.69%**	**2.81%**	**1.64%**	**0.26%**	**-1.09%**

(1) 3 facilities totaling 30k/day (Bluebonnet = 5k/day, Pecan 10k/day, Magnolia 15k/day)

(2) Oak facility operational in Winter 2021 - 22 (16.5K/day) and Lantana facility operational Winter 2022 - 23 (8.5k/day)

(3) The Company will continue to review and adjust its system capacity as needed to ensure an adequate reserve margin

As explained in the Gas Procurement Plan on pages 21 to 22, the Company employs the services of Marquette Energy Analytics to determine the design day and design hour temperatures used when calculating design day loads. Marquette Energy Analytics employs a robust statistical analysis to calculate a threshold heating degree day ("HDD") that is expected to occur with a frequency of once every 30 years. The once every 30-year HDD is consistent with general industry practice.

Q. IS THE ENTIRE SUPPLY NEEDED FOR A WINTER SEASON ALREADY UNDER CONTRACT PRIOR TO THE SEASON BEGINNING?

A. No. In addition to having long-term and seasonal contracts already under contract, the plan calls for purchasing daily swing gas to cover colder weather demand scenarios. During these scenarios, the amount of gas needed fluctuates from day to day. Daily swing gas optionality is needed to allow the Company to adapt to weather variability and forecasting error impacting daily demand. This includes "spot" contracts, which are market purchases with a contract that covers a period of one day up to one month.

Q. IS SUPPLY BOUGHT IN THE DAILY SPOT MARKET MORE EXPENSIVE THAN LONG-TERM OR SEASONAL SUPPLY?

A. Not necessarily. Every year's supply-demand scenario has its own unique impact on price. Some months the daily index is lower than the monthly index and sometimes the summer priced gas is more expensive than winter priced gas. Additionally, there are typically additional reservation (aka demand) charges, or a gas inventory charge associated with products such as call options or storage.

Q. HOW DO THE DIFFERENT SUPPLY OPTIONS WORK TOGETHER TO STABILIZE PRICES?

A. CERC's price stabilization goal is for its gas supply rate to have a lower volatility than the volatility of the market indices. The mixture of supply at market price, storage withdrawal price, and price hedges, in conjunction with the PGA mechanism, is designed to mitigate the severe month-to-month changes in billed gas supply rate that would otherwise be experienced if all gas purchased was subject to short-term market influences. The chart below illustrates how well these options have worked together over the years to help the Company achieve lower volatility.

2020-21 Price Volatility	Annual		Winter	
	Index	CNP	Index	CNP
Beaumont & East TX	67%	21%	21%	7%
Houston-Gulf Coast	67%	11%	21%	10%
South Texas	24%	9%	10%	5%
Texarkana	73%	10%	21%	0%
Tyler & NE TX	67%	35%	21%	6%

The low-price volatility demonstrates that CenterPoint's hedging activity storage, and PGA mechanism have a positive effect on stabilizing gas supply costs billed to its customers.

Q. DOES CENTERPOINT HEDGE ALL DEMAND SCENARIOS FROM WARMEST TO COLDEST?

A. No. Attempting to hedge 100% of expected daily or monthly requirements would not be consistent with the objectives of the Company's Gas Procurement Plan. Similar to managing price risk, an effective hedging plan also reduces risk of nonperformance. Any Fixed Price hedge represents a Firm Obligation for the applicable month(s) and the Company is required to physically take delivery of the daily minimum gas volume on each day of the applicable month. If the daily demand is lower than the minimum hedge volume, then the Company is financially responsible for the physical supply and the potential financial loss for the under deliveries. In other words, most standard hedges require us to purchase a fixed quantity of gas and can result in penalties if too much gas is purchased on low demand days. CERC aims to hedge up to 50% of its normal winter season demand.

Q. WHY DOES THE COMPANY AIM TO HEDGE UP TO 50% OF ITS NORMAL WINTER SEASON DEMAND?

A. The 50% target is a generally accepted and prudent concept in the industry. Additionally, a "warmest" demand scenario is about 70% of a normal winter, with specific days possibly coming in lower.

Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE PROCESS THE COMPANY GOES THROUGH TO SECURE GAS SUPPLY.

A. The process starts by forecasting the "normal" monthly and annual load for the plan year. Additional calculations are performed to understand various demand scenarios, ranging from the warmest to extremely cold conditions. Once the scenarios are understood, CERC establishes the appropriate supply mix of products such as storage, hedges, baseload, etc. The desired supply mix is then compared to the multiple load scenarios to determine how much additional supply is needed. During mid-to late-summer, CERC will request bids for its winter base load and peaking supplies. During late winter, CERC will request bids for its seasonal base load supplies to cover demand and storage injections. On a daily basis, load forecasts are published to determine how much daily spot gas is needed to cover the remainder of the load obligations.

Q. IF THE COMPANY'S EXISTING CONTRACTS WITH GAS SUPPLIERS ARE INSUFFICIENT AT ANY MOMENT TO PROVIDE GAS SERVICE TO SALES CUSTOMERS, WHAT OPTIONS DOES CERC HAVE TO ENSURE THAT ITS CUSTOMERS CONTINUE TO RECEIVE SERVICE?

A. If contracted supply is not able to be delivered, the Company will look for alternative supply options in the market. Depending on the scenario, the Company may also be able to cover supply shortages with storage or balancing/swing contracts on the upstream pipelines. If the contracted supply cannot be covered with alternative supply options, storage, or balancing/swing contracts, then the demand will likely be fulfilled by the upstream pipeline. However, the pipeline that ultimately provides the supply will charge the Company significant penalties for under-supplying, such as daily meter imbalance fees, daily contract tolerance, unauthorized overrun, and operational flow orders. The specific fees a pipeline is allowed to assess depends on each individual contract and tariff. The penalties are typically a multiplier of the daily index but could potentially have fee escalations as the imbalances increase. In addition to the risk of penalties, since pipelines do not have an endless amount of on-system supply to cover customers that under-deliver, if multiple customers under-deliver during extreme conditions, the pipeline could lose pressure and be unable to meet its customers' needs.

Q. HOW DOES THE COMPANY EVALUATE OPPORTUNITIES FOR REPLACEMENT SERVICES WITH ALTERNATIVE SUPPLY SOURCES?

A. On an annual basis, the Company analyzes if there are areas where contracted pipeline capacity may be insufficient to match demand in future years. The results of the analysis then provide direction for the Company to build additional distribution infrastructure or begin discussions with identified pipelines to gain new transportation capacity to the affected areas. The Company's upstream contracted supply and transportation capacity are designed for a one-to-one match of supply vs. demand; however, supply options are limited.

Q. ARE THE GAS SUPPLY CONTRACTS THAT WERE IN PLACE FOR THE COMPANY DURING WINTER STORM URI INCLUDED WITH THE COMPANY'S FILING?

A. Yes. The Company's gas supply contracts are included with the Company's filing in Schedule B.

Q. WHAT ARE THE GENERAL OBLIGATIONS OF BOTH THE COMPANY AND THE GAS SUPPLIER UNDER FIRM GAS SUPPLY CONTRACTS?

A. In its simplest terms, there is an obligation for the supplier to deliver with a matching obligation for the Company to receive the gas supply. The only time this changes is when it is excused by *force majeure*.

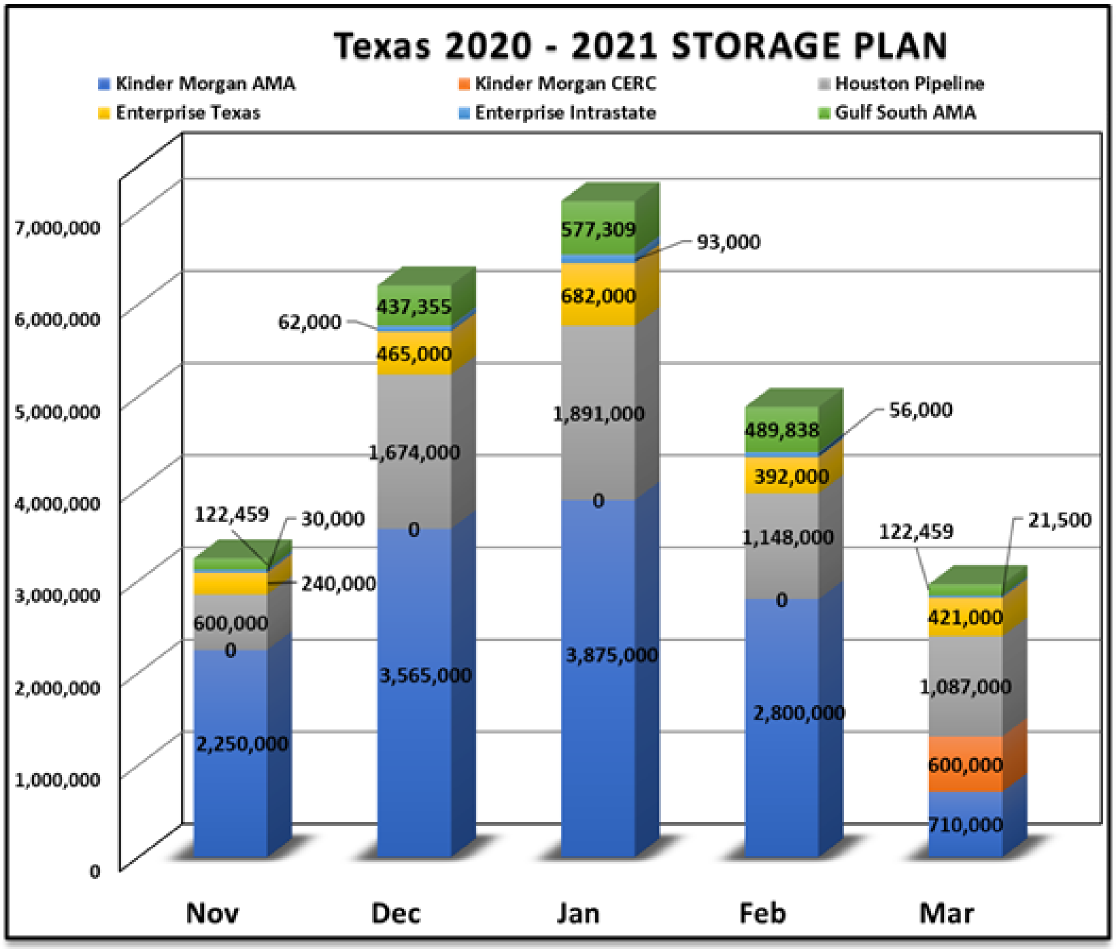
Q. HOW OFTEN DOES THE COMPANY NEED TO PROCURE GAS ON THE SPOT MARKET?

A. Nearly every day.

Q. PLEASE PROVIDE AN OVERVIEW OF HOW CERC STORAGE IS UTILIZED.

A. The Company has no storage of its own, but contracts for storage capacity from upstream pipelines. This storage has contractual limitations related to maximum and minimum total storage quantity as well as maximum and minimum daily injection and withdrawal quantities, which are affected by the current storage quantity. The Company plans to fill the storage accounts during the summer months of April through October for use during the winter season. The Company will endeavor to fill no-notice storage services to only 80% to 90% full by the end of October and to retain a storage service inventory of at least 10% full by March 31st to allow for unexpected weather events that may occur in late spring or early winter. The table and chart below outline the 2020 – 2021 **planned** winter no-notice storage withdrawal.

Pipeline Storage	Nov	Dec	Jan	Feb	Mar
Kinder Morgan AMA	2,250,000	3,565,000	3,875,000	2,800,000	710,000
Kinder Morgan CERC	0	0	0	0	600,000
Houston Pipeline	600,000	1,674,000	1,891,000	1,148,000	1,087,000
Enterprise Texas	240,000	465,000	682,000	392,000	421,000
Enterprise Intrastate	30,000	62,000	93,000	56,000	21,500
Gulf South AMA	122,459	437,355	577,309	489,838	122,459
Monthly Total	**3,242,459**	**6,203,355**	**7,118,309**	**4,885,838**	**2,961,959**
Monthly Percentage	13.28%	25.41%	29.16%	20.01%	12.13%



The Company also has two AMAs whereby the Company releases transportation and storage capacity to a third party to manage gas storage, supply and delivery arrangements to the Company's distribution system. Both AMAs require the Company to fully cycle firm storage accounts before March 31st. The table below shows the 2020 – 2021 Planned Firm Storage Cycle.

Pipeline Storage	Total Storage Cycled	Total Storage Contracted	Percent of Storage Cycled
Kinder Morgan AMA	13,200,000	13,200,000	100%
Kinder Morgan CERC	600,000	1,000,000	60%
Houston Pipeline	6,400,000	8,000,000	80%
Enterprise Texas	2,200,000	2,750,000	80%
Enterprise Intrastate	262,500	375,000	70%
Gulf South AMA	1,749,420	1,749,420	100%
Season Total	**24,411,920**	**27,074,420**	**90%**

Storage provides a vital piece of the no-notice transportation service that the Company uses every day to supply variable and uncertain demand without penalty. Weather variability and forecasting error create the uncertainty of the daily forecasted demand and can greatly impact the service area. Having gas in storage allows the Company to use its no-notice service to avoid penalties from the pipelines.

Before the end of heating season, the Company endeavors to use all of its firm storage or potentially face significant penalties from the pipeline. Similar to every February, the timing of Winter Storm Uri meant that available storage gas was less than it was earlier in the winter. Conversely, in recent years where we have seen warmer temperatures with low demand, the risk has been around the inability to fully utilize all the Company's storage gas and avoiding the penalties for failure to do so.

Q. WHAT REVIEWS OF THE COMPANY'S GAS SUPPLY TAKE PLACE IN TEXAS?

A. The Company updates its gas supply plan annually for review by Commission Staff. The Company is also subject to an annual fuel audit to review the prudence of the Company's actions and how it passed the costs on to customers through its annual PGA reconciliation.

Q. IS CENTERPOINT'S ANNUAL GAS PROCUREMENT PLAN FILED WITH THE COMMISSION?

A. Yes. The current procurement plan is also included as Confidential Exhibit BSW-1.

IV. OVERVIEW OF TEXAS PGA AREAS

Q. HOW DOES THE COMPANY'S GAS PROCUREMENT PLAN FUNCTION WITH RESPECT TO SPECIFIC PGA AREAS?

A. As part of the planning process, we develop a gas procurement plan for each of the six Entex PGA areas in Texas[3], the PGA area related to Arkla assets in Texas, and a state-wide summary. The six Entex Texas PGA areas include: Beaumont, East Texas, Houston-Texas Coast, Northeast Texas, South Texas, and Tyler. The Arkla PGA includes a single service area in and around Texarkana, Texas.

[3] The Beaumont/East Texas 2020/2021 Gas Supply Plan was based on 4 areas (Beaumont, East Texas, Northeast Texas, and Tyler), but as in *Statement of Intent of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas to Increase Rates in the Beaumont/East Texas Division*, GUD No. 10920, Final Order, (Jun. 16, 2020), Beaumont/East Texas Division's 4 PGA areas were consolidated down to 2: Beaumont-East Texas and Northeast Texas-Tyler.

Q. FROM A GAS SUPPLY PLANNING PERSPECTIVE, IS THERE OVERLAP AMONG THE PGA AREAS?

A. Yes. In addition to the overlap of administrative tasks required to manage multiple PGA service areas, many of the pipelines and associated contracts that serve the Company provide gas delivery service to more than one of the PGA areas. The table below indicates the pipelines that provide delivery of gas into the Company's various PGA areas.

CenterPoint Energy Texas Purchased Gas Adjustment Divisions											
		Pipeline Type		Jurisdiction							
Count	Service provider	Interstate	Intrastate	BMT	ETX	HOU-TXC	NE TX	STX	TXK	TYL
1	Boardwalk Field Services		X					X		
2	Boardwalk Texas Intrastate		X					X		
3	CenterPoint Energy Intrastate Pipeline		X			X		X		X
4	Copano Pipeline Upper Gulf Coast, L.P.		X		X	X				
5	Duke Energy		X					X		
6	Duke Intrastate Pipeline		X					X		
7	Enable Gas Transmission	X					X		X	
8	Enterprise Intrastate, LLC		X	X		X		X		
9	Enterprise Texas, LLC	X				X		X		
10	ETC Fuels		X					X		
11	Florida Gas Transmission Co.	X				X				
12	Gulf South Pipeline Company, L.P.	X		X	X	X				X
13	Houston Pipe Line Company, L.P.		X	X	X	X		X		
14	Katy Pipeline		X			X				
15	Kinder Morgan Tejas Pipeline , LLC		X	X	X	X		X		
16	Kinder Morgan Texas Pipeline , LLC		X	X	X					X
17	Midcoast Pipelines (East Texas) L.P.		X	X	X					X
18	Monument Pipeline		X			X				
19	Natural Gas Pipe Line Co.	X		X	X	X				
20	Oasis Pipeline		X			X				
21	Targa		X					X		
22	Tennessee Gas Pipeline	X				X		X		
23	Tristate		X		X					
24	Trunkline Gas Company	X				X				
25	Woodway Bluebonnet		X					X		
26	Woodway Texas Pipeline		X					X		

Q. HAVE THE COMPANY'S GAS SUPPLY NEEDS CHANGED OVER TIME?

A. Yes, the needs for any gas supply portfolio are constantly changing due to changes in inputs such as customer count, weather variables, demand patterns, and usage efficiencies.

CenterPoint's planning objectives—including reliability, reduced price volatility, and reasonable cost—ensure that gas will be available when customers demand it under a wide variety of operating and market conditions and at a reasonable cost. In addition to the demand side of the equation, pipeline service offerings, such as transportation and storage products and the rates and tariffs associated with those products, change over time as well, although not as often.

Q. HOW ARE GAS PURCHASE COSTS DETERMINED FOR EACH PGA AREA?

A. Generally, the Company determines the variable component of gas cost for each pipeline by summing the actual volume of gas delivered at individual delivery points within a PGA area. It then allocates the volume for each gas supply contract on a pro rata basis amongst PGA areas and then associates the cost of each gas supply contract based upon the volume allocated to each PGA. Cost of gas withdrawn from Company-owned and asset-managed storage during the winter is based on the weighted average cost of gas secured during the summer months. Cost of gas for hedges associated with baseload supply utilizes the price for each individual transaction, per jurisdiction.

Q. HAS THE COMPANY TAKEN STEPS TO IMPROVE CERC'S ABILITY TO STABILIZE GAS COSTS AND REDUCE VOLATILITY WITHIN THE PGA AREAS?

A. Yes, the Company has taken steps to consolidate several of its PGA tariffs over the past few years. CERC uses a mixture of supply at market price, storage withdrawal price, price hedges and its PGA mechanisms to help stabilize gas costs. Each service area has access to a unique set of upstream supply options. Some service areas, like Tyler, have less supply diversification resulting in fewer options to utilize for price stabilization. Consolidation of PGA tariffs allows each legacy service area to benefit from the stabilization tools imbedded throughout the broader service area.

V. WINTER STORM URI

Q. WHEN DID THE COMPANY START PREPARING FOR WINTER STORM URI?

A. The true starting point of preparation began in the spring of 2020, during the development of the 2021 Gas Procurement Plan. However, it is not until weather providers start publishing temperature forecasts during the winter season that the Company starts to forecast specific demand scenarios for additional short-term planning and preparation for a 7-day look ahead. As each day unfolds, our gas supply and gas control teams must plan for the projected demand and allow room for unexpected variations that requires storage to be utilized on a day-by-day basis. The Company executed its plan during Winter Storm Uri and its hedged gas supplies and storage protected customers from being fully exposed to the extreme market conditions.

Q. DID THE COMMISSION PROVIDE ANY DIRECTION DURING WINTER STORM URI?

A. Yes. As described in Mr. Center's testimony, on February 12, 2021, the Commission issued an emergency order setting forth a priority of gas delivery to human needs customers and to implement curtailment plans accordingly on non-human needs customers. Additionally, the Commission's February 12, 2021 Emergency Order required that "the transportation, delivery and/or sale of natural gas in the State of Texas for any other purpose other than serving human needs customers should be curtailed to the extent possible and necessary,"[4] which may have put additional market pressure on gas prices.

Q. CAN YOU PROVIDE SOME CONTEXT FOR THE DEMAND EXPERIENCED DURING WINTER STORM URI AND HOW THE COMPANY'S ESTIMATES OF DESIGN DAYS AND DESIGN HOURS COMPARED TO WHAT IT ACTUALLY EXPERIENCED?

A. The Company serves several jurisdictions across Texas with the majority of customers demand in the Houston metro area. The design day HDDs at Bush Intercontinental Airport ("IAH") is 45 HDDs with a design day demand forecast at 2,060,755 Dth for all of Texas. The design hour HDDs at IAH is 53 with a design hour demand forecast at 2,423,185 Dth for all of Texas. On February 15, 2021, the actual HDDs at IAH was 44, but due to wide range of power outages, customer demand on that day was approximately 70% of the estimated design day load or 1,437,680 Dth for Texas. Additionally, Winter Storm Uri contributed to the month

[4] Railroad Commission of Texas Emergency Order attached as Exhibit BSW-2.

of February being 168% colder than a normal February. The summary chart below provides a comparison.

TEXAS - February Design Day Comparison			
	2/15/21	Design Day	% of Design Day
Peak Day (Dth) - February	1,437,680	2,060,755	70%
Heating Degree Days (IAH)	44	45	98%

TEXAS - February Total HDD Comparison (IAH)			
	2021	30yr Normal	% Colder than Normal
Total Demand (Dth) - February	407	242	168%

Q. DID THE COMPANY HAVE ADEQUATE TRANSPORTATION CAPACITY DURING WINTER STORM URI?

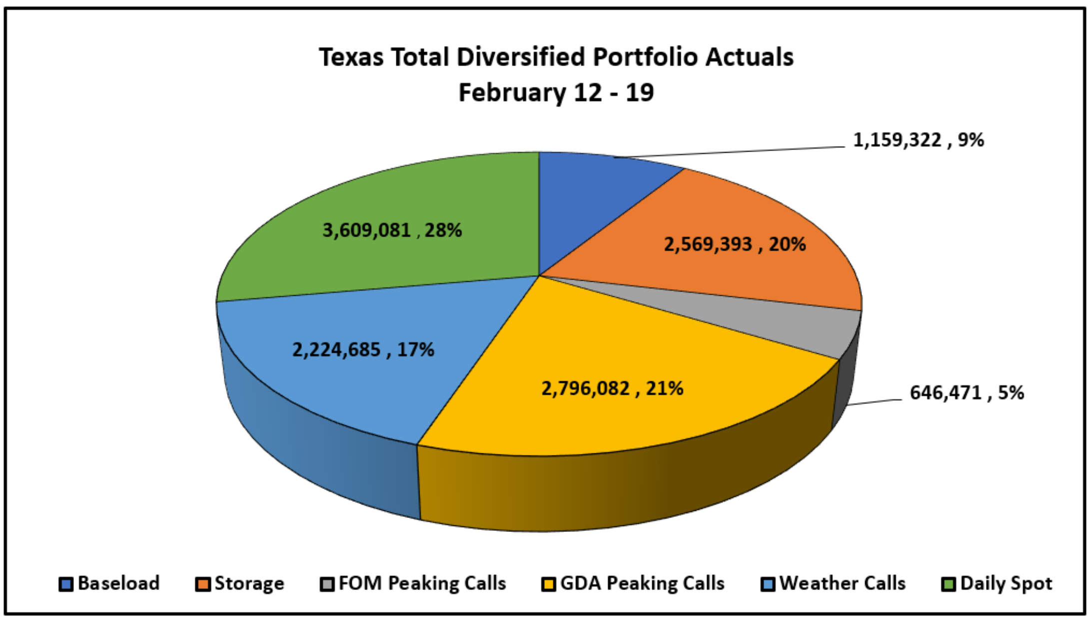
A. Yes, the Company had adequate transportation during Winter Storm Uri and was able to fully deliver on all its obligations. Per the Gas Procurement Plan, the Company had a balanced combination of upstream pipeline firm transportation service, firm storage service, and no-notice transportation and storage service available to be utilized to provide service to CenterPoint's distribution systems. As mentioned earlier, the Company forecasted a **design hour** of 2,423,185 Dth and a **design day** of 2,060,755 Dth for the 2020-2021 winter season. The Company secured a net total upstream capacity of 2,512,619 Dth.

Q. PLEASE EXPLAIN HOW THE COMPANY MAINTAINED AN ADEQUATE SUPPLY OF GAS FOR ITS SALES CUSTOMERS THROUGHOUT WINTER STORM URI.

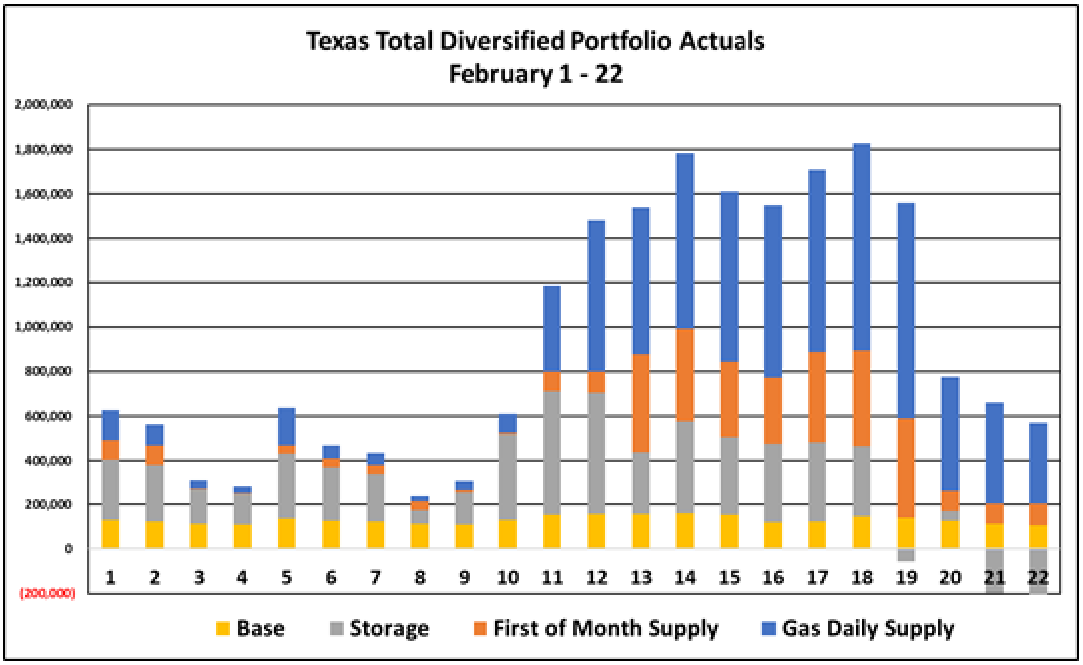
A. Though far from an easy task, CERC maintained an adequate supply of gas through our diverse supply portfolio and continuous collaboration with upstream suppliers. As one part of the overall portfolio changed, alternative solutions were utilized. For instance, although demand was not high enough to require utilization of our propane-air peak shaving facilities, these facilities were activated during the tail end of Winter Storm Uri as our upstream suppliers started to indicate a concern of remaining supply solutions.

Q. PLEASE DESCRIBE THE SUPPLY MIX PROVIDED DURING WINTER STORM URI.

A. As depicted in the pie chart below, during Winter Storm Uri the Company withdrew 2,569,393 Dth from storage, or 20% of flowing supply to customers, in addition to 2,224,685 Dth of Baseload (17%), 646,471 Dth of FOM Peaking (5%), and 2.224,685 Dth of weather calls (17%). All told, this equates to 51% of total supply protected from gas daily market prices during Winter Storm Uri.



The next chart shows the daily supply mix from the beginning of February to three days after Winter Storm Uri was over. The adjustments that were made to maximize storage and first-of-month priced supply during Winter Storm Uri can be seen beginning on gas day 11.



Due to contractual and operational limitations and the need for storage for the remaining winter months, the Company did not withdraw all storage inventory during Winter Storm Uri.

Q. WERE THERE ANY ISSUES RELATED TO STORAGE DELIVERABILITY AROUND THE TIME OF THE STORM?

A No. Storage played a crucial role in helping the Company fully deliver on all of the Company's supply obligations.

Q. DID THE COMPANY MAKE ANY PUBLIC STATEMENTS TO ENCOURAGE CUSTOMERS TO REDUCE OR CONSERVE GAS OVER THE COURSE OF WINTER STORM URI IN LIGHT OF EXTREME GAS PRICES?

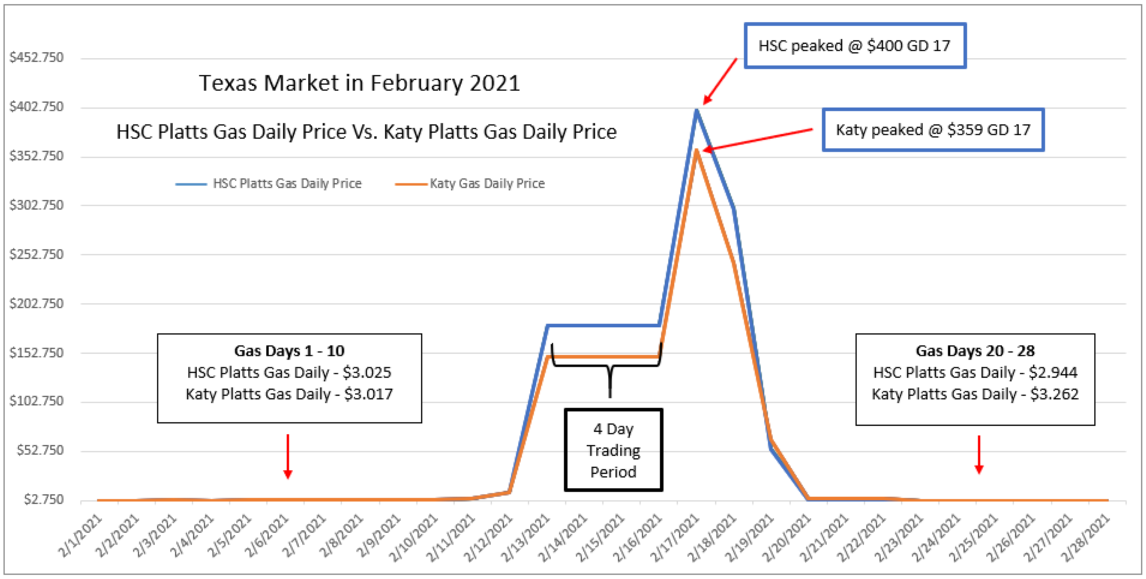
A. Yes. Further explained in Mr. Centers testimony, the Company posted press releases, news, and social media. These pleas to reduce usage likely played a role in the Company's ability to meet the needs of its customers.

Q. HOW DID THE SPOT MARKET FOR GAS FUNCTION DURING WINTER STORM URI?

A. Due to the arctic cold temperatures across much of the country, which caused a significant disruption in natural gas supply and sharp rise in natural gas demand, the spot market saw an extraordinary increase in natural gas market prices. Although the Company was exposed to the spot market pricing, CenterPoint's portfolio provided price protection to 51% of total purchases of gas supply during Winter Storm Uri.

Q. HOW HIGH DID SPOT GAS PRICES RISE DURING THE STORM?

A. Two of the primary supply locations that CERC utilizes to serve Texas customers are Houston Ship Channel ("HSC") and Katy. As represented in the chart below, the daily index price settled as high as $400/Dth for HSC and $359/Dth for Katy on gas day 2/17/21. This is in comparison to market prices that have been at or below $3/Dth for a significant amount of time.



Q. DID ANY OF THE COMPANY'S NATURAL GAS SUPPLIERS INVOKE THE *FORCE MAJEURE* CLAUSES IN THEIR CONTRACTS DURING WINTER STORM URI?

A. Yes. During Winter Storm Uri from February 12 through 19, eleven (11) of the Company's natural gas suppliers did invoke *force majeure* clauses in their contracts.

Q. HOW DID THE INVOCATION OF THOSE *FORCE MAJEURE* CLAUSES IMPACT THE COMPANY'S ABILITY TO SECURE GAS SUPPLY DURING WINTER STORM URI?

A. During Winter Storm Uri, the Company had supply loss of 785,500 Dth, which is equivalent to 6.09% of the total supply delivered during Winter Storm Uri. Although supply was curtailed, due to the flexible nature of our diverse portfolio, CERC was able to utilize alternative supply options to fulfill all our supply obligations.

Texas Planned Compared to Actual Portfolio Supply Mixture					
Product	**Planned**	**%**	**Scheduled Reductions**	**Actuals**	**%**
Daily Spot	2,823,581	22%	0	3,609,081	28%
GDA Peaking Call	2,796,082	22%	0	2,796,082	22%
Weather Call	2,754,092	21%	529,407	2,224,685	17%
FOM Peaking Call	800,000	6%	113,529	686,471	5%
Storage	2,568,290	20%	0	2,568,290	20%
Baseload	1,155,239	9%	142,564	1,012,675	8%
Total	12,897,284	100%	785,500	12,897,284	100%

Q. WAS THE COMPANY ABLE TO MAINTAIN SERVICE TO ITS SALES CUSTOMERS IN TEXAS THROUGHOUT WINTER STORM URI?

A. Yes. During Winter Storm Uri, the foremost focus of CenterPoint was ensuring safe and reliable natural gas delivery to our customers' homes and businesses. Reliability is our highest priority in system planning and operations, and our actions leading up to and during Winter Storm Uri were successful in maintaining-continued service to our customers.

Q. HAS THE COMPANY PAID ALL OF THE INVOICES ISSUED BY SUPPLIERS FOR GAS SOLD DURING WINTER STORM URI?

A. No. The Company withheld payment amounts from certain suppliers (i.e. short pays) and continues to be actively engaged in negotiating the cost associated with certain gas purchase agreements as of the time of this filing. Ms. Kirk discusses how the short pay amounts are reflected in the Company's schedules. Mr. Centers' direct testimony and the affidavit of Ms. Judy Liu support legal expenses incurred to review invoices associated with the short pay amounts and to negotiate on behalf of the Company with the suppliers.

Q. WHAT AMOUNT OF WINTER STORM URI GAS PROCUREMENT COSTS IS THE COMPANY REQUESTING TO BE SECURITIZED THROUGH THIS FILING?

A. As discussed by Ms. Kirk, the total Winter Storm Uri gas procurement cost amount requested by the Company is $1,082,305,320.

Q. IS THIS AMOUNT FINAL?

A. As also discussed by Ms. Kirk, the Company is still negotiating with certain suppliers as to the final gas procurement costs associated with Winter Storm Uri. To the extent that the Company is able to lower its ultimate gas procurement cost associated with Winter Storm Uri during the pendency of this proceeding, it will update its request accordingly.

Q. HOW DID THE STEPS TAKEN TO STABILIZE GAS COSTS AND REDUCE VOLATILITY YOU DESCRIBED ABOVE IMPACT THE TOTAL AMOUNT INCURRED?

A. If we had to purchase all of our gas on the spot market during Winter Storm Uri, it is estimated that we would have paid an additional $1.33 billion above the $1.1 billion that is requested to be securitized in this filing. Our rate stabilization saved our customers $1.33 billion.

Q. WERE CERC'S EXTRAORDINARY COSTS THAT IT SEEKS TO SECURITIZE PRUDENTLY INCURRED?

A. Yes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

STATE OF TEXAS §
§
COUNTY OF HARRIS §

AFFIDAVIT OF BRIAN S. WAGAMAN

BEFORE ME, the undersigned authority, on this day personally appeared Brian S. Wagaman who having been placed under oath by me did depose as follows:

1. "My name is Brian S. Wagaman I am over the age of eighteen (18) and fully competent to make this affidavit. I am employed as Vice President of Gas Supply for CenterPoint Energy Resources Corp. The facts stated herein are true and correct based upon my personal knowledge.

2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

Further affiant sayeth not.

BSW
Brian S. Wagaman

SUBSCRIBED AND SWORN TO BEFORE ME by the said Brian S. Wagaman on this 22nd day of July 2021.

Alice S. Hart
Notary Public in and for the State of Texas

ALICE S HART
NOTARY ID #130321-7
My Commission Expires
July 17, 2023

Exhibit BSW-1 is Confidential
and will be provided pursuant to the terms of the Protective Order.

RAILROAD COMMISSION OF TEXAS

EMERGENCY ORDER

WHEREAS, after Notice of Emergency Meeting to consider this Emergency Order was duly posted on February 12, 2021 with the Secretary of State within the time period provided by law pursuant to Tex. Gov't Code Chapter 551, *et seq*., the Railroad Commission of Texas ("Commission") determined that an Emergency Order is necessary to protect human needs customers in the State of Texas because of current conditions which threaten and health, safety and welfare of those customers, and determined that the existing regulations and Orders of the Commission do not sufficiently address the specific conditions of this emergency; and

WHEREAS, on February 12, 2021, the Governor of the State of Texas issued a State of Disaster in all 254 counties due to severe weather posing an imminent threat of widespread and severe property damage, injury, and loss of life due to prolonged freezing temperatures, heavy snow, and freezing rain statewide; and

WHEREAS, pursuant to the authority granted to the Commission in the Texas Utilities Code, the Commission has the authority to issue this Emergency Order affecting the operation of the gas utility systems in this state to prevent such threats to the public; and

WHEREAS, the transportation, delivery and/or sale of natural gas in the State of Texas for any other purpose other than serving human needs customers should be curtailed to the extent possible and necessary for the duration of this Emergency Order.

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE RAILROAD COMMISSION OF TEXAS that Rule 2 of Docket 489 is temporarily amended as follows:

RULE 2.

Until such time as the Commission has specifically approved a utilities curtailment program, the following priorities in descending order shall be observed:

A. Deliveries of gas by natural gas utilities to ~~for~~ residences, hospitals, schools, churches and other human needs customers, and deliveries to Local Distribution Companies which serve human needs customers.

B. Deliveries of gas to electric generation facilities which serve human needs customers.

~~B.~~C. Deliveries of gas to small industrials and regular commercial loads (defined as those customers using less than 3,000 MCF per day) and delivery of gas for use as pilot lights or in accessory or auxiliary equipment essential to avoid serious damage to industrial plants.

~~C.~~ D. Large users of gas for fuel or as a raw material where an alternate cannot be used and operation and plant production would be curtailed or shut down completely when gas is curtailed.

~~D.~~ E. Large users of gas for boiler fuel or other fuel users where alternate fuels can be used. This category is not to be determined by whether or not a user has actually installed alternate fuel facilities, but whether or not an alternate fuel "could" be used.

~~E.~~ F. Interruptible sales made subject to interruption or curtailment at Seller's sole discretion under contracts or tariffs which provide in effect for the sale of such gas as Seller may be agreeable to selling and Buyer may be agreeable to buying from time to time.

IT IS FURTHER ORDERED that gas utilities which have a specific curtailment plan/program that has been approved by the Commission shall ensure that their top two priorities in the plan/program are A and B as listed above for the duration of this Emergency Order.

IT IS FURTHER ORDERED that this Emergency Order is in effect until 11:59 p.m. Central Standard Time Friday, February 19, 2021, unless otherwise renewed by the Commission in a subsequent Emergency Order.

SIGNED this 12th day of February 2021.

RAILROAD COMMISSION OF TEXAS

DocuSigned by:
Christi Craddick
15494B7DF4CC424...
CHAIRMAN CHRISTI CRADDICK

DocuSigned by:
Wayne Christian
C1C746B4F446422...
COMMISSIONER WAYNE CHRISTIAN

DocuSigned by:
Jim Wright
EAAE94782E9F4AE...
COMMISSIONER JIM WRIGHT

ATTEST:

DocuSigned by:
Callie Farrar
3581C80DFDE0476...
SECRETARY

CASE NO. 00007064

APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX, CENTERPOINT ENERGY ARKLA AND CENTERPOINT ENERGY TEXAS GAS FOR CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION	**§ § § § § § § §**	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

DIRECT TESTIMONY

OF

BERNADETTE JOHNSON

ON BEHALF OF

CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX,
CENTERPOINT ENERGY ARKLA
AND
CENTERPOINT ENERGY TEXAS GAS

July 30, 2021

TABLE OF CONTENTS

LIST OF EXHIBITS

EXECUTIVE SUMMARY OF BERNADETTE JOHNSON

CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex, CenterPoint Energy Arkla and CenterPoint Energy Texas Gas ("CenterPoint" or the "Company") retained Enverus, Inc. ("Enverus") to provide an independent review of the Texas market for natural gas during Winter Storm Uri and of the Gas Procurement Plan executed by CenterPoint during the event. My testimony provides the analysis Enverus conducted and demonstrates:

- Texas had one of, if not the, coldest and most impactful winter storms observed in state history during the week of February 12–19, 2021. A combination of record winter demand, natural gas supply losses, and power generation unit outages cascaded into instability and power losses across the Electric Reliability Council of Texas ("ERCOT") power grid, and record natural gas prices.
- This cold snap not only impacted Texas but also Oklahoma and Louisiana. The interconnectivity of the natural gas pipeline network and disruption to typical winter flow patterns also caused natural gas price spikes across the country.
- Along with natural gas supply challenges that impact power and other demand sectors, a dip in power generation resources was observed for every fuel type, including coal, wind, solar and even nuclear. During the worst of the cold snap, all power generation resources showed a decline in output while demand peaked to unprecedented levels. Although natural gas production fell significantly during this event, the timeline indicates that power outages made this decline worse. During this event, the peak demand observed was near 70,000 MW on the evening of Sunday, February 14. This level of demand had never been observed before in the winter season in ERCOT.
- While CenterPoint did experience a very small number of localized customer outages caused by equipment failure or unusually high instantaneous customer demand following electric power restoration, the Company did not experience **any** customer outages caused by an overall lack of gas supply. The efforts of the Company aligned with direct guidance and leadership provided by the Railroad Commission of Texas ("Commission") and were necessary based on the severity of the event and threat presented.
- Enverus assesses CenterPoint's Gas Supply planning and procurement actions to be reasonable and consistent with best industry practices and suitable planning.

The timelines and analysis included in the full report and testimony illustrate how events unfolded.

DIRECT TESTIMONY OF BERNADETTE JOHNSON

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND PRESENT TITLE.

A. My name is Bernadette Johnson, and I am Senior Vice President, Power and Renewables for Enverus.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I lead the Power and Renewables business unit and team at Enverus, including all related consulting engagements and research efforts. Over my career in the energy industry, I have accrued extensive experience providing crude, natural gas, and power market fundamentals analysis and advisory services to various players in North American and global energy markets. My specific market experience spans: financial trading, production forecast and reserve analysis, infrastructure analysis, processing/gathering/refining analysis, storage valuation, gas supply analysis, power load/supply/congestion analysis, and regional and benchmark price forecasting. My research and analysis have been utilized by numerous entities in the energy space for evaluating investments and specific transactions. Our client list includes several Fortune 500 companies and is frequently referenced in various regulatory filings. I joined Enverus through the acquisition of products and services from Ponderosa Advisors in November 2016. As a founding partner at Ponderosa Advisors, I led the Energy Analytics team and was responsible for all related consulting engagements and market research efforts. Prior to joining Ponderosa Advisors, I was a Senior Research Analyst for Sasco Energy Partners in Westport, CT. In this role, I provided and managed fundamentals research for a team of financial traders active in natural gas, power, and oil futures markets. I began my career at Bentek Energy, as a Senior Energy Analyst, Natural Gas Market Fundamentals, and consulting project team lead. I hold a MS Degree in International Political Economy of Resources and a BS Degree in Economics, both from the Colorado School of Mines.

Q. HAVE YOU TESTIFIED IN PRIOR REGULATORY PROCEEDINGS BEFORE ANY OTHER REGULATORY AUTHORITIES?

A. Yes. I have testified in the proceedings identified in Exhibit BJ-2.

Q. HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A. Yes. I have prepared or supervised the preparation of the exhibits listed in the table of contents.

II. <u>SCOPE AND PURPOSE OF TESTIMONY</u>

Q. PLEASE DISCUSS THE PURPOSE OF YOUR TESTIMONY.

A. Enverus was engaged by the Company to provide an experienced, unbiased third-party assessment of the suitability of CenterPoint's Gas Procurement Plan and opine on whether it is consistent with best industry practices. My testimony presents Enverus' analysis and findings.

III. <u>OVERVIEW OF ANALYSIS AND METHODOLOGY</u>

Q. PLEASE DISCUSS THE SPECIFIC ENGAGEMENT.

A. Enverus was engaged by CenterPoint to:

- Perform an analysis of natural gas market dynamics and prices for key hubs across the US, with specific timeline of price movement, and analysis of reasons for price movement; and

- Complete an assessment of the suitability of CenterPoint's Gas Supply planning and execution by reviewing documentation and data provided by CenterPoint including its 2020 Texas Gas Procurement Plan, annual/monthly/daily/intraday gas procurement decisions, transactions, and planning documents, rate schedules, and various responses to specific Enverus inquiries surrounding actions taken ahead of and during the event (February 10-20, 2021).

In connection with the engagement and as part of its review of the events surrounding Winter Storm Uri, Enverus also performed an analysis of ERCOT power outages between February 15 and February 19, 2021, including supply and demand forecasts, fuel source contribution and detail, and unit availability.

Q. HOW DID ENVERUS COLLECT AND COMPILE THE DATA THAT IT USED TO REACH THE CONCLUSIONS IN ITS REPORT?

A. Enverus gathered natural gas market condition data from publicly available sources including ERCOT Unit Outage Data, EIA 930, ERCOT Operations Messages, ERCOT Seasonal Assessment of Resource Adequacy (SARA) for Winter 2020/21, ERCOT Urgent Board of Directors Meeting 02-24-2021, ERCOT Market Participant Data, Natural Gas Intelligence price index data, Commission natural gas storage operations data, and numerous interstate and intrastate natural gas pipeline electronic bulletin board notices. Additionally, Enverus OptiFlo Gas natural gas pipeline flow data and supply/demand balance models were used. With respect to CenterPoint's Gas Procurement Plan, Enverus also conducted a series of interviews with Company personnel and reviewed the Company's answers to written questions submitted by the Enverus team.

Q. HOW DID ENVERUS REACH ITS CONCLUSIONS REGARDING THE PRUDENCE AND REASONABLENESS OF THE COMPANY'S GAS PROCUREMENT PLAN?

A. Enverus analyzed CenterPoint's Gas Procurement Plan and its performance during Winter Storm Uri in the context of the actual conditions faced by the Company during Winter Storm Uri and by comparing the features, objectives and performance of CenterPoint's Gas Procurement Plan against industry best practices for gas procurement.

IV. CONTEXT OF THE FEBRUARY 2021 WINTER WEATHER EVENT

Q. HOW WOULD YOU DESCRIBE THE HISTORICAL SIGNIFICANCE OF WINTER STORM URI?

A. The event that unfolded between February 10 and February 20, 2021 was extreme in geographic magnitude, duration, and low temperature intensity. According to the National Weather Service, Winter Storm Uri "was one of the most impactful winter events in recent history that brought multiday road closures, power outages, loss of heat, broken pipes, and other societal impacts for the region." The event impacted much of the U.S. east of the Rocky Mountains. In particular for historical context purposes, the National Oceanic and Atmospheric Administration (NOAA) found that 30% of all U.S. reporting stations set record daily cold highs and 20% set record daily cold lows from February 14-16. In addition, dozens of locations across the U.S. set records for any day in their history (not just that particular calendar day). In fact, 103 all-time coldest daily high temperature records were tied or set from February 14-17 and there were 95 all-time coldest low temperature records set in 12 different states from February 11-17. Exhibit BJ-1 provides additional information regarding the severity of the event and the magnitude of its scope and impact across the U.S.

Q. HOW DID THE EVENT IMPACT THE SUPPLY OF NATURAL GAS IN TEXAS?

A. As discussed in Exhibit BJ-1, from a regional perspective, Winter Storm Uri impacted not only Texas, but Oklahoma and Louisiana as well. The interconnectivity of natural gas pipeline networks led to disruptions in typical winter flow patterns across the country and to corresponding spikes in the cost of natural gas. During the worst portion of the event, a combination of record winter demand, natural gas supply losses and power generation outages led to instability across Texas and a situation where natural gas local distribution companies were forced to be price takers in the market for natural gas in order to maintain the adequacy of service.

V. KEY FINDINGS AND CONCLUSIONS

Q. PLEASE PROVIDE A SUMMARY OF YOUR FINDINGS.

A. A summary of Enverus' conclusions are stated below. Our complete analysis and findings are contained in the report attached to my testimony as Exhibit BJ-1.

- While CenterPoint did experience a very small number of localized customer outages caused by equipment failure or unusually high instantaneous customer demand following electric power restoration, the Company did not experience **any** customer outages caused by an overall lack of gas supply. The efforts of the Company aligned with direct guidance and leadership provided by the Commission and were necessary based on the severity of the event and threat presented.

- Enverus assesses CenterPoint's gas supply planning and procurement actions to be reasonable and consistent with best industry practices and suitable planning.

- Texas had one of, if not the, coldest and most impactful winter storms observed in state history during the week of February 12–19. A combination of record winter demand, natural gas supply losses, and power generation unit outages cascaded into instability and power losses across the ERCOT power grid, and record natural gas prices.

- This cold snap not only impacted Texas but also Oklahoma and Louisiana. The interconnectivity of the natural gas pipeline network and disruption to typical winter flow patterns also caused natural gas price spikes across the country.

- Along with natural gas supply challenges that impact power and other demand sectors, a dip in power generation resources was observed for every fuel type, including coal, wind, solar and even nuclear.

- During the worst of the cold snap, all power generation resources showed a decline in output while demand peaked to unprecedented levels. Although natural gas production fell significantly during this event, the timeline indicates that power outages made this decline worse.

- During this event, the peak demand observed was near 70,000 MW on the evening of Sunday, February 14. This level of demand had never been observed before in the winter season in ERCOT.

Q. DO YOU HAVE AN OPINION AS TO THE PRUDENCE AND REASONABLENESS OF CENTERPOINT'S GAS PROCUREMENT PLAN AND GAS PROCUREMENT ACTIVITIES DURING WINTER STORM URI?

A. Yes. CenterPoint's Gas Procurement Plan and its gas purchasing practices during Winter Storm Uri were prudent and reasonable. CenterPoint's Gas Procurement Plan was the product of diligent fundamental analysis, was sufficiently flexible to accommodate inherently unpredictable changes, and contained a balanced combination of upstream pipeline firm transportation service, firm storage and no-notice transportation and storage service. It was also developed in consultation with the Commission – an industry best practice. The Company maintained reliable service throughout the event, despite the extreme market conditions. The

Company's actions prioritized the preservation of life under extreme conditions and were prudent and reasonable under the circumstances.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

STATE OF COLORADO §
§
COUNTY OF ARAPAHOE §

AFFIDAVIT OF BERNADETTE JOHNSON

BEFORE ME, the undersigned authority, on this day personally appeared Bernadette Johnson who having been placed under oath by me did depose as follows:

1. "My name is Bernadette Johnson I am over the age of eighteen (18) and fully competent to make this affidavit. I am employed as Senior Vice President, Power and Renewables for Enverus. The facts stated herein are true and correct based upon my personal knowledge.

2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

Further affiant sayeth not.

BJohnson
Bernadette Johnson

SUBSCRIBED AND SWORN TO BEFORE ME by the said Bernadette Johnson on this 22nd day of July 2021.

Gary S Kyle
Notary Public in and for the State of Colorado

GARY S KYLE
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID [illegible]
MY COMMISSION EXPIRES [illegible]

ENVERUS

Winter Storm Uri – Natural Gas Analysis

Prepared for: CenterPoint Energy

CenterPoint Energy

June 2021

Event Overview & Key Takeaways

Executive Summary - Situational Review and Findings

1) While CenterPoint did experience a small number of localized customer outages caused by equipment failure or unusually high instantaneous customer demand following electric power restoration, the company did not experience **any** customer outages caused by an overall lack of gas supply. The efforts of the company aligned with direct guidance and leadership provided by the Texas Railroad Commission were necessary based on the severity of the event and threat presented.
2) Enverus assesses CenterPoint's Gas Supply planning and procurement actions to be reasonable and consistent with best industry practices and suitable planning.
3) Texas had one of, if not the, coldest and most impactful winter storms observed in state history during the week of February 12–18. A combination of record winter demand, natural gas supply losses, and power generation unit outages cascaded into instability and power losses across the Electric Reliability Council of Texas (ERCOT) power grid, and record natural gas prices.
4) This cold snap not only impacted Texas but also Oklahoma and Louisiana. The interconnectivity of the natural gas pipeline network and disruption to typical winter flow patterns also caused natural gas price spikes across the country.
5) Along with natural gas supply challenges that impact power and other demand sectors, a dip in power generation resources was observed for every fuel type, including coal, wind, solar and even nuclear.
    1) During the worst of the cold snap, all power generation resources showed a decline in output while demand peaked to unprecedented levels. Although natural gas production fell significantly during this event, the timeline indicates that power outages made this decline worse.
    2) During this event, the peak demand observed was near 70,000 MW on the evening of Sunday, February 14. This level of demand had never been observed before in the winter season in ERCOT.
6) The timelines and analysis included in the full report illustrate how events unfolded.

Gas Prices Timeline

The natural gas cash market refers to the daily market or where gas is bought and sold for "right now". The price of gas fluctuates throughout the day. However, the average price for the day is what's widely used and has also been included in this report. Gas traded today is effective for the next gas flow date. Weekends and holidays are exceptions, when gas is traded on Fridays or the day before a holiday, the average price is effective for multiple flow dates until the next trade date. For example: each Friday, gas trades for 3 flow dates: Saturday, Sunday and Monday. On Monday, gas is traded for Tuesday and so on.

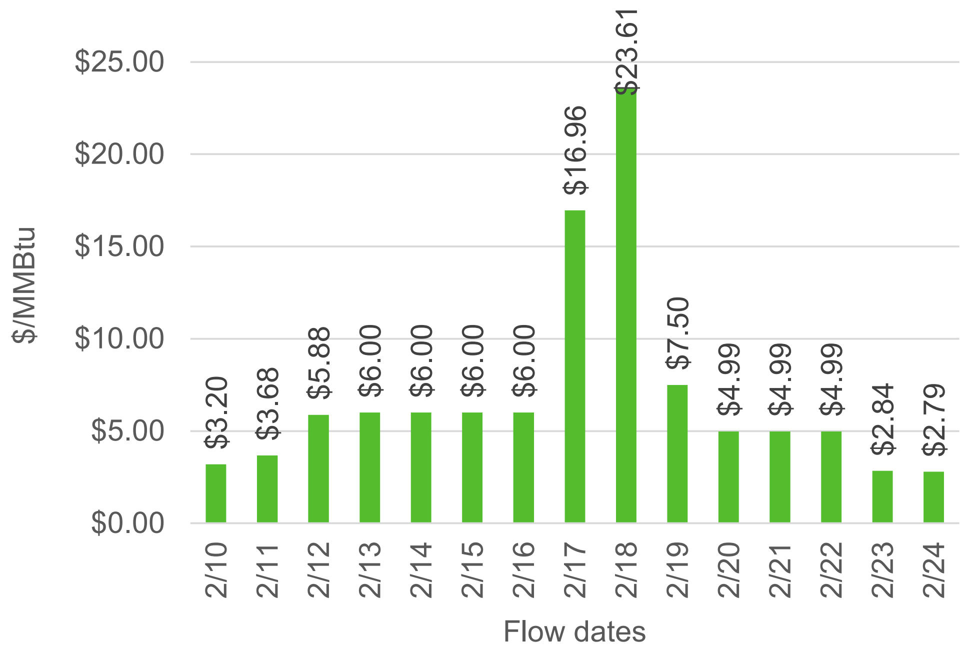
Fri. 12 Feb. 2021
Gas prices increase over 60% from the day before. On this Friday and due to the President's day holiday, gas was traded for 4 days (Sat-Tu). ($6 for 2/13-2/16)

Tu. 16 Feb. 2021
HH reached $16.96 (+180%) for flow date 2/17

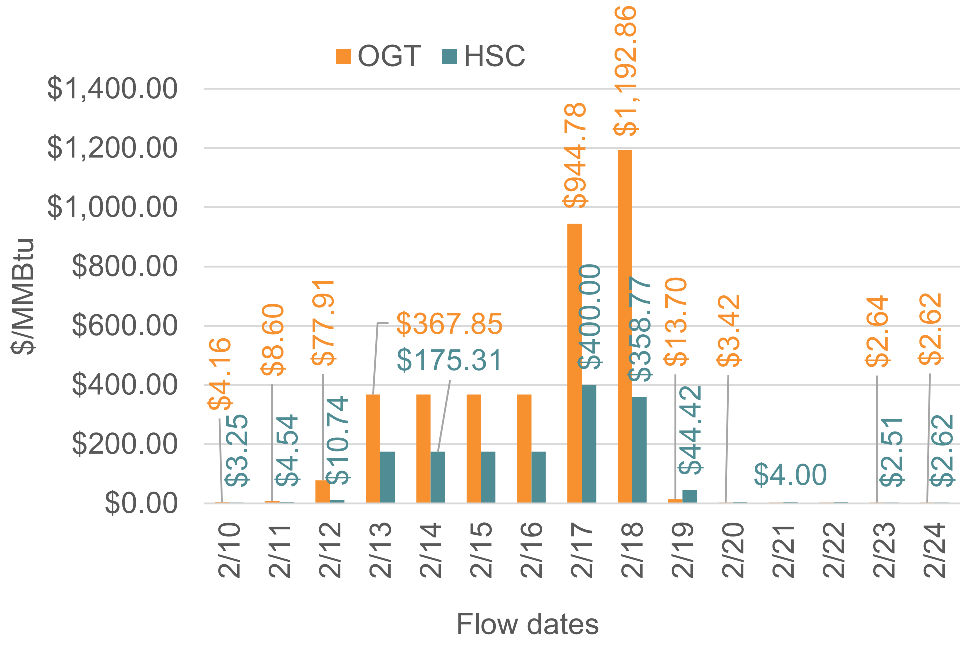
Wed. 17 Feb. 2021
HH peaked at $23.91 (+40%) for flow date 2/18

Th. 18 Feb. 2021
Gas prices start to drop reaching pre-storm levels by 2/23

Henry Hub (HH)



Houston Ship Channel (HSC) and Oneok Gas Transmission (OGT)



Timeline

The following timelines illustrate how events unfolded.

- **First week of February:** ERCOT meteorologists reportedly warns Market Participants and the public of the coldest weather of the year.
- **February 8:** ERCOT issues an Operating Conditions Notice (OCN) for an extreme cold weather system approaching Thursday, February 11 through Monday, February 15 with temperatures anticipated to remain 32° F or below.
- **February 10:** ERCOT issues an Advisory for the predicted extreme weather for the ERCOT Region.
- **February 12**: Governor Greg Abbott declares a state of emergency in all Texas counties ahead of the expected severe winter weather.
- *****February 12:** The TXRRC issues emergency order to prioritize human needs due to imminent threat of widespread and severe property damage, injury, and loss of life due to prolonged freezing temperatures, heavy snow, and freezing rain statewide.
- **February 12:** Natural gas supply begins declining through February 15, with February 14 being the most impactful day.
  - Natural gas supply declined ~0.2 Bcf/d and ~0.7 Bcf/d on February 12 and 13, respectively, leading up to February 14.
  - The declines observed on February 12 are within a typical range of drops observed during previous cold weather events.
  - The declines on February 13, although material, were not large enough to cause the power generation failures seen across the board.
- *****February 13:** The TXRRC issued a “Notice to Local Distribution Companies” authorizing each Local Distribution Company (LDC) to record the extraordinary expenses associated with the storm including gas costs and costs related to the procurement and transportation of gas supply.
- **February 14:** As early as 1:00 AM, power generation reported output limitations or significant capacity was forced offline by the extreme weather. At its highest point more than 48.6% of all generation in ERCOT was in forced outage.
  - Natural gas declines showed ~2 Bcf/d declines. Power generation outages exacerbated the drop in natural gas supply, as reported by oil and gas operators after the event and survey data compiled and presented in this report.
  - Peak demand observed is near 70,000 MW during the evening.
- **February 15:** ERCOT enters Emergency Operations Level 3 at 01:20 AM, and does not return to normal operations until 10:35 AM Friday, February 19.
  - At least 4.5 million customers were without power and more than 13 million customers had water service interruptions.

***Designates key gas supply order

Market Timeline – What Happened?

Little time to prepare

Fri. 03 Feb. 2021
ERCOT meteorologist reportedly warns Market Participants and the public of coldest weather of the year.

Mon. 08 Feb. 2021
ERCOT issues an Operational Condition Notice (OCN) for an extreme cold weather system approaching Thursday, February 11, 2021 through Monday, February 15, 2021 with temperatures anticipated to remain 32°F or below.

Wed. 10 Feb. 2021
ERCOT issues an Advisory for the predicted extreme weather for the ERCOT Region.

Fri. 12 Feb. 2021
Governor Greg Abbott declares a state of emergency in all 254 Texas counties ahead of the expected severe winter weather.

Fri. 12 Feb. 2021
The TXRRC issues emergency order to prioritize human needs due to imminent threat of widespread and severe property damage, injury, and loss of life due to prolonged freezing temperatures, heavy snow, and freezing rain statewide.

Sat. 13 Feb. 2021
The TXRRC issues a "Notice to Local Distribution Companies" to record all extraordinary expenses associated with the storm and related to gas procurement.

Market Timeline cont' – What Happened?

Event Overview

Days 12-16 Feb. 2021

Over the week natural gas pipeline flow data shows a significant drop in supply. Spot gas prices soar on Friday to over $150/MMBtu at HSC (other locations experienced prices as high as $1250 according to Natural Gas Intelligence).

Sat. 13 Feb. 2021 04:02

ERCOT notes the first major thermal generator failure at 04:02. Frequency declines to 59.238 Hz, while load was at 55,391 MW.

Sat. 13 Feb. 2021 08:43

ERCOT Physical Responsive Capability (PRC), which is a measure of online capacity that is available to respond quickly to disturbances, falls below 3 GW for the first time during the weekend.

Sun. 14 Feb. 2021

ERCOT issues a Watch for a projected reserve capacity shortage with no market solution available for HE 17:00-21:00, which causes a high risk for an EEA event.

Mon. 15 Feb. 2021

Energy Emergency: EEA Level 1: At 00:15, ERCOT at EEA 1 - Reserves below 2, 300 MW.

EEA Level 2: At 01:07, ERCOT at EEA 2 - Reserves below 1, 750 MW. Load resources are being deployed.

EEA Level 3 With Firm Load Shed: At 01:20, rotating outages are in progress to maintain frequency.

Extreme Weather Event – In Context

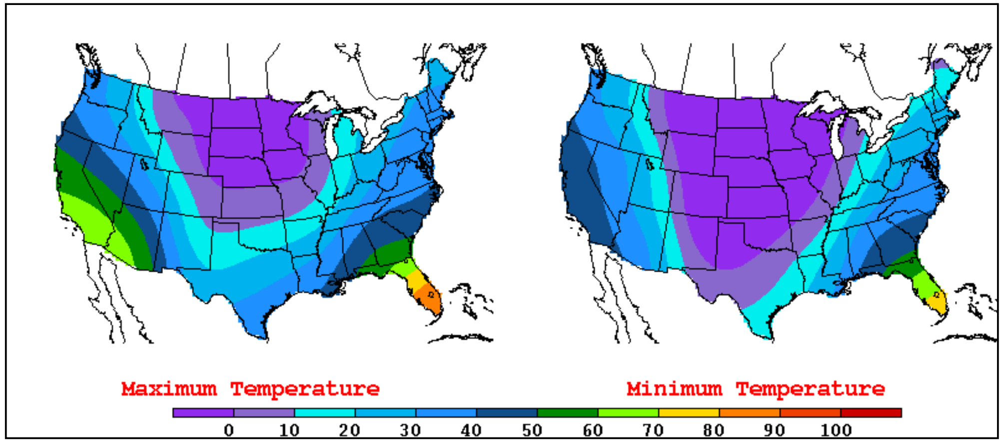
This event was record breaking and widespread across much of the US.

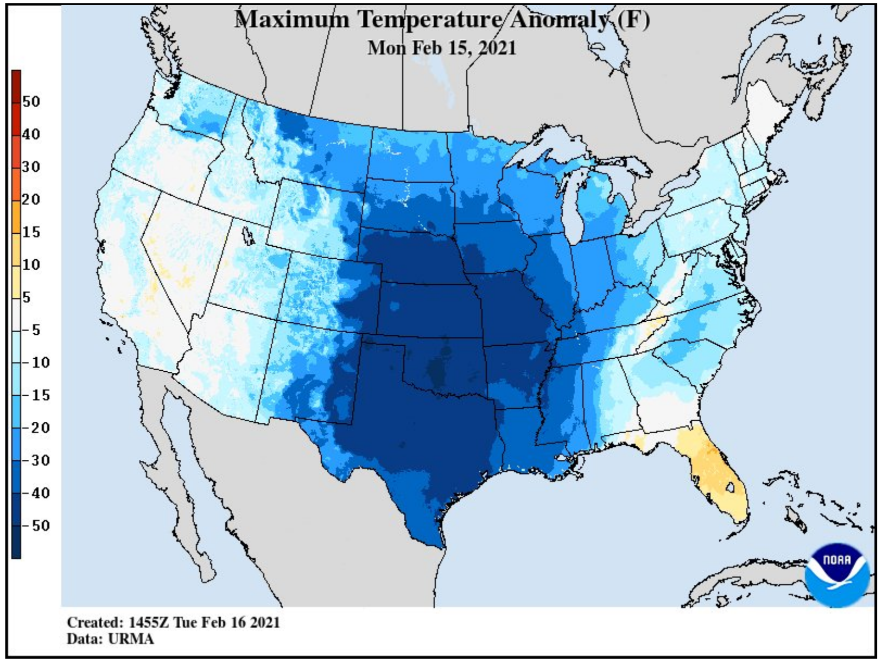
1) National Weather Service: "The Winter Outbreak that occurred on Valentine's Week 2021 brought not only snow, sleet, and freezing rain to Southeast Texas, but also extreme cold temperatures that lasted for several days. This was one of the most impactful winter events in recent history that brought multiday road closures, power outages, loss of heat, broken pipes, and other societal impacts for the region. While the damage is still being assessed, this will likely go down as the first billion dollar disaster of 2021 globally, and potentially the most costly weather disaster for the state of Texas in history, surpassing even Hurricane Harvey from 2017. "

2) The National Oceanic and Atmospheric Administration (NOAA) found 30% of all U.S. reporting stations set record daily cold highs and 20% set record daily cold lows from Feb 14-16.

3) There were dozens of locations that set records for any day in their history (not just that particular calendar day).
    1) 103 all-time coldest daily high temperature records were tied or set from Feb 14-17
    2) 95 all-time coldest low temperature records were set in <u>12 different states</u> from Feb 11-17

4) The maps presented on the right illustrate the max and min temperatures and maximum temperature anomaly, and highlight the widespread nature of the event.





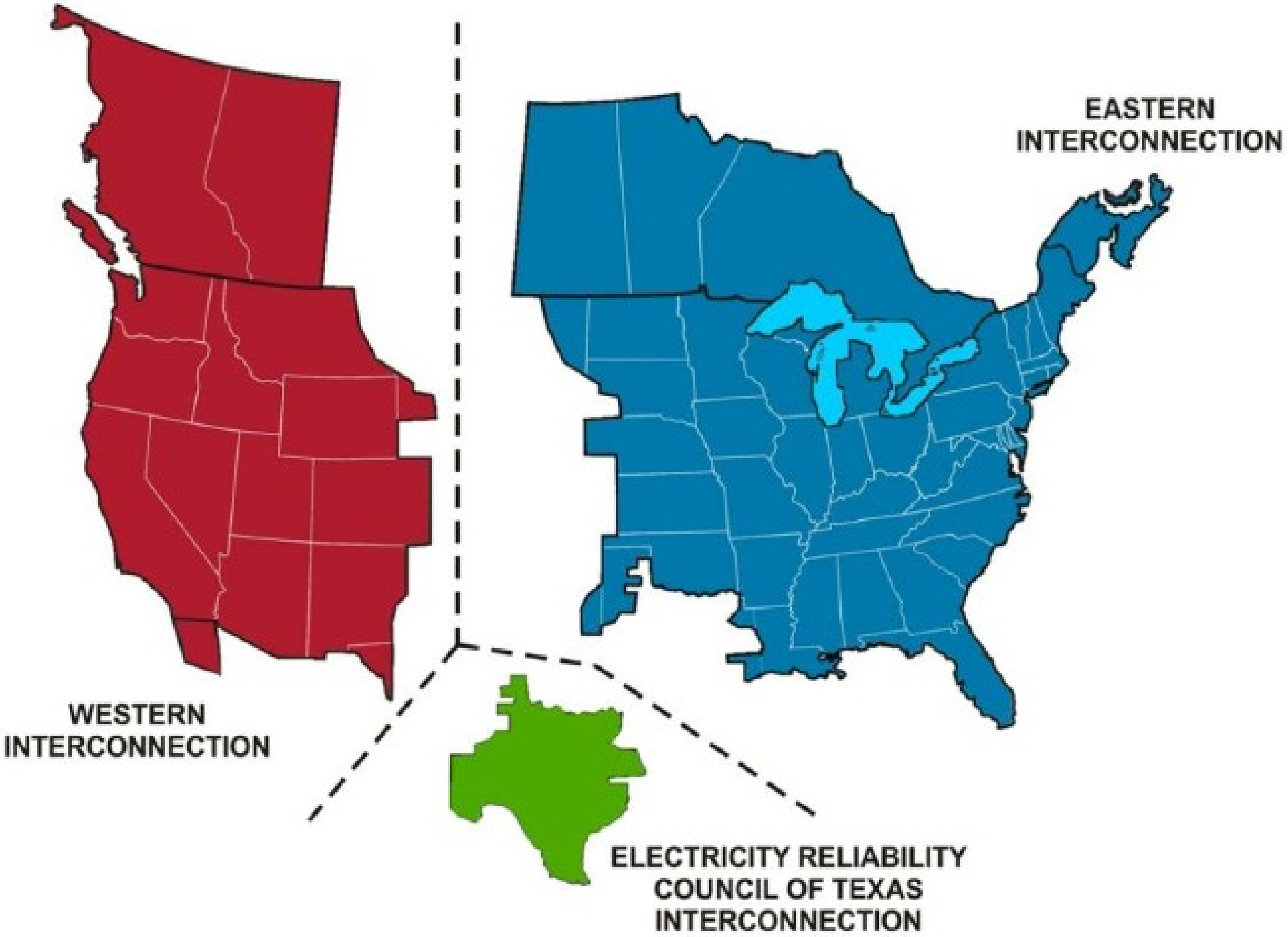
Source | Enverus, NOAA, Weather.gov, Weather.com

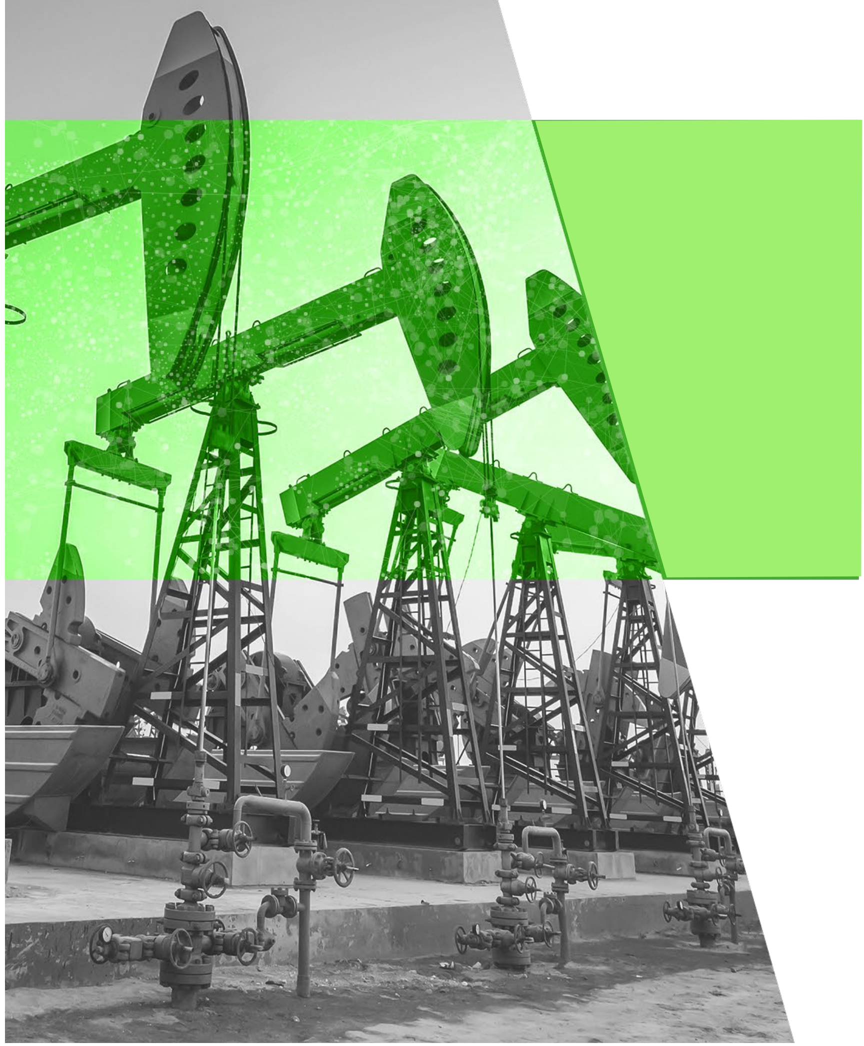
ERCOT Power Grid Outage: What Went Wrong?

Could the other regions have helped ERCOT?

On Sunday, Feb. 14 Eastern Interconnect MISO issues a Max Gen Emergency Alert for Monday, Feb. 15 for the South Region during the on peak hours. Blackouts are experienced on Monday and Tuesday.

On Monday, Feb. 15 Eastern Interconnect SPP issues a Gen Emergency Alert for Tuesday, Feb. 16 for the South Region during the on peak hours. Blackouts are experienced on Tuesday.





Gas Flow and Price Analysis

The entire energy infrastructure chain was under significant stress during the storm. Texas saw significant natural gas production declines while local demand increased. Texas natural gas demand exceeded Texas natural gas production during the storm, and additional challenges matching available supply with demand were observed.

Natural gas storage withdrawals increased, however, some facilities faced power outages and were not able to operate at maximum levels. It was also observed that gas deliveries to LNG terminals, exports to Mexico, and exports to other neighboring regions were also decreased and a significant amount of the natural gas available was used to meet demand within Texas.

Texas Natural Gas Supply/Demand Balance and Pricing

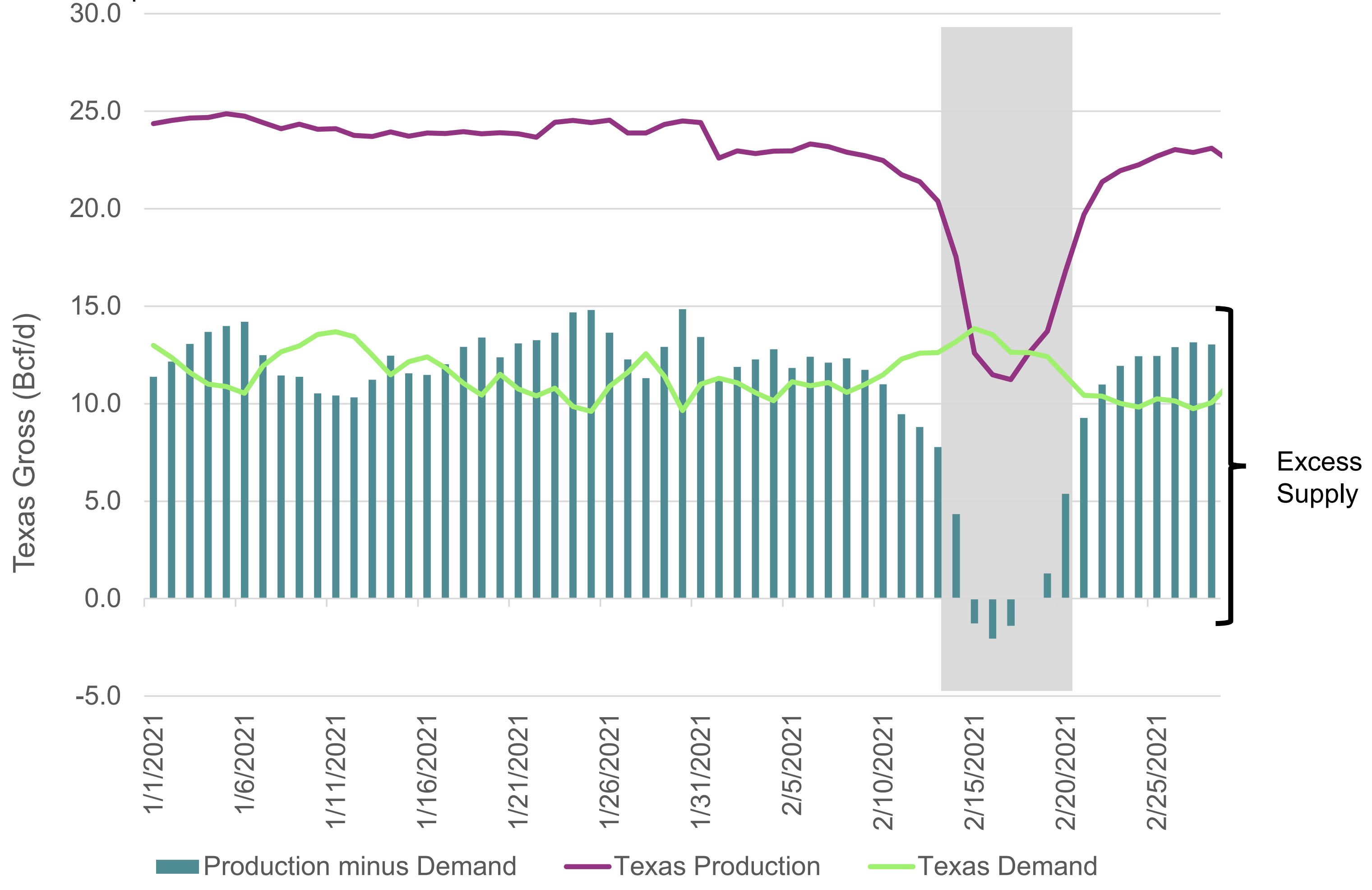
Daily cash prices set all-time records across much of the U.S. in mid-February, with the Intercontinental Exchange (ICE) lifting its $999/MMBtu price cap as some hubs saw transactions at that level.

The supply shortage occurred due to shut-ins across the western half of the U.S. and extended to markets served by central and western U.S. supplies, including Chicago and SoCal but not areas served by WCSB, Haynesville or Appalachian supplies on the margin, such as Transco Zone 6 or Henry Hub.

In Texas specifically, production dropped while demand spiked [see Texas supply vs demand bar in chart], causing exports via LNG and pipelines from the state to be curtailed. Like the rest of the U.S., cash prices jumped to record-high levels, as shown in the chart to the right. Houston Ship Channel (HSC) traditionally trades near Henry Hub or a cash basis of +/- $0.05/MMBtu. However, during the mid-February events, the HSC basis traded as high as $385/MMBtu (basis is the difference between the Henry Hub benchmark and the regional price hub).

Texas Production, Demand and Prices

Data last updated: June 24, 2021



Source | Enverus OptiFlo Gas

Power Demand for Natural Gas During the Storm Was Only One Component

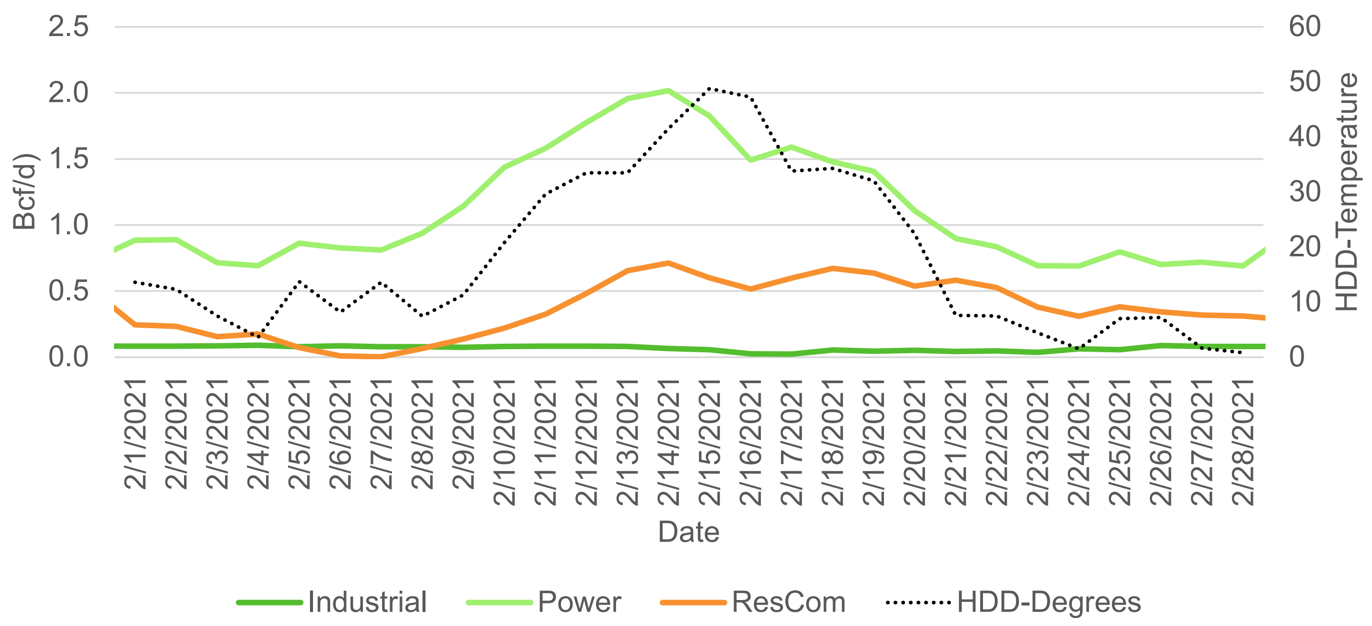
Natural gas pipeline data indicates power and residential/commercial meters were up significantly during the peak of the storm (Feb. 17-20) compared to pre-storm levels (Feb. 1-10) and post-storm levels.

However, power demand after Feb. 14 declined, as power service necessary for natural gas midstream infrastructure to operate was offline and remaining available natural gas supplies were prioritized for home heating. Residential/commercial natural gas demand was more consistent through the peak period.

The industrial facility sample decreased over the same time period, as service to homes for heating and power plants was prioritized.

Definition of Heating Degree Day (HDD): The number of heating degrees in a day is defined as the difference between 65°F and the mean temperature (average of the daily high and daily low).

Demand by Sector - Pipeline Sample



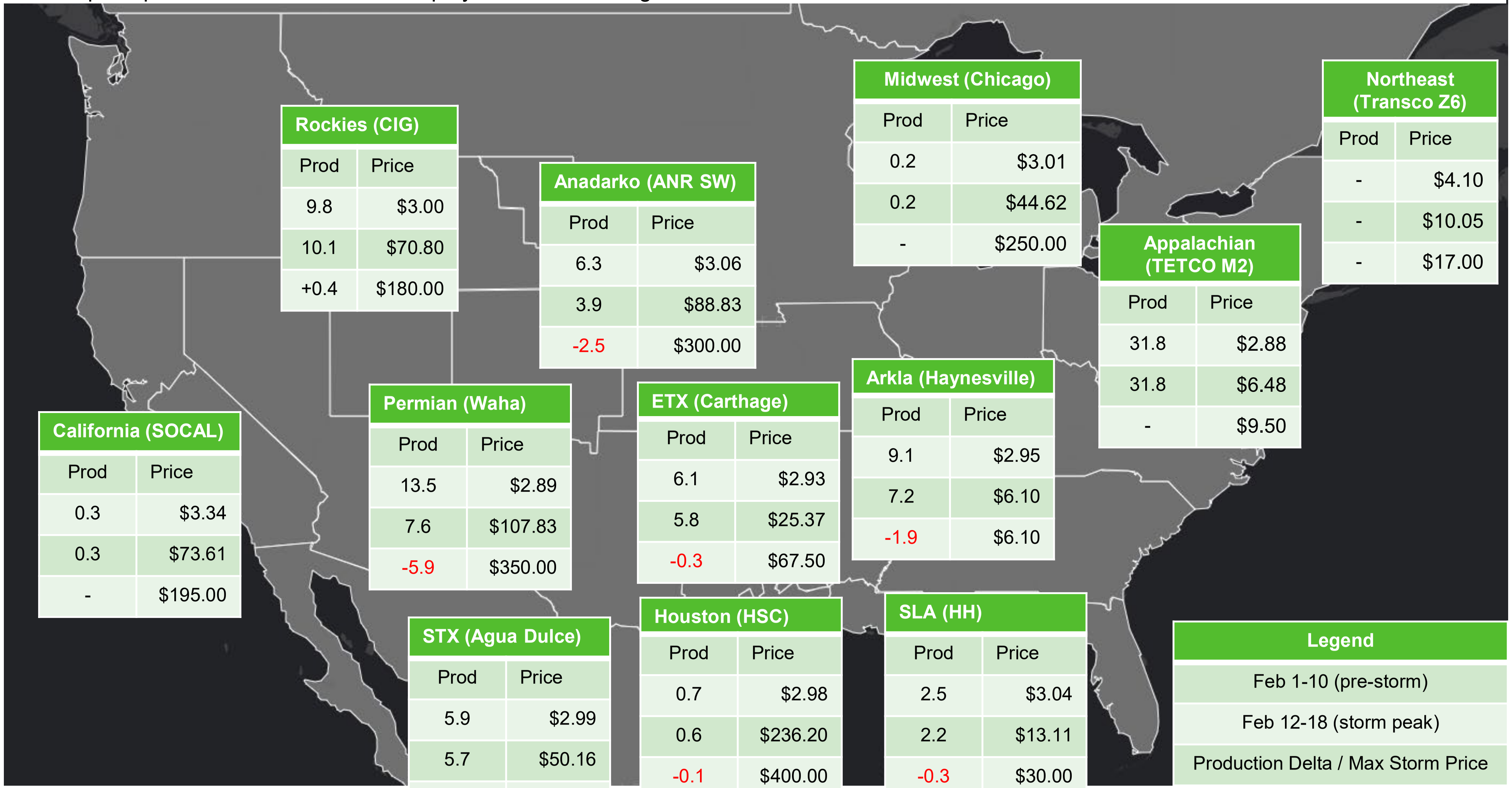
Feb17-20 vs Feb1-10	Bcf/d	%
Industrial	-0.03	-43%
Power	+0.15	+12%
Residential/Commercial	+0.32	+112%
Total Inflows	**+0.45**	**+28%**

Source | Enverus OptiFlo Gas

Production and Price Activity Around the Storm

Each table displays average daily production and prices in key basins over two different periods in February (see legend in lower right).

- The intent is to highlight pre-storm or normal levels as compared to elevated levels experienced during the storm.
- Production (or 'Prod') is the Enverus modeled estimate which is grossed up from the observable interstate pipeline sample.
- The peak price for each hub is also displayed in the lower right of each table.



Rockies (CIG)

Prod	Price
9.8	$3.00
10.1	$70.80
+0.4	$180.00

Anadarko (ANR SW)

Prod	Price
6.3	$3.06
3.9	$88.83
-2.5	$300.00

Midwest (Chicago)

Prod	Price
0.2	$3.01
0.2	$44.62
-	$250.00

Northeast (Transco Z6)

Prod	Price
-	$4.10
-	$10.05
-	$17.00

Appalachian (TETCO M2)

Prod	Price
31.8	$2.88
31.8	$6.48
-	$9.50

California (SOCAL)

Prod	Price
0.3	$3.34
0.3	$73.61
-	$195.00

Permian (Waha)

Prod	Price
13.5	$2.89
7.6	$107.83
-5.9	$350.00

ETX (Carthage)

Prod	Price
6.1	$2.93
5.8	$25.37
-0.3	$67.50

Arkla (Haynesville)

Prod	Price
9.1	$2.95
7.2	$6.10
-1.9	$6.10

STX (Agua Dulce)

Prod	Price
5.9	$2.99
5.7	$50.16
-0.2	$125.00

Houston (HSC)

Prod	Price
0.7	$2.98
0.6	$236.20
-0.1	$400.00

SLA (HH)

Prod	Price
2.5	$3.04
2.2	$13.11
-0.3	$30.00

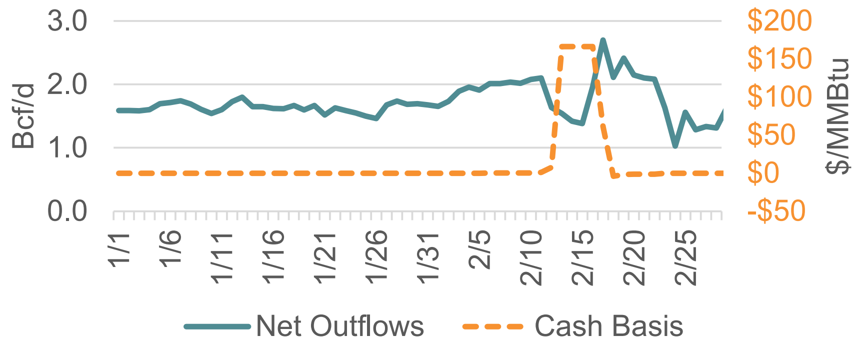
Legend
Feb 1-10 (pre-storm)
Feb 12-18 (storm peak)
Production Delta / Max Storm Price

Regional Natural Gas Flows and Basis Pricing

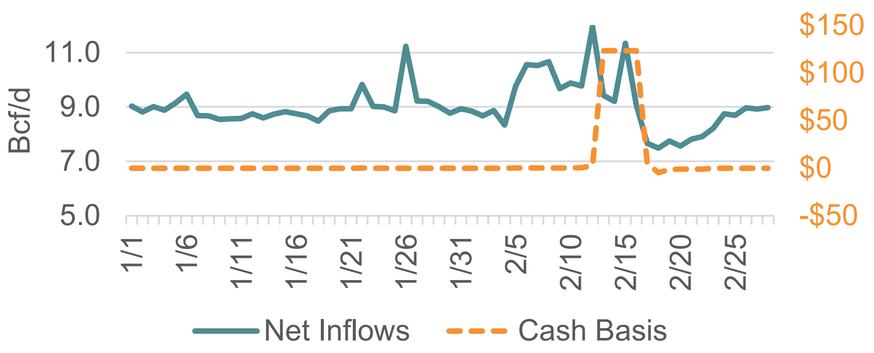
Winter storm Uri impacted nearly all regions in the US. Four regions are highlighted here by showing net gas coming into (inflows) or leaving (outflows) the Rockies, California, Midwest and Appalachian:

- Due to the trajectory of the storm, which came from the West Coast, regions like Rockies, California and even Chicago saw most of the impact in flows and pricing between the 13th and 16th of February.
- The Appalachian was one of the least impacted regions and only still saw prices increased by over 90%.

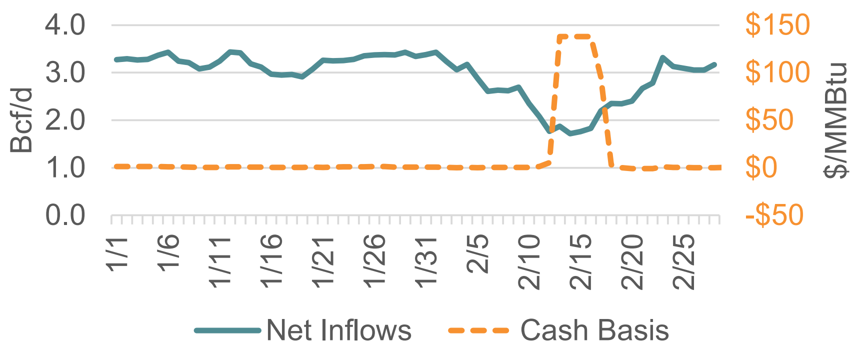
Rockies (CIG)



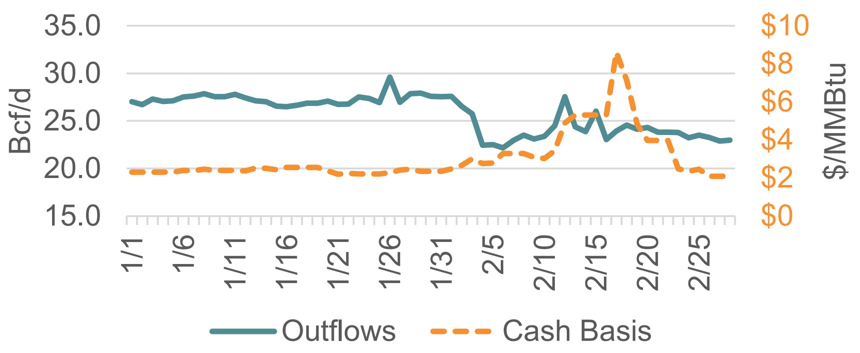
Midwest (Chicago)



California (SoCal)



Appalachian (TETCO M2)



Source | Enverus OptiFlo Gas, NGI

Texas Natural Gas Production

Because intrastate pipelines deliver so much Texas supply to markets, tracking daily production levels is more challenging in the state than in markets served by interstate pipelines.

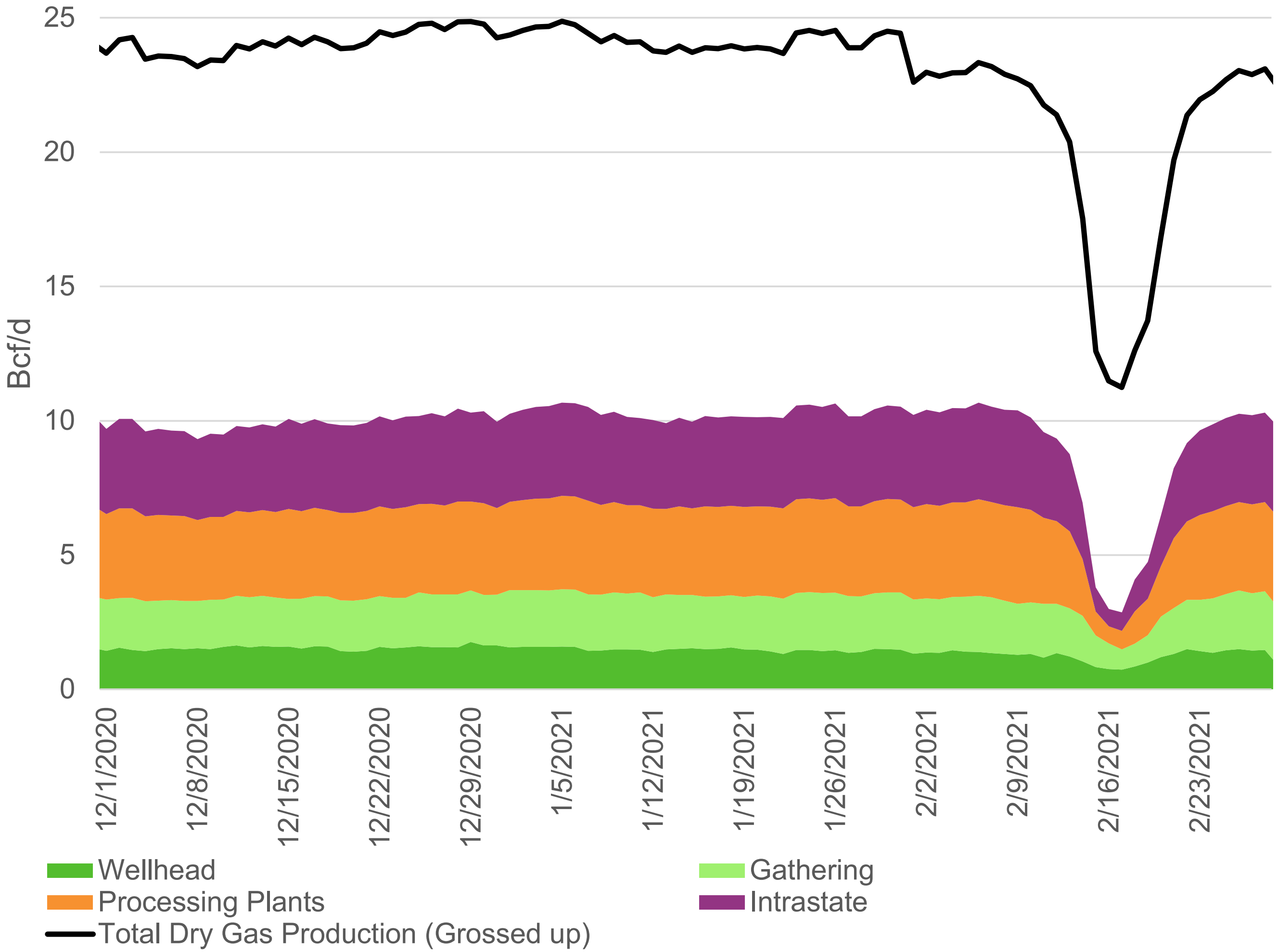
Based on Enverus's sample of interstate receipts and deliveries, grossed up to account for intrastate volumes, natural gas production began to drop off on Feb. 12, when temperatures dropped below freezing in Dallas and Austin. As the deep freeze extended to all counties in Texas, over 10 Bcf/d of supply was offline. Freeze-offs at the wellhead, midstream infrastructure outages, and pipeline force majeures all impact production.

Based on our samples, the declines were steepest in the Permian region.

Following the event, production was restored to near previous levels within approximately 10 days.

Source: Enverus OptiFlo Gas

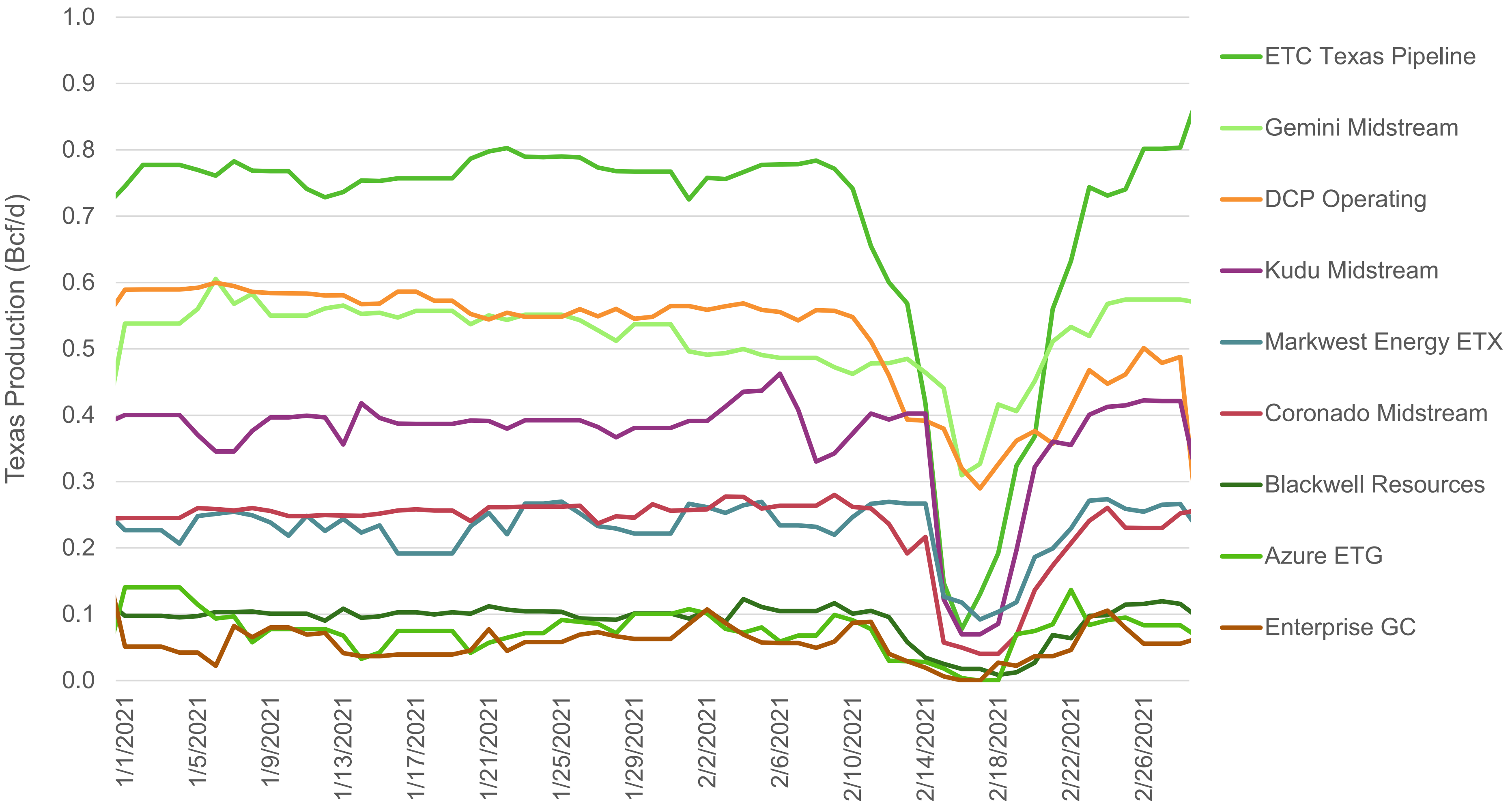
Texas Production Sample by Facility Type and Total Dry Gas (Grossed Up)



Texas Operators with Largest Declines

Based on Enverus's sample gas production from daily pipeline data is displayed in the chart by operator. Energy Transfer - Texas Pipeline leads the operators with the largest declines during the storm. It can also be observed how natural gas production recovers to pre-storm levels as temperatures normalized.

Texas Production Sample – Key Operators



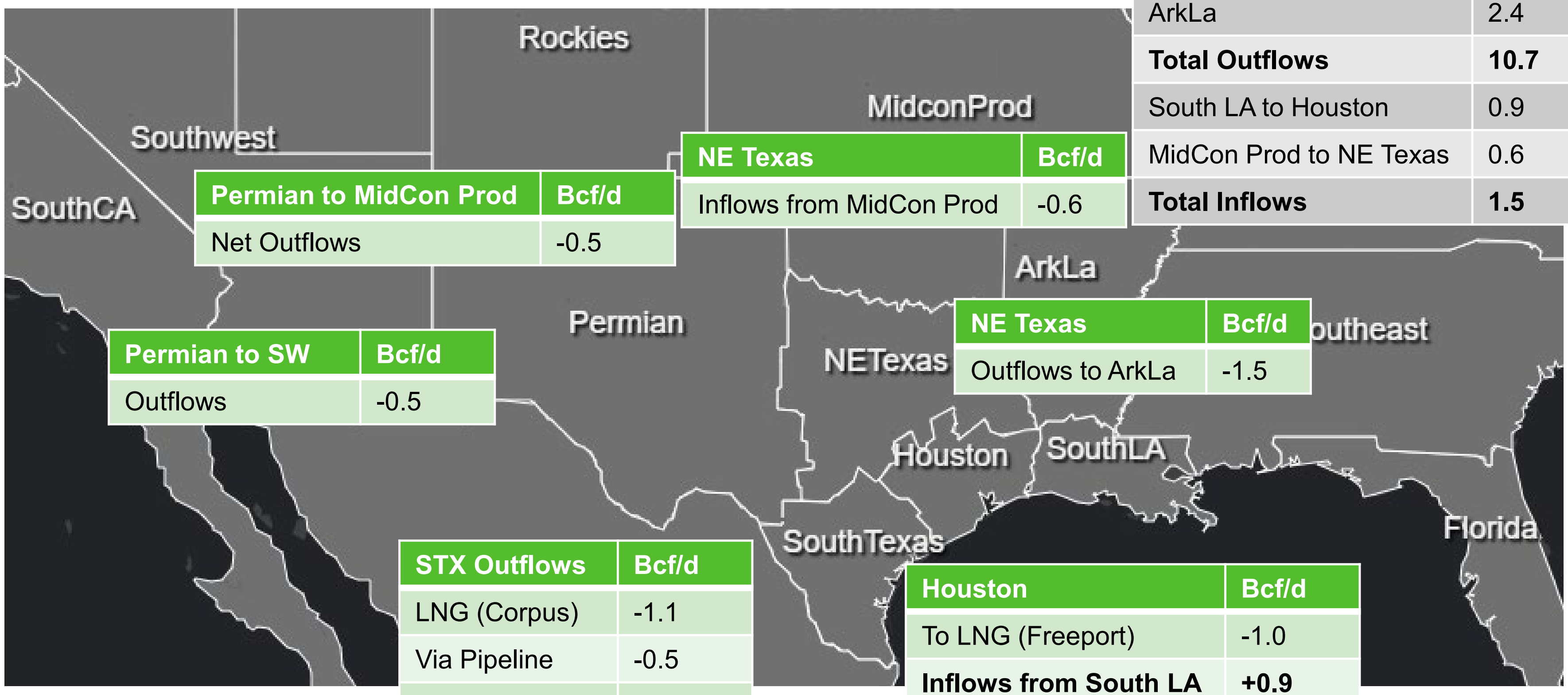
Source | Enverus OptiFlo Gas

Texas Natural Gas Inflows/Outflows Deltas

The tables show natural gas pipeline flow changes between the peak of the storm (Feb. 12-18) vs. pre-storm levels (Feb. 1-10):

- Texas exported less natural gas, which is represented by outflows showing negative figures.
- Texas only received more natural gas from South LA (+1 Bcf/d), specifically from TETCO and Transco pipelines.

Inflows/Outflows (Bcf/d)	Feb 1-10	Feb12-18	Delta
Permian to SW	0.6	0.1	-0.5
Permian to MidCon Prod	1.0	0.5	-0.5
LNG	5.0	2.9	-2.1
Mexico	1.7	1.2	-0.5
ArkLa	2.4	0.9	-1.5
Total Outflows	**10.7**	**5.6**	**-5.1**
South LA to Houston	0.9	1.9	+1.0
MidCon Prod to NE Texas	0.6	0.0	-0.6
Total Inflows	**1.5**	**1.9**	**+0.4**



Permian to MidCon Prod	Bcf/d
Net Outflows	-0.5

NE Texas	Bcf/d
Inflows from MidCon Prod	-0.6

Permian to SW	Bcf/d
Outflows	-0.5

NE Texas	Bcf/d
Outflows to ArkLa	-1.5

STX Outflows	Bcf/d
LNG (Corpus)	-1.1
Via Pipeline	-0.5
Total	**-1.6**

Houston	Bcf/d
To LNG (Freeport)	-1.0
Inflows from South LA	**+0.9**

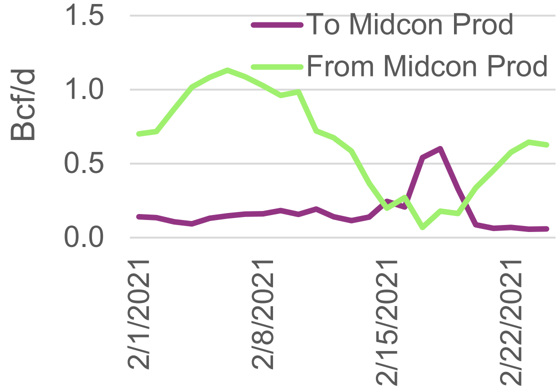
Source: Enverus OptiFlo Gas

Texas February Inflows and Outflows

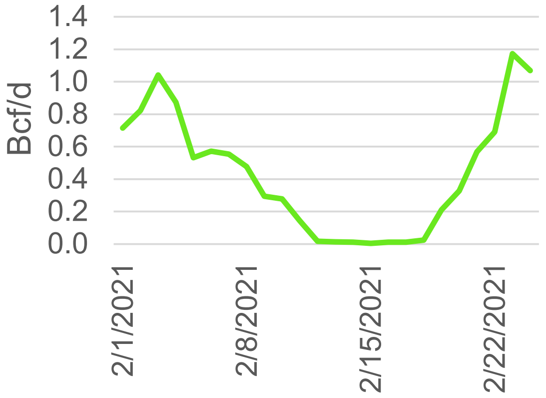
Texas is a net supply state, meaning it produces more than its local demand. Gas moves out of the state via pipelines and LNG terminal facilities.

Permian to Southwest

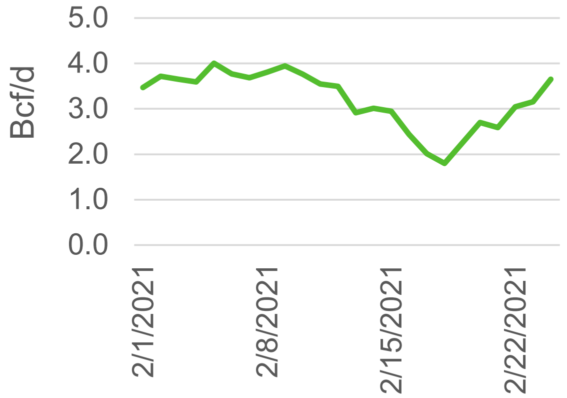
Permian



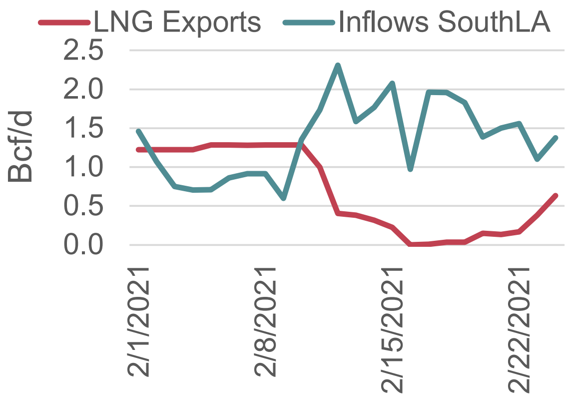
Midcon Prod to NE Texas



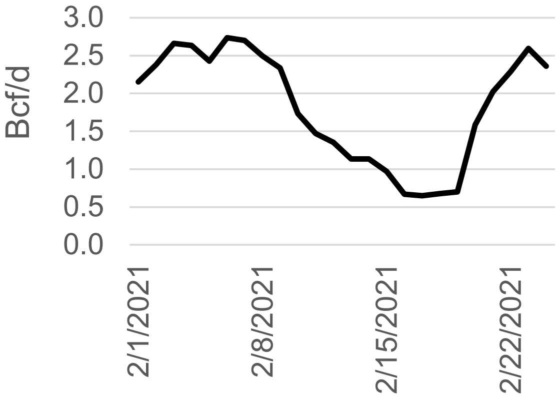
South Texas to LNG and MX



Houston



NE Texas to ArkLa



Source | Enverus OptiFlo Gas

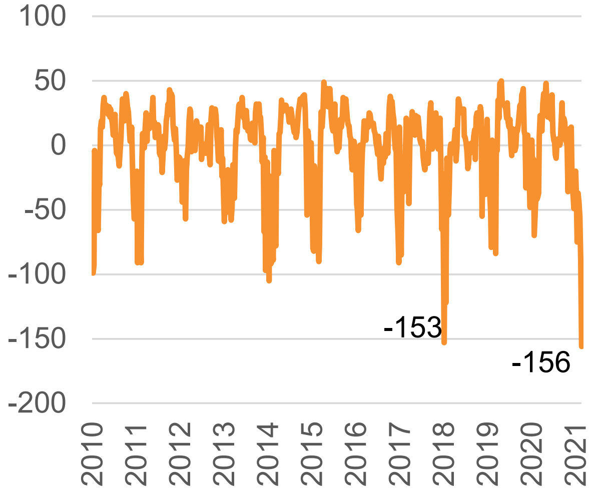
Underground Natural Gas Storage

EIA South Central Region comprises the states of TX, LA, OK, KS, AR, MS and AL.

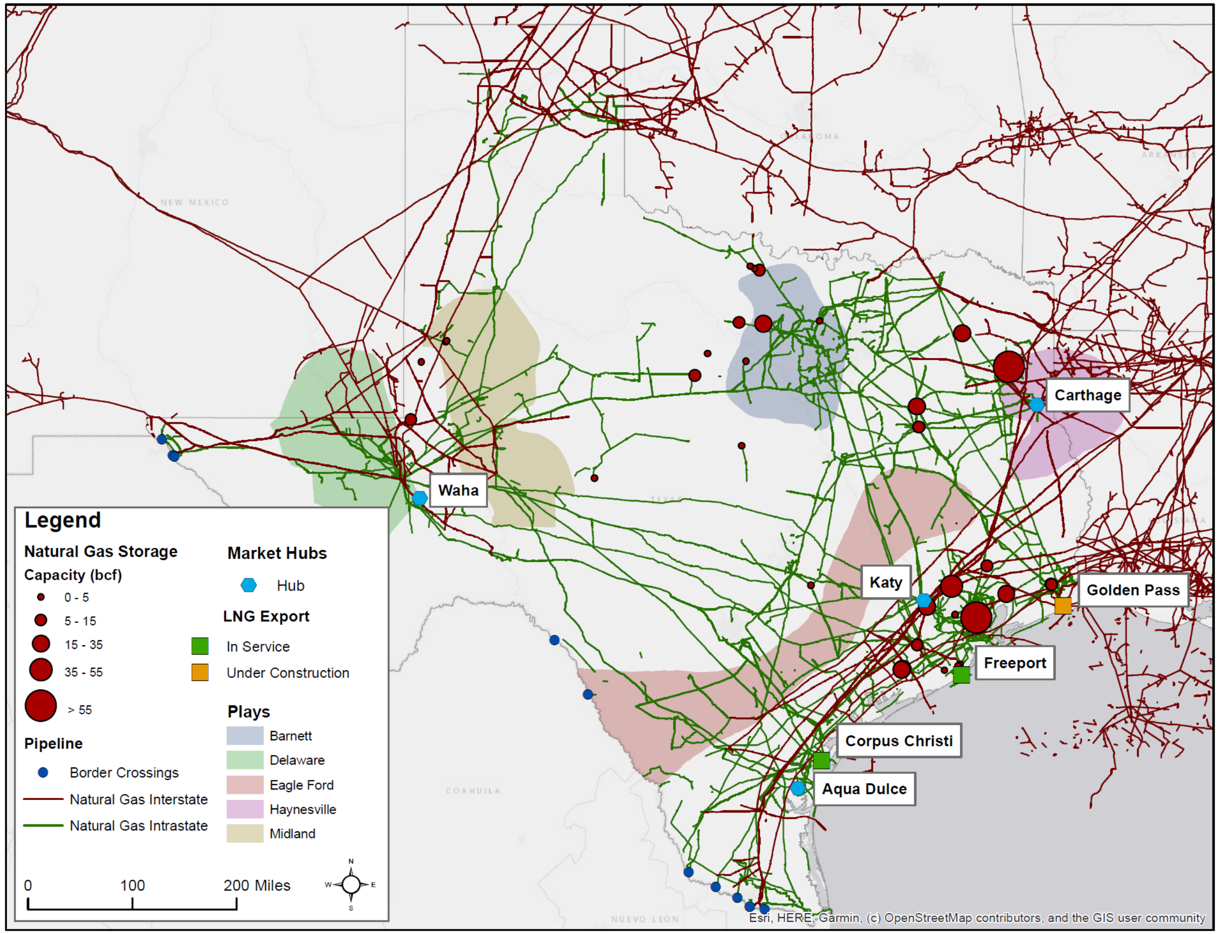
Texas has 30 storage fields, which represent 35% of the working gas capacity of the region.

A record-high withdrawal of -156 Bcf was reported by EIA for the week ending Feb. 19. This withdrawal could have been higher, but power outages and other operational conditions due to the extreme temperatures limited the ability to bring more natural gas to the market.

EIA South Central Region

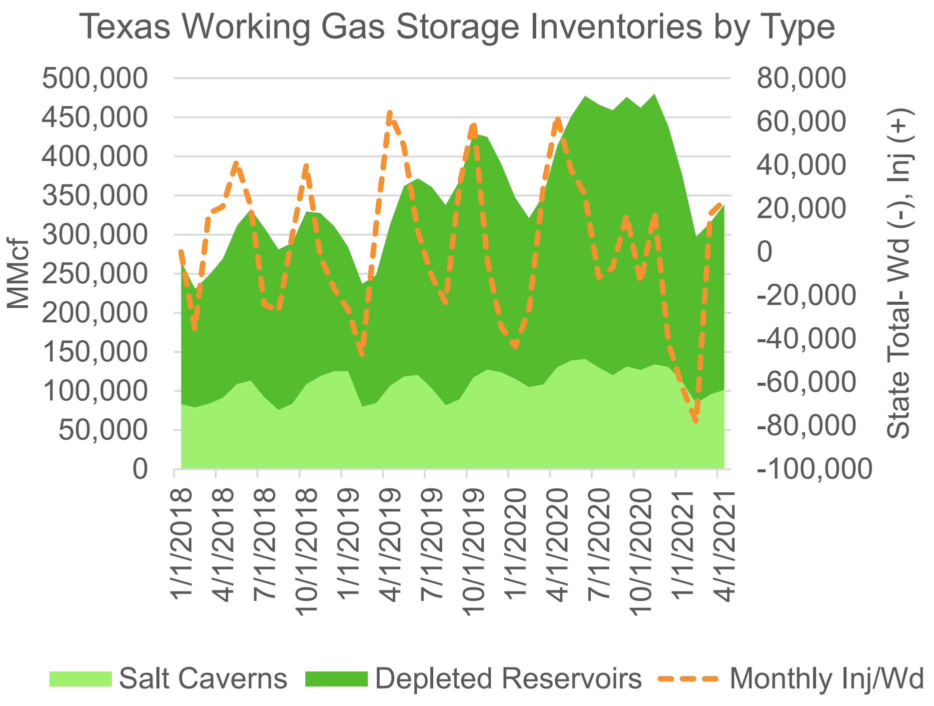


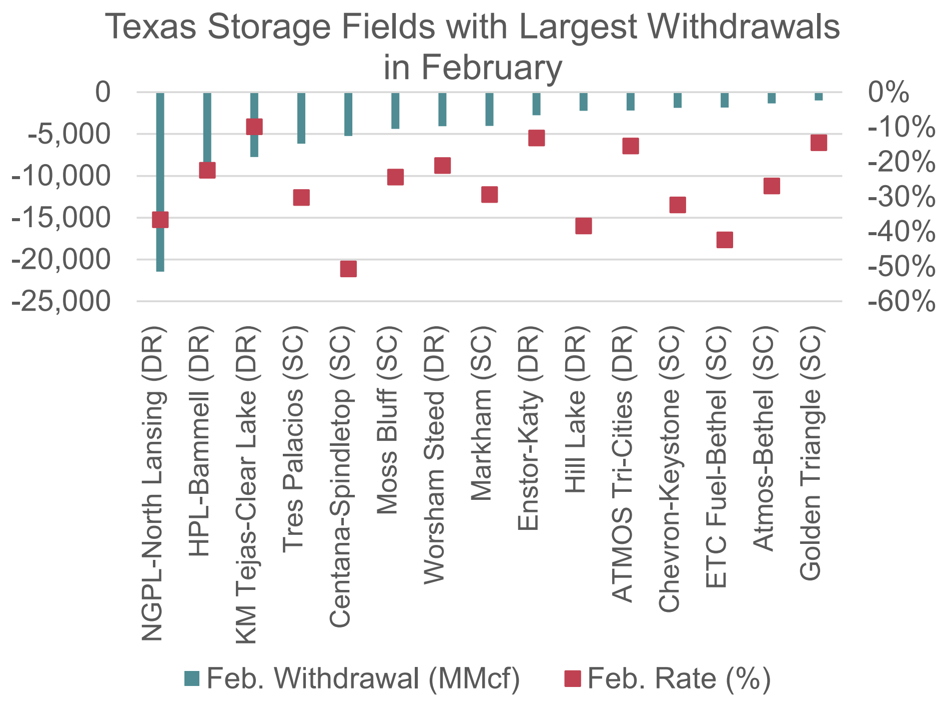
Texas Gas Infrastructure Map



Source | Enverus OptiFlo Gas, EIA

Texas Gas Storage Operations by TXRRC





In line with EIA, the TXRRC also reported a record high storage withdrawal for February 2021.

Depleted Reservoirs showed the largest change in February with inventories decreasing by 19% or a drop of 51 Bcf compared to January.

Salt Caverns facilities also had a large decline in working gas inventories in February, down 25% or 27 Bcf from January levels.

At a storage facility levels, a good mix of Depleted Reservoirs and Salt Caverns were among those with the largest withdrawals in the month of February when Winter Storm Uri hit the state.

Natural Gas Pipeline (NGPL), North Lansing depleted reservoir field, withdrew the most gas with 21 Bcf, which represented 37% of the working gas of the field.

Centana pipeline, Spindletop salt cavern field in Jefferson County, pulled 5 Bcf and 51% of its working gas capacity.

Source | Railroad Commission of Texas (TXRRC)

Texas Storage Sample from Pipeline Data

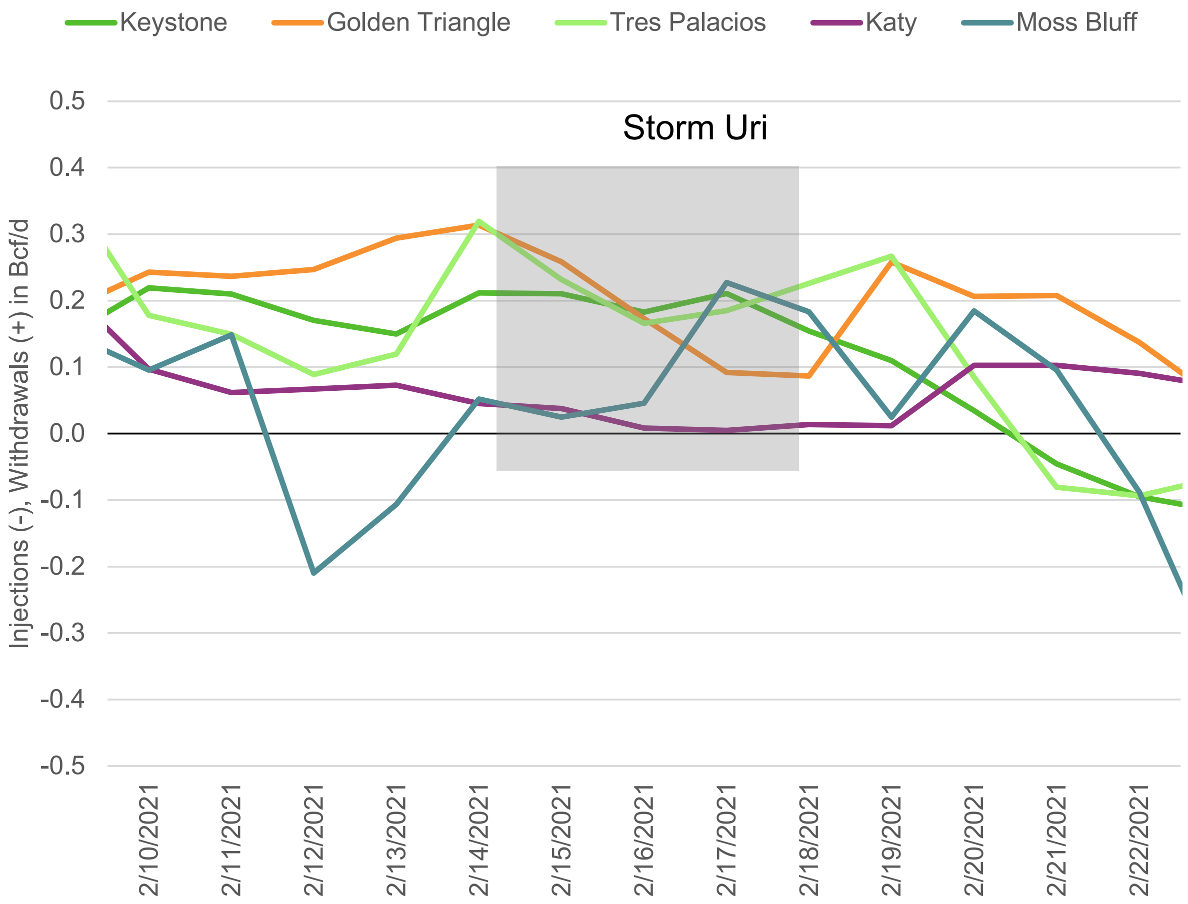
There are five natural gas storage facilities observable in the pipeline flow data. Storage activity around Winter Storm Uri is shown in the chart.

Even though the sample is small (~15%), it provides some insight into how storage facilities responded during this critical time.

Three out of the five fields reported lower withdrawals during the storm. Tres Palacios was one of these facilities and a Critical Notice was issued indicating loss of power as the reason.

The other two fields, Keystone and Moss Bluff, did report higher withdrawals during the storm, providing much-needed supply to the Texas market.

Texas Gas Storage Facilities – Net Storage Withdrawals



Source | Enverus OptiFlo Gas

Pipeline Notices

Pipeline notices are published in natural gas pipeline portals called EBBs (Electronic Bulletin Boards) to communicate with shippers and natural gas market players.

A summary of these notices is included in the table:

- Pre-Storm (Weather Alerts): Some pipelines sent critical notices as early as Feb. 2nd notifying of the colder-than-normal temperatures in the forecast.
- Pipelines in stress. Due to the storm, most pipelines declared either an OFO (Operational Flow Order), SOC/COC (Strained and Critical Operating Condition) or FM (Force Majeure). During these events, only firm and primary receipt and delivery nominations are accepted.
- During the Storm: Notices about pipeline imbalances, specially related to lack of supply.
- Loss of power was only announced at 2 of the 24 systems reviewed: Golden Pass and Tres Palacios.

Pipeline	Pre- Storm (Weather Alerts)	OFO/FM	During the Storm	Power Outage
El Paso	2/10	SOC/COC: 2/12-18	Washington gas storage (NM) on maximum withdrawal. Permian basin supply losses due to freeze offs	-
NGPL	2/10-High demand	-	Various locations at risk for transport. IT storage also limited.	-
Tennessee	-	OFO: 2/12-2/20	-	-
Texas Eastern	-	OFO: 2/12-2/20	Restricted IT and secondary out of path volumes.	-
Texas Gas	2/10	-	-	-
Transco	-	-	Notices of some Texas meters having capacity reduced.	-
Black Marlin	-	-	-	-
Cimarron	2/15	-	2/15-2/23: lack of supply volumes	-
Golden Pass	-	FM: 2/16-2/17	-	2/16
Golden Triangle	-	-	-	-
Gulf States	-	-	-	-
High Island	-	-	-	-
Tiger	-	-	Underperforming meters in LA	-
Tres Palacios	-	FM: 2/15-2/18	-	2/15-2/17
ANR	-	-	-	-
Enable	-	OFO: 2/10-2/18	Supply advisory, Human needs requirements	-
Florida Gas	2/2: Operational Alerts	-	Operational alerts: tolerance 5-15%	-
Gulf South	-	-	-	-
MRT	-	OFO: 2/11-2/18	-	-
Panhandle	2/3	OFO: 2/15-2/18	-	-
Northern Natural	-	FM: 2/15-2/16	-	-
Southern Star	2/2	OFO Storage: 2/15-2/17	Underperforming notices due to imbalances	-
Transwestern	2/11	-	-	-
Trunkline	2/3	OFO: 2/17-2/19	-	-

Source | Enverus, Pipeline EBBs

Note: Primary receipt and delivery meters are defined in contracts. During OFO events shippers can only nominate to/from, from these primary meters and lose flexibility to nominate to other meters (or out of path meters).

Gas Supply Plan Analysis

General Comments on Gas Supply Plans

- Enverus was engaged to provide an experienced, unbiased third-party assessment of the suitability of CenterPoint Energy's gas procurement plans and opine on whether it is consistent with best industry practices.
- Enverus is qualified to provide this assessment in that the team of analysts that prepared this review have over 30 years of combined experience with various North American gas utilities. This experience includes previous advisory engagements at Enverus as well as prior career experience as physical gas managers and traders with exposure to all geographical service areas within the U.S.
- The U.S. natural gas distribution industry is very mature and therefore similarities are common across many utilities' gas procurement strategies regardless of geographical location.
- This is not only because these strategies have been time-tested through the decades by knowledgeable gas management teams but also because they typically have very similar objectives. Generally aligned around some combination of achieving:
    1. Reliability
    2. Affordability
    3. Consistency
- In the wake of extreme market conditions, it is erroneous (though common) to solely judge the procurement plan against the monetary result. However, we must keep in mind the utility's obligation is to meet the above-mentioned priorities. It is not to outperform the market as a gas marketing entity or speculative trading operation endeavors do.
- Because natural gas consumption is highly correlated with weather and weather is prone to unpredictable changes, history has shown that the most optimal strategy is to employ a diverse portfolio of procurement instruments of varying durations, supply sources, delivery paths, and price mechanisms.
- While there will always be some nuance in the actual performance of the portfolio each year, so long as the portfolio is continually reviewed and adjusted considering the latest market data and fundamental supply and demand data by qualified personnel, a utility is acting in the best interest of its customer base.

Industry Best Practices

- Within the industry, there are specific time-tested strategies employed by gas supply management teams. These strategies generally align around diversity of supply mix, gas transportation, and purchase term. Employing a broad mix of each, based on options available to a specific buyer, allows the manager to maximize reliability while minimizing costs.
  - Gas Transport and Storage – There are various pipeline and storage options available that can deliver to a particular LDC, however these options vary based on location and unsubscribed capacity available to contract. Some LDCs will have access to numerous pipelines (some including storage fields) that transport gas from many different producing basins. Other LDCs may be served by only a couple pipelines with limited storage capabilities, and sourcing from one or two producing regions. Some pipelines have unsubscribed capacity available to contract, and some do not. Some pipelines offer different products including no-notice service, and others do not. The specific options available are unique to each LDC. Best practice is to employ a diverse mix of transportation and storage based on the options available, and to continually analyze additional options (and demand trends) if they become available to determine if a change or new contract is warranted.
  - Gas Purchasing
    - Geography – Natural gas producing basins vary in terms of extreme weather preparedness (equipment meant to mitigate extreme weather is typically deployed in a given basin based on typical weather, not extreme event potential), growth or decline trends, pipeline capacity available to transport gas, distance from population/demand centers, local price, and various other characteristics. Because of this, industry best practice is to source natural gas supply from a diverse mix of sellers, producers, and regions, based on options available to each LDC.
    - Term of purchase – Gas demand is largely driven by weather and weather is difficult to predict. As a result, industry best practice is to use a combination of long term (>=1 year), seasonal, and spot (<= 1month) durations to prevent the LDC from being “out in the market” for large portions of its supply needs at any given time. There are also LDC system capacity constraints (bottlenecks) that must be managed and accounted for when purchasing and delivery gas. Purchasing all gas in long-term contracts and in a quantity sufficient to meet design-day demand would result in an oversupply of gas nearly every single day. This inefficiency would result in higher costs to rate payers than necessary. On the other extreme, purchasing all gas in the spot market would result in highly volatile price exposure to rate payers and would increase operational costs to the LDC, because they would need extreme system flexibility to manage this lack of predictability.
    - Backup supply options – Depending on available pipeline, storage, and supply options, some LDCs also use backup supply including LNG peak shaving, propane-air peak shaving, or various other options. These are nearly always the most expensive options available, however they can provide additional supply during peak demand when ensuring reliability is the hardest.

CenterPoint Energy Gas Supply Plan

- CenterPoint provided Enverus with its “2020 Texas Gas Procurement Plan” (“The Plan”) as well as detailed responses to Enverus inquiries surrounding actions taken ahead of and during Winter Storm Uri.
- To understand the relative size of the service provided, some highlights from the Plan and the inquiry responses are:
  - CenterPoint serves nearly 1.8 million sales customers, most of which are residential customers dependent upon natural gas service for uses such as cooking, water heating and space heating, in 337 cities, towns and communities across East Texas, South Texas and the Upper Texas Gulf Coast.
  - As of February 2021, customer count was Residential ~1.7mm; Commercial ~97k; and Industrial ~4k
  - A normal February load is ~460,000 mcf while the design day is just over 2 Bcf (using 45 HDDs at IAH)
  - CenterPoint has contracted capacity of 2,574,976 Dth on pipelines in its seven Texas service areas.
  - Review of the 2019 Plan show that price volatility of the Plan was 13% (compared to overall market at 24%)

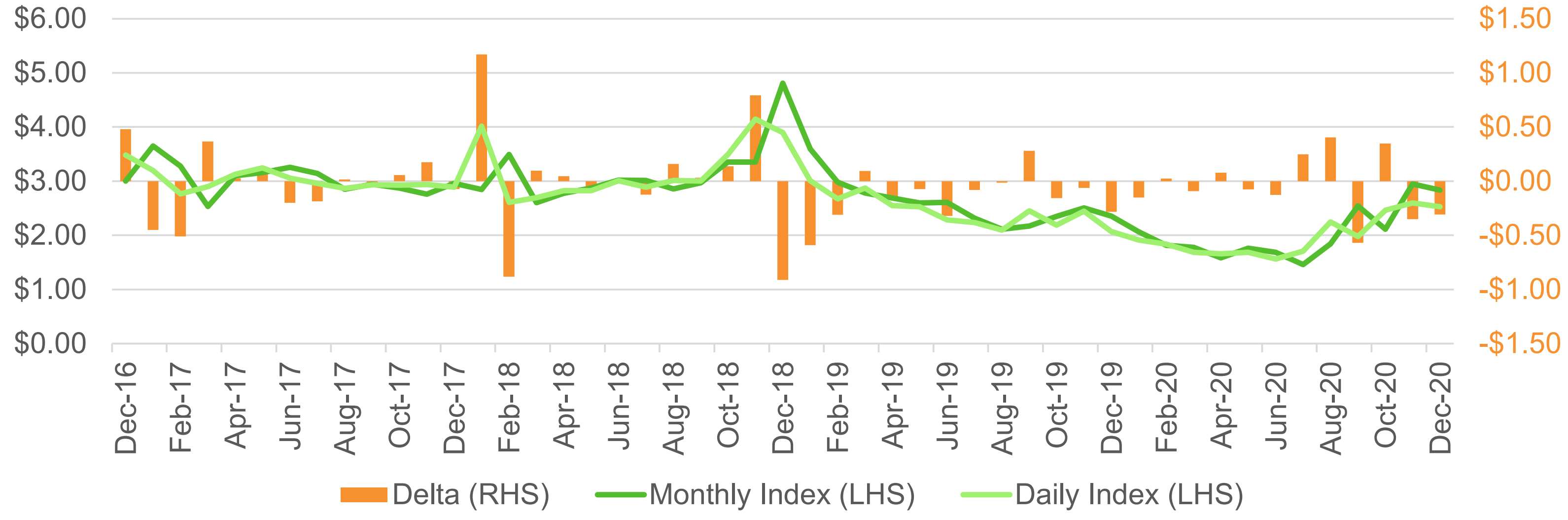
- Consistent with the common industry objectives identified on the previous page, CenterPoint’s objectives clearly outlined in the Plan are:
  1. *Reliability* – Gas will be available when customers demand it under a wide variety of operating and market conditions…. so that it experiences no curtailment of human needs customers and avoids penalties for not purchasing minimum contracted volumes.
  2. *Reduced price volatility* – gas supply costs are stabilized so that customers are shielded from severe month-to-month changes in the billed gas supply rate.
  3. *Reasonable price* – the cost of supply will be reasonable based on market conditions, customers’ requirements, **and** CenterPoint’s service obligation.

CenterPoint Energy Gas Supply Plan

- Within the Plan, Enverus notes the following statements by CenterPoint which contribute to achieving the Plan's objectives. Enverus agrees that these objectives are consistent with best industry practices and finds no evidence that best efforts to achieve them were not undertaken:
  - CenterPoint conducts diligent fundamental analysis, including engaging qualified and reputable outside expert sources and government agencies, in order to establish the appropriate supply portfolio mix.
  - CenterPoint's supply portfolio must be sufficiently flexible to accommodate inherently unpredictable changes in demand. Since CenterPoint Energy's purchases of supply are greatest when supplies are most difficult to obtain and supply failure will have the greatest adverse effect on essential human needs, the company must also have supply that is reliable.
  - A balanced combination of upstream pipeline firm transportation service, firm storage service, and no-notice transportation and storage service is utilized to provide service to CenterPoint's distribution systems. CenterPoint does not seek to use interruptible service contracts for any of its purchases.
  - A combination of long term (>=1 year), seasonal, and spot (<= 1month) durations is employed to prevent CenterPoint from being "out in the market" for large portions of its supply needs at any given time.
  - CenterPoint engages the services of experienced asset managers through use of Asset Management Agreements (AMA). As a result, the Company's customers enjoy the same level of gas supply service the Company provided before entering the AMA as well as the financial benefit of fixed payments from the manager as well as profit sharing in the maximally optimized asset portfolio.
  - CenterPoint endeavors to achieve 'price stability' and not to 'beat the market'.
  - CenterPoint reviews the actual performance against Plan objectives and parameters presented in its prior year's Plan (including an evaluation measuring hedging program performance and hedge effectiveness).

Gas Supply Plan – Winter Storm Uri

- Enverus assesses CenterPoint's Gas Supply planning and procurement actions to be reasonable and prudent. The Plan is consistent with best industry practices.
- Industry practices have evolved over the decades with experience as well as with expanding infrastructure. As the market developed so have the liquidity and availability of products available to gas supply planners.
- An academic exploration of modern portfolio theory is beyond the scope of this report, but a generally acceptable principle is that a diverse portfolio that utilizes a robust combination of available infrastructure and instruments will perform better over time and should be considered a necessity.
- A very simplified way to illustrate this visually is to consider an extreme example of relying on the daily spot market to make all purchases as compared procuring all supply using month-ahead indices. The image below shows the random walk over time of these two available price indices (not to mention the complexities of balancing actual demand against planned demand). There is no obvious consistent "winner" and therefore a diverse and robust mixture will always be more prudent.

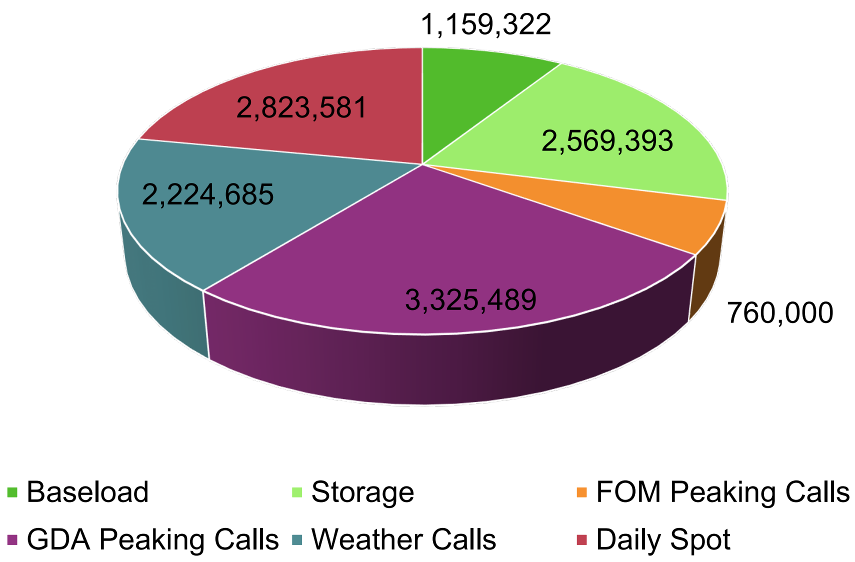


Source | NGI

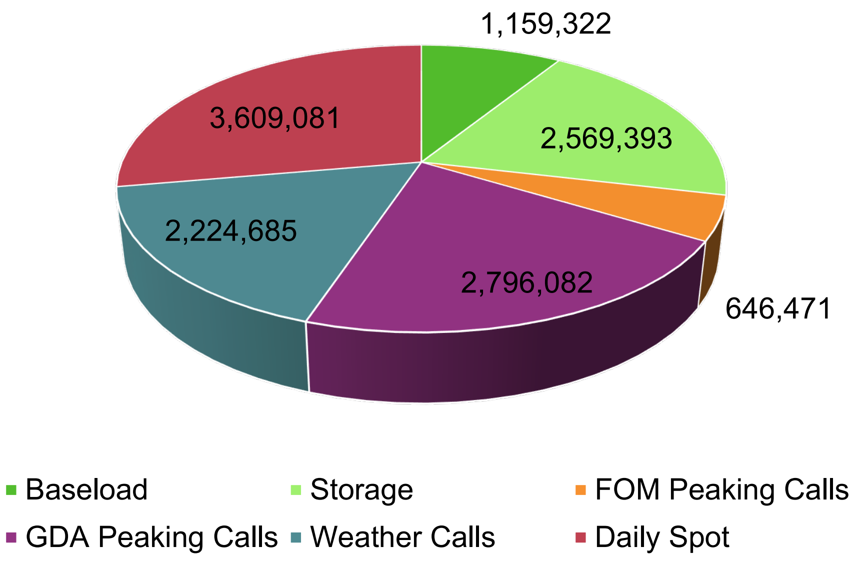
Gas Supply Plan – Winter Storm Uri (cont.)

- Additional support for this is provided in the CenterPoint planned portfolio for the Feb 12-19 timeframe. The portfolio is diverse and includes several different instruments and infrastructure contracts to manage and provide gas supply.
- In response to progressively worsening forecasts and HDD (heating degree day) counts and in anticipation of potential extreme prices, CenterPoint was actively adjusting its portfolio to provide gas and manage high market prices.
- Note in the images below the various instruments and infrastructure contracts employed by Centerpoint in both the plan and actual result.

Texas <u>Planned</u> Total Diversified Portfolio
February 12 - 19



Texas <u>Actuals</u> Total Diversified Portfolio
February 12 - 19



Gas Supply Plan – Winter Storm Uri (cont.)

- On February 12, 2021, Governor Greg Abbott declared a State of Disaster in Texas for all Texas counties in response to the unprecedented cold winter weather event that began in Texas on Thursday, February 11, 2021.
- Following and in concert with that, the TXRRC issued an **emergency order** on February 12 directing operators of gas utility systems to curtail the transportation, delivery and/or sale of natural gas in the State of Texas for any other purpose other than serving human needs customers. This order to prioritize serving human needs customers was due to "imminent threat of widespread and severe property damage, injury, and loss of life due to prolonged freezing temperatures, heavy snow, and freezing rain statewide".
- Immediately subsequent to that the Commission issued a **notice** on February 13 to LDCs acknowledging the demand for natural gas during the 2021 Winter Weather Event, may require them to pay extraordinarily high prices in the market for natural gas as well as subject them to other extraordinary expenses when responding to the 2021 Winter Weather Event. The notice authorized the use of an accounting mechanism so these regulated companies may seek future recovery of extraordinary expenses.
- With that in mind, the MOST important conclusion regarding the prudence of CenterPoint's procurement planning and execution is supported by the following:
  - While the company did experience a small number of localized customer outages caused by equipment failure or unusually high instantaneous customer demand following electric power restoration, the company did not experience **any** customer outages caused by an overall lack of gas supply. The efforts of the company aligned with direct guidance and leadership provided by the TXRRC, and were necessary based on the severity of the event and threat presented.
- Stated another way, CenterPoint's methods for determining design day temperature, design day load, and design hour are as robust and as diligent as any other in the industry (and subject to the same risk of error).

Appendix

Power Outage Analysis

ERCOT - Demand

A combination of record winter demand and power unit outages cascaded into an instability and outages across the ERCOT power grid resulting in 4.5 million Texans without electricity at the peak.

Based on our assessment of available data and the timing of outages, it is likely the issues started at power generation units. Once power outages began, it impacted natural gas production which then exacerbated the ability for power generators to receive natural gas supplies.

ERCOT Power Grid Outage: Power Load/Demand

Texas was hit with one of the coldest winter events in its history. Tuesday February 16th Dallas recorded temperatures as low as -2 degrees which was the second lowest temperature ever recorded. The previous record was set in 1899.

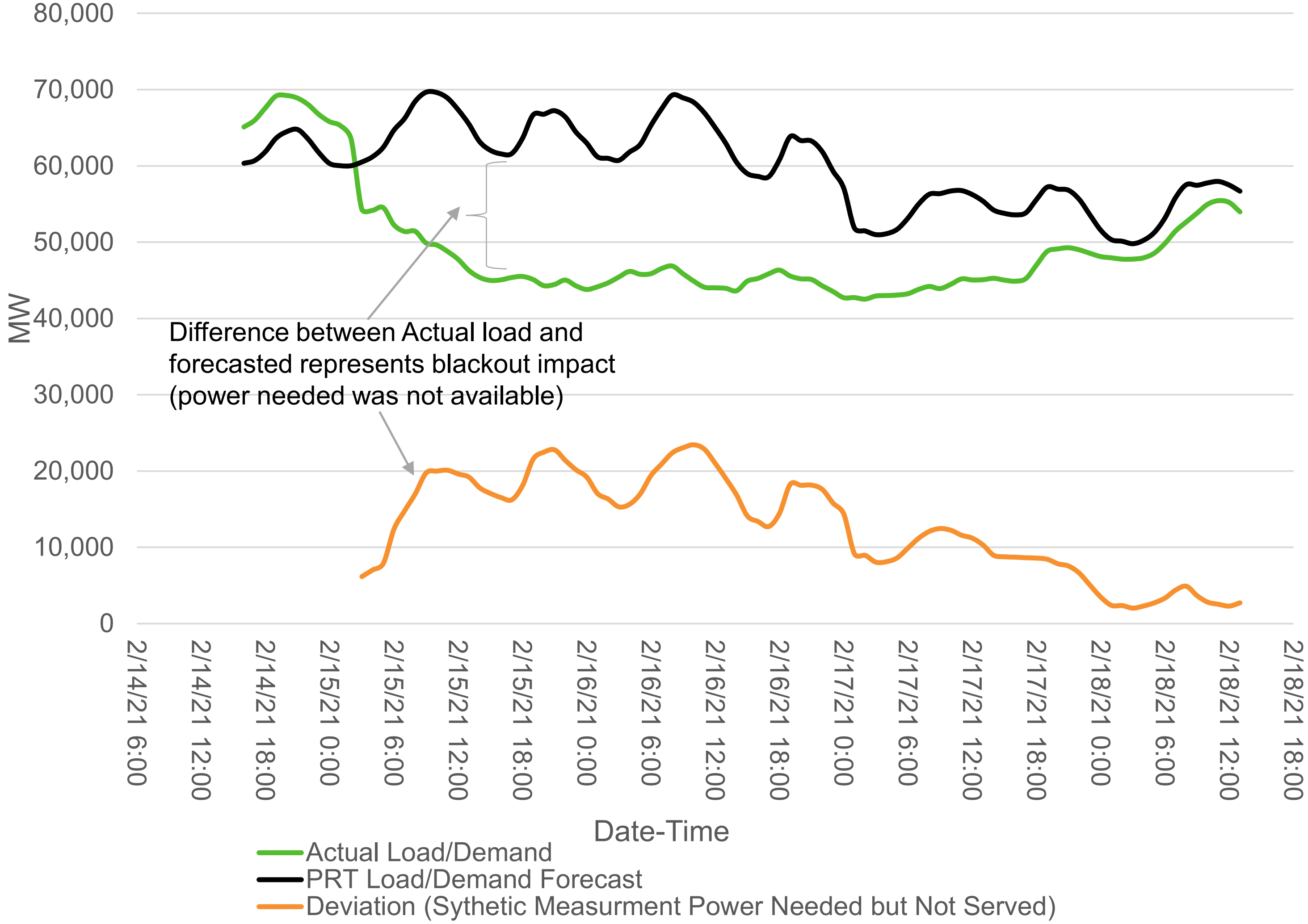
ERCOT reports, as early as 1AM on Saturday February 14th , a cascade of power generation reported output limitations or were forced offline that was impacted by the extreme weather.

At its highest point more than 48.6% of all generation in ERCOT was in forced outage. At least 4.5 million customers were without power during the event. More than 13 million customers had water service interruptions.

ERCOT entered Emergency Operations Level 3 at 01:20 AM Monday February 15th and did not return to normal operations until 10:35 AM Friday February 19th.

ERCOT ordered firm-load shed, cutting off customer's power from 01:20 AM Monday February 15th through the evening of Thursday February 18th.

Load/Demand and Synthetic Measurement of Power Needed but Not Served



Source | ERCOT

Note: As early as 01:00 on 2/14/2021, two units at NRG's WA Parish Power Plant were reported output restrictions (capacity derates).

ERCOT Power Grid Outage: Temperature Overview

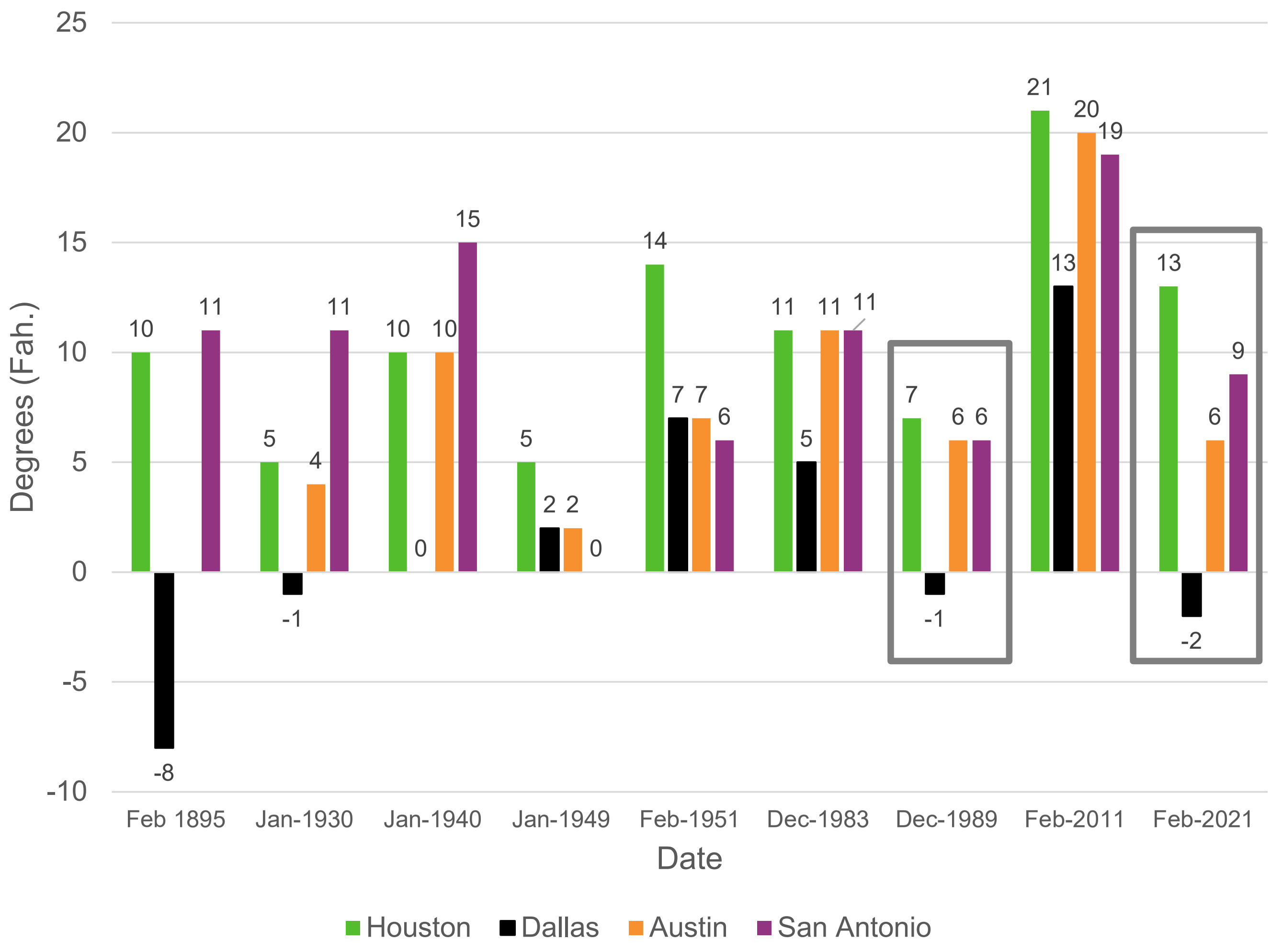
The Seasonal Assessment of Resource Adequacy for the ERCOT Region (SARA) Winter 2020/2021 used 2011 as the load comparison.

This chart illustrates lowest minimum temperatures for the four main cities in Texas for the 2021 cold-snap event and the eight other events in history.

The low temperature for 2011, on a historic perspective, was relatively warm compared to other events.

The event in 1989, adjusted for current load, transmission, population, and resource variables, may have been a better option for extreme winter demand (load) planning.

Minimum Low Temperature For Uri Event By Largest City



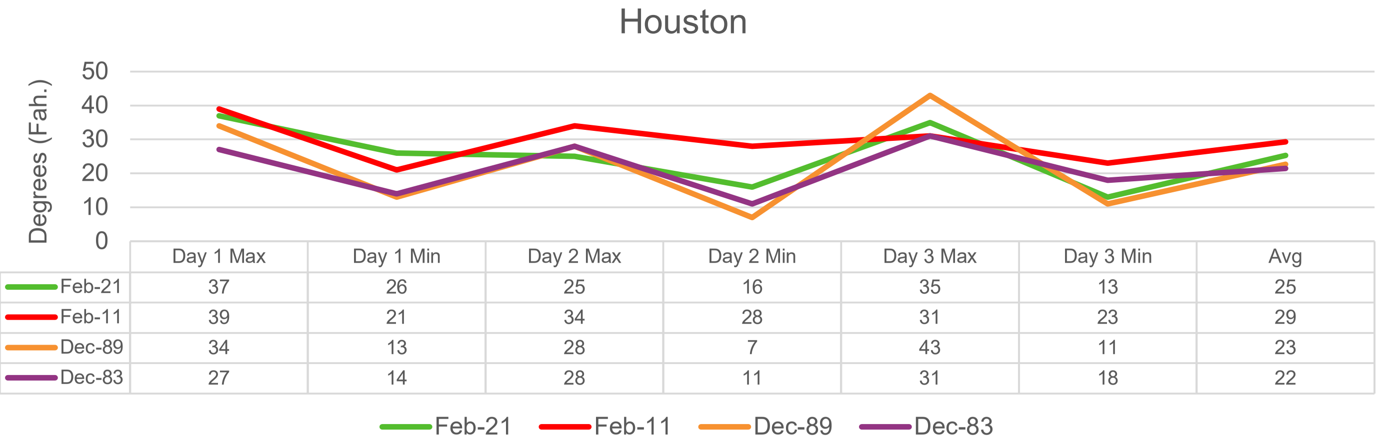
Source | NOAA, National Weather Service

ERCOT Power Grid Outage: Temperature Overview

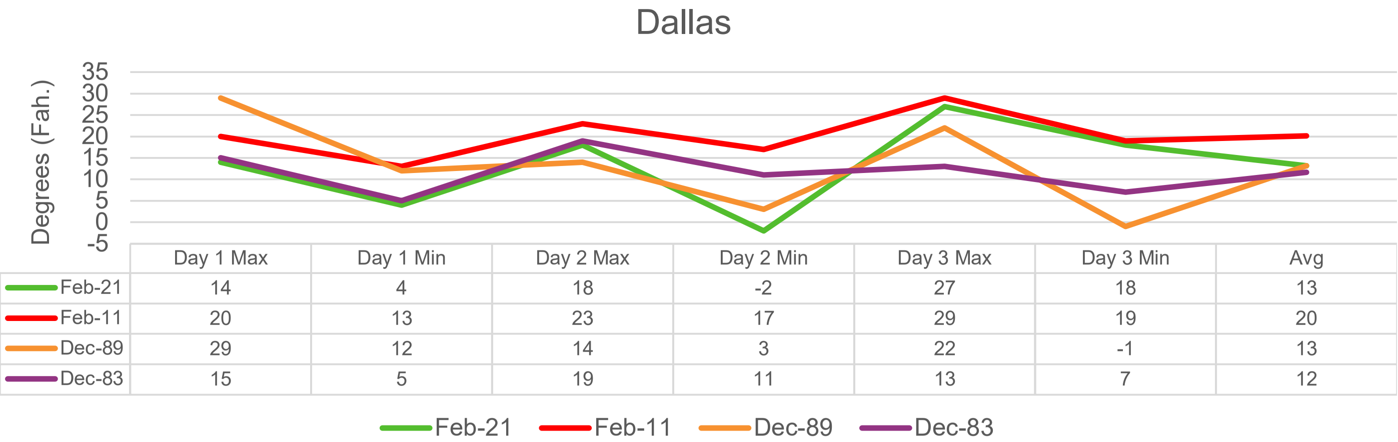
ERCOT Based the 2020/21 Extreme Winter Peak on the 2011 Winter

This weather comparison illustrates max/min trends across three days of the cold-snap events for the four most recent events.

These comparison charts show 2011 was warmer during almost every day during these cold snap periods too.



	Day 1 Max	Day 1 Min	Day 2 Max	Day 2 Min	Day 3 Max	Day 3 Min	Avg
Feb-21	37	26	25	16	35	13	25
Feb-11	39	21	34	28	31	23	29
Dec-89	34	13	28	7	43	11	23
Dec-83	27	14	28	11	31	18	22



	Day 1 Max	Day 1 Min	Day 2 Max	Day 2 Min	Day 3 Max	Day 3 Min	Avg
Feb-21	14	4	18	-2	27	18	13
Feb-11	20	13	23	17	29	19	20
Dec-89	29	12	14	3	22	-1	13
Dec-83	15	5	19	11	13	7	12

Source | NOAA, National Weather Service

ERCOT Power Grid Outage: Electricity Generation

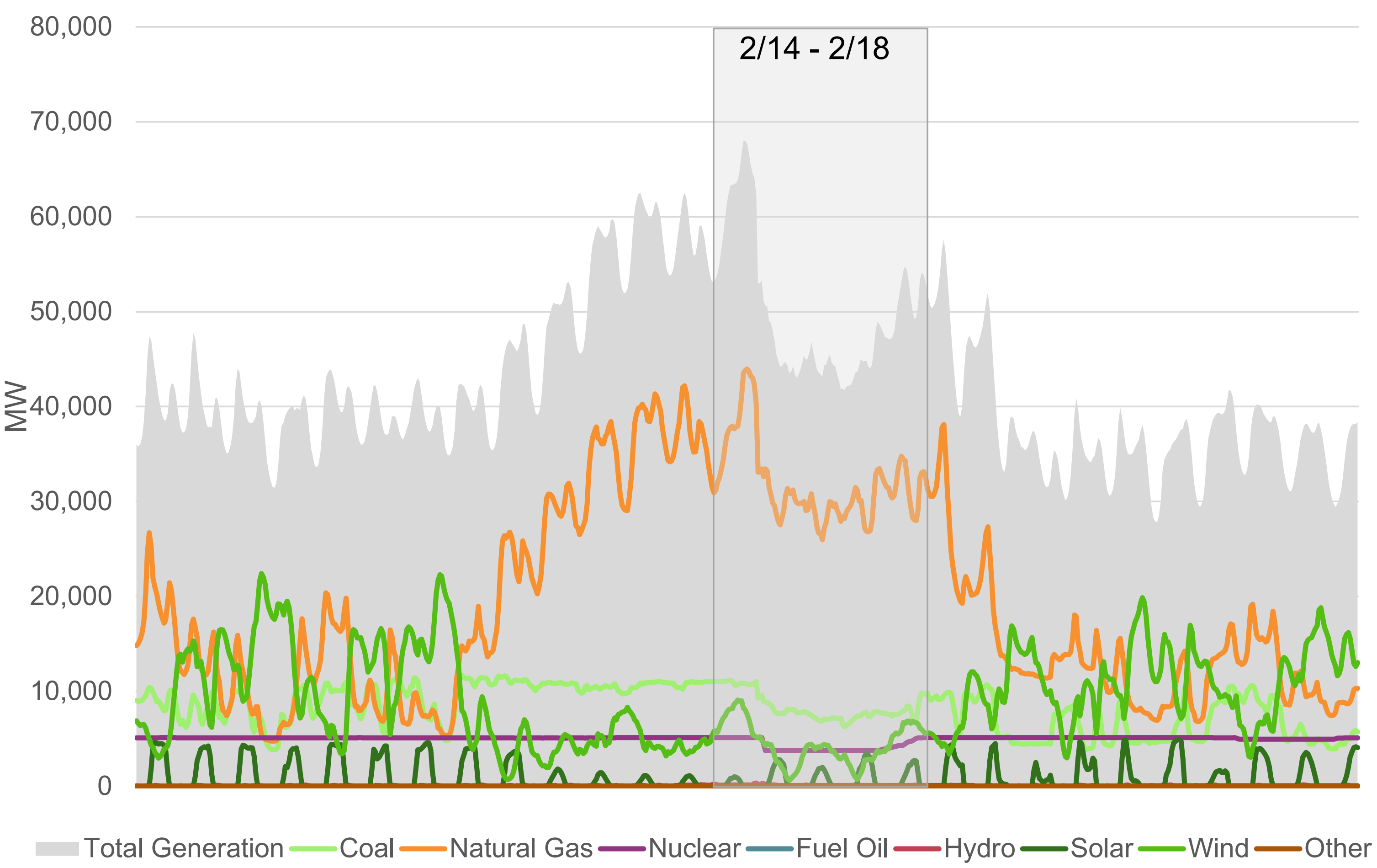
During this event the peak was observed Sunday evening near 70,000 MW. This level of demand has never been observed before in the Winter season in ERCOT.

Traditional resources began going offline rapidly on Monday morning (see the dip in the gray area in the chart).

However, a dip in resources was observed in every fuel type, even nuclear. During this event, Natural Gas (orange) provided the majority of generation but also represented the largest share of outages. Wind and solar generation also dipped during this time as a result of weather, equipment freeze-offs, and transmission congestion.

At the peak of the event 20,000 MW of natural gas came offline followed by 6,000 MW of coal 4,000 MW of wind and 1,000 MW of nuclear generation.

February ERCOT Hourly Electricity Generation by Fuel Type



Seasonal Assessment of Resource Adequacy for the ERCOT Region (SARA) Winter 2020/2021 final version released 11/5/2020 vs. how much power was produced by fuel type

Early Monday morning (February 15th) power units of all types began tripping off.

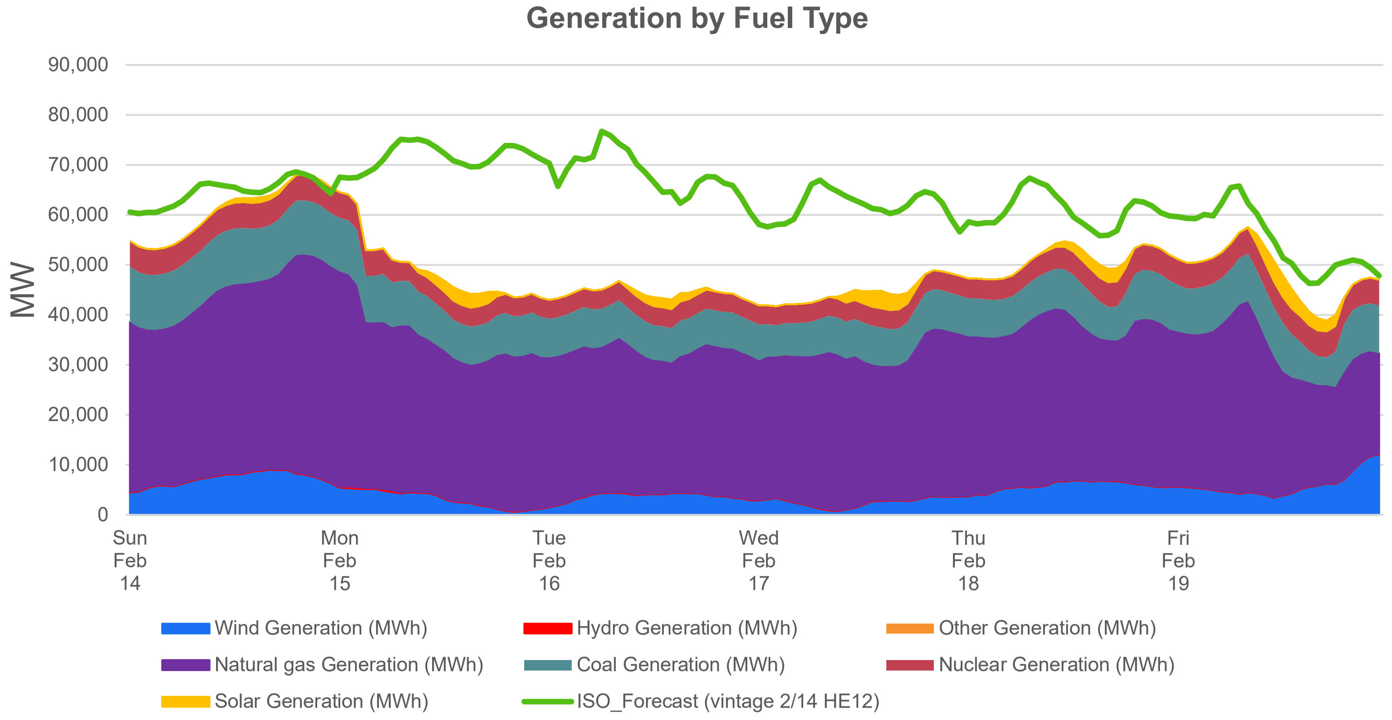
Approximately 48.6% of generation was forced out at the highest point due to the impacts of various extreme weather conditions.

Controlled outages were implemented to prevent a statewide blackout.

The ERCOT SARA report expected 67.2 GW of peak load which was based on the 2011 cold snap. The total resources that were expected to be available during such an event were 71.3 GW which would have been adequate to meet that load. The table above shows the expected capacity by fuel type.

However, the 2021 winter event was much colder and ERCOT forecasted load reached 75.8 GW which far exceeded the resources available. ERCOT's planning group should have used the 1989 winter temperatures per page 15.

ERCOT SARA-FinalWinter2020-2021 Forecasted Peak Capacity (GW)	
Natural Gas 48.4	Wind 6.1
Coal 10.9	Solar 0.3
Nuclear 5.2	Hydro 0.4
Extreme Peak Winter Load Forecast: 67.2 GW (Based on 2011 winter with revised economic growth)	



Source | EIA, ERCOT

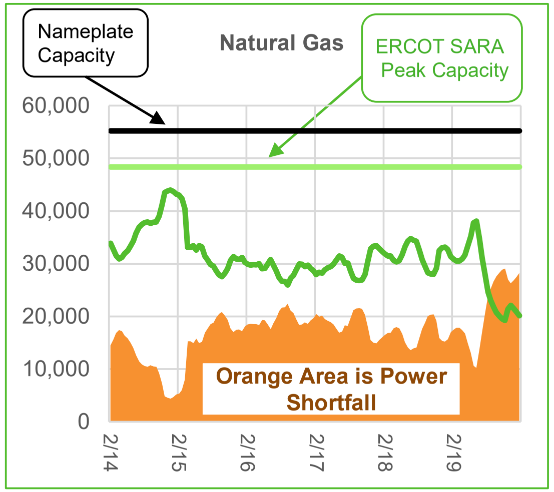
Power generation by fuel type

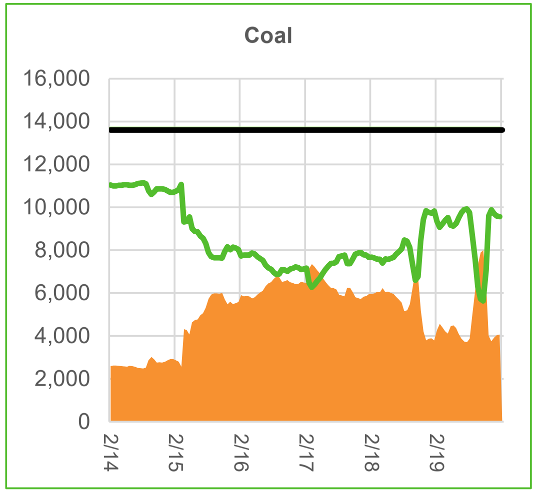
All major power generation fuel types underperformed the expected winter capacity rating that was planned in the SARA.

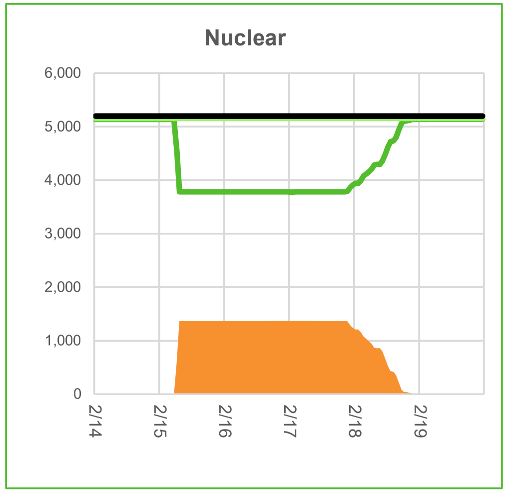
Actual generation was less than 50% of the planned generation for an extreme winter event.

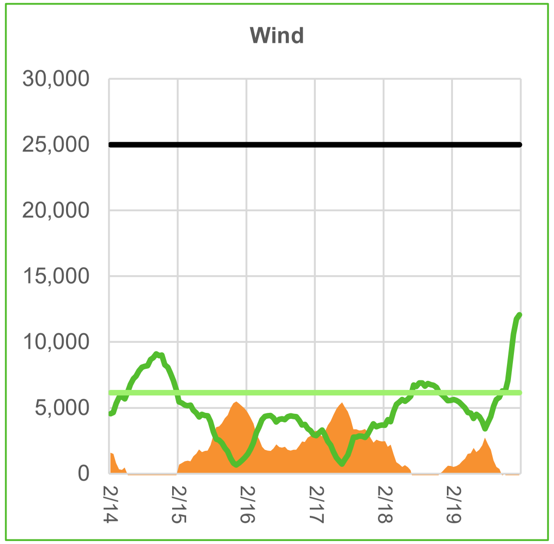
Natural Gas generation was the worst performing of all fuel types. However, this illustration does not point to why the gas plants performed worse.

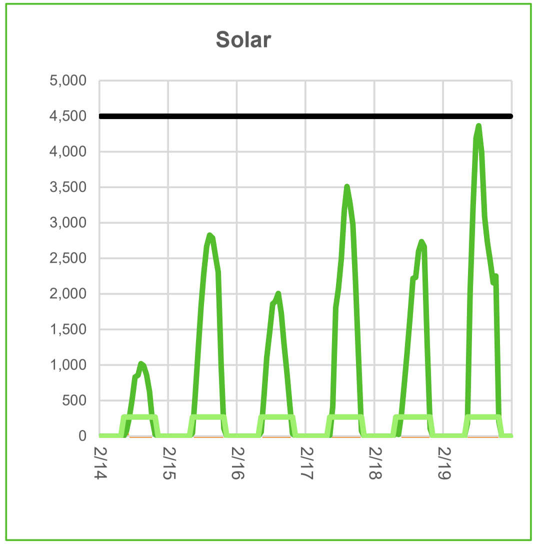
Fuel Type	SARA/Short of SARA Expectations (Average)	Nameplate Capacity/% SARA
Nat. Gas	48.4/17.3 GW	55.2/88% GW
Coal	10.9/5.1 GW	13.6/80% GW
Wind	6.1/1.4 GW	25.0/24% GW
Nuclear	5.2/0.7 GW	5.2/100% GW
Hydro	0.4/0.1 GW	0.5/80% GW

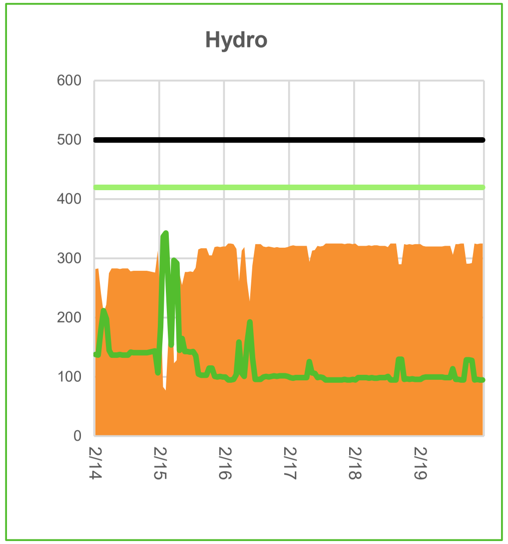












Source | EIA

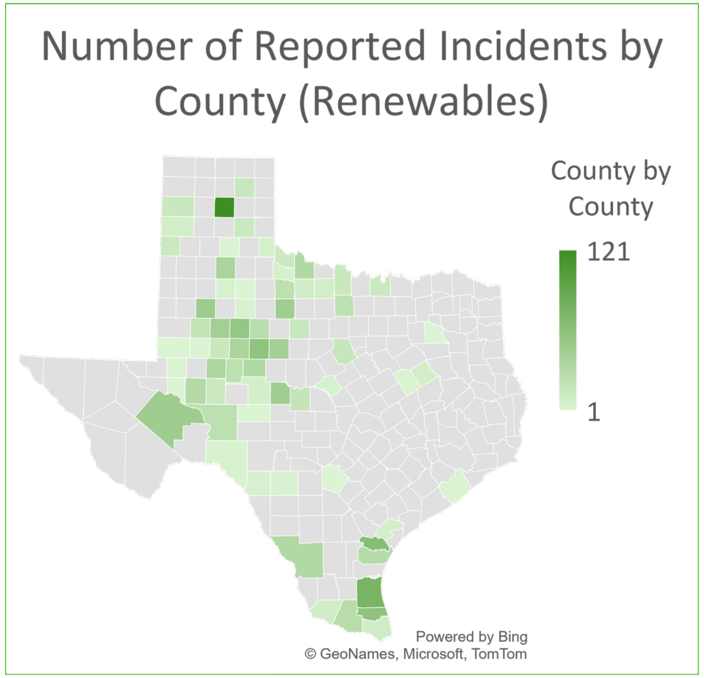
ERCOT Supply – Generator Failure

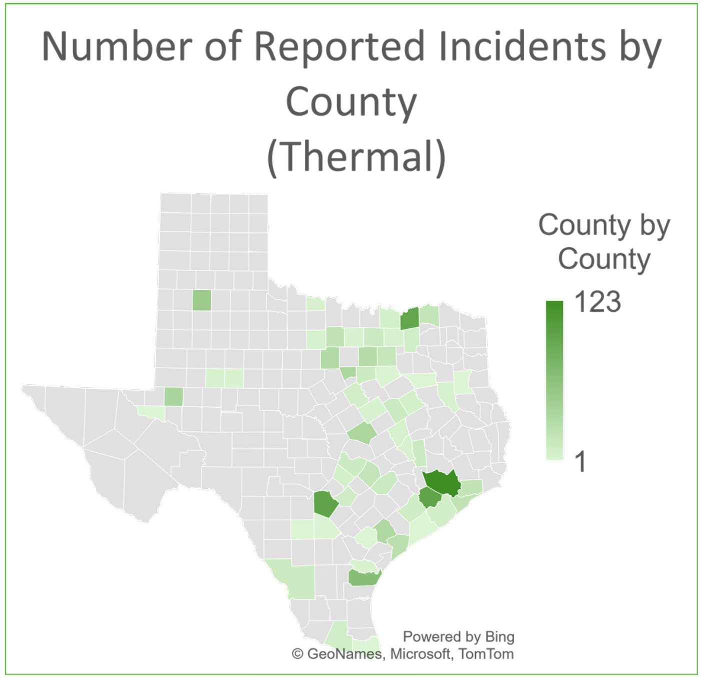
Power generators across the state of Texas experienced outages. Power generators in south Texas were more suspectable to outages as their tolerance for cold weather is lower. Power plants around the Houston area were especially vulnerable to the cold weather. In addition, some of the older wind generators in west Texas saw heavy capacity reductions.

Capacity Reduction Incidents (Derate/Outages) by Resource Class from February 10 – 19, 2021

Widespread issues were observed in South Texas. Older wind-farms in west Texas near Scurry and Nolan counties also appear to have had an inordinate number of reported capacity related incidents.

Thermal resource incidents and outages were heavily focused in the Houston area, within the Centerpoint service area. Harris and Fort Bend counties experienced a significant number of generator incidents including the W A Parish coal plant which reported having issues as early as February 14th, the day before the Energy Emergency Conditions occurred. Other Centerpoint area plants of significance that experienced capacity reductions during this event were Deer Park Energy Center (NG), Green's Bayou Power Plant (NG), and TH Wharton Generating Station (NG).



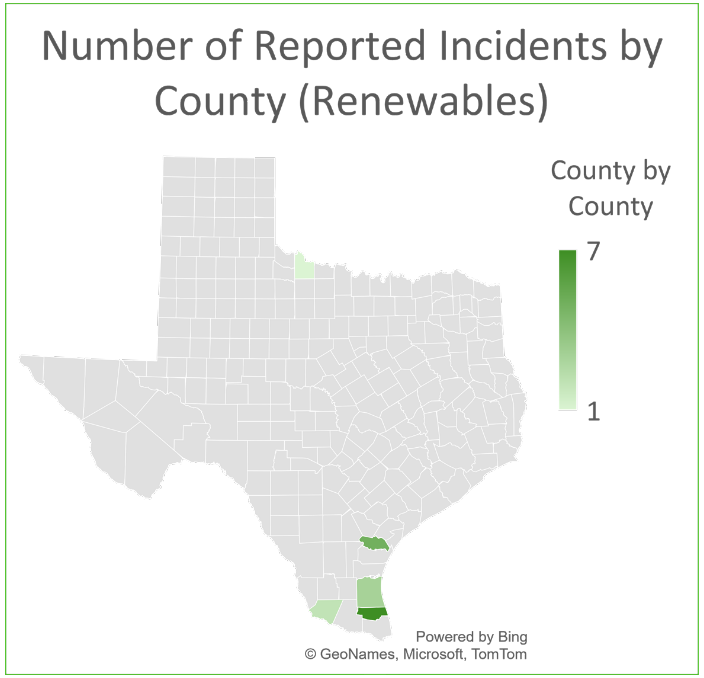


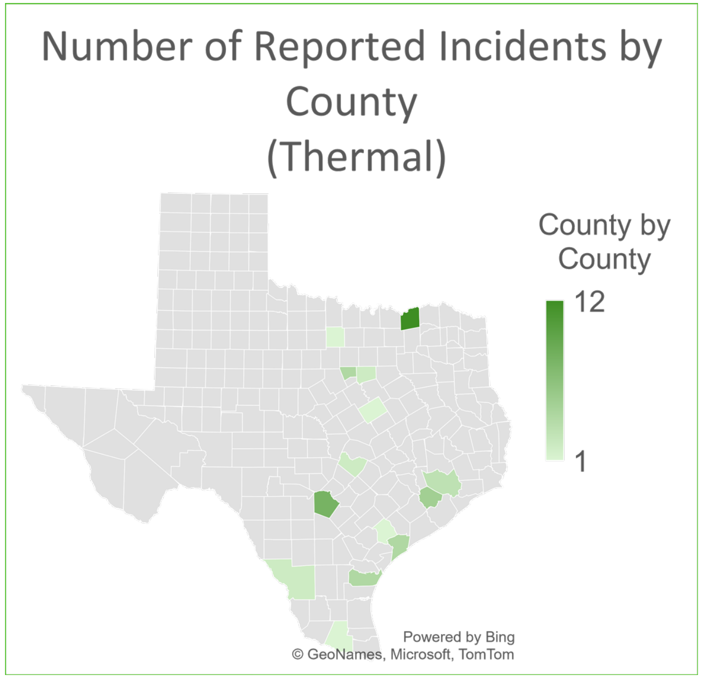
Capacity Reduction Incidents (Derate/Outages) of Units by Resource Class February 15th 00:00-02:00

Between Midnight and 2AM, the power units that tripped offline were localized south of Austin.

South Texas wind farms comprised the majority of renewable capacity reductions during this time.

The quick succession of outage observed in this limited timeframe, combined with the wide geographic location of these outages indicates the initial problems did not occur as a result of natural gas supply outages, but instead likely occurred due to other reasons at the power generation level including frequency related trips and other turbine protection related trips.

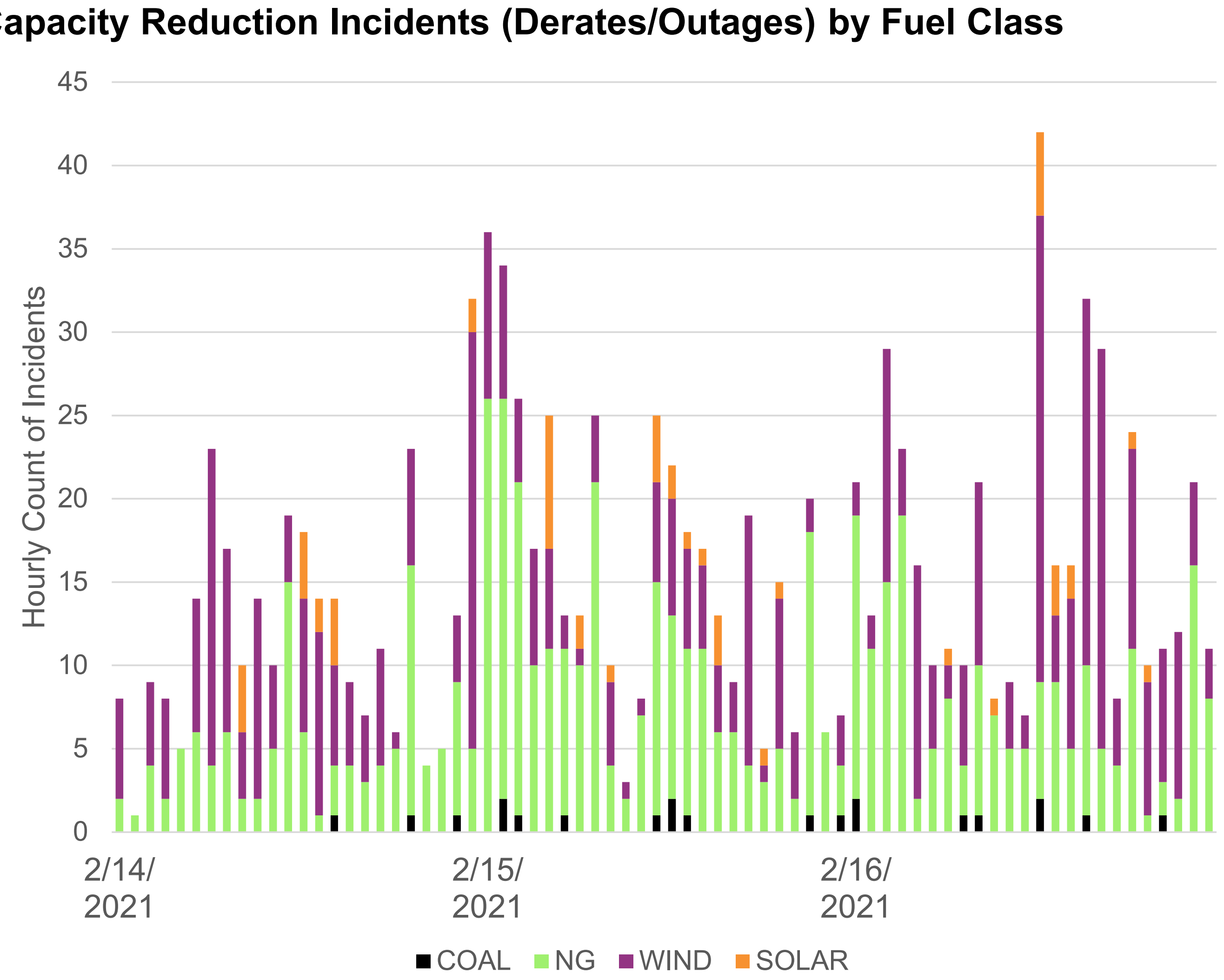




Capacity Reduction Incidents (Derate/Outages) by Fuel Class from February 14 – 16, 2021

Natural Gas was the dominant fuel class to report capacity reductions during the event, followed by derates/outages at wind farm sites.

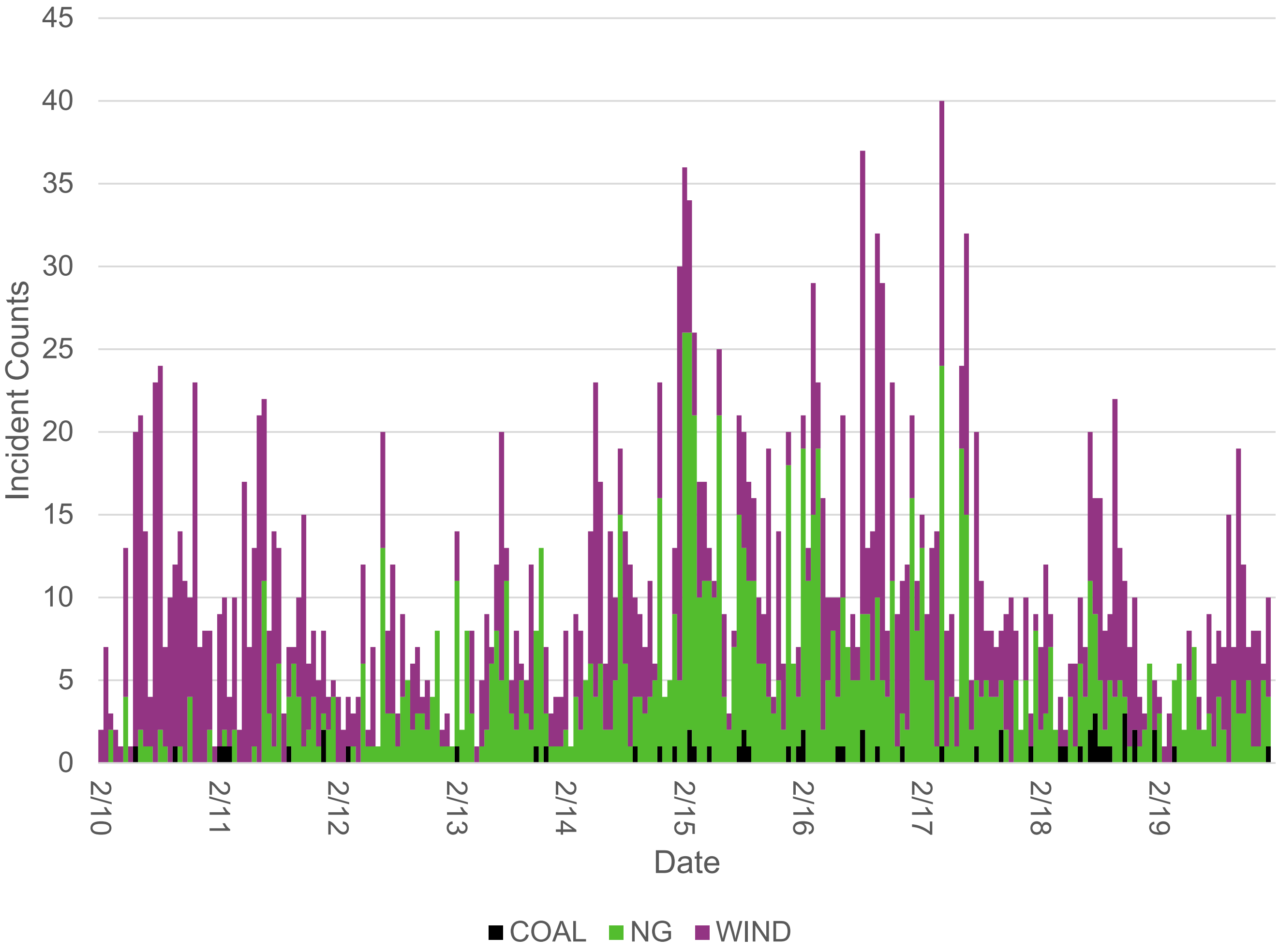
Capacity reductions at coal plants increased during the peak of the black-outs.



Capacity Reduction Incidents (Derate/Outages) of Units by Fuel Class from February 10 – 16, 2021

Wind units were reporting capacity reductions as early as Wednesday 2/10, likely due to icing of the turbine blades and similar weather-related issues.

These issues with the wind farms persisted through the cold-snap event and contributed to grid instability.



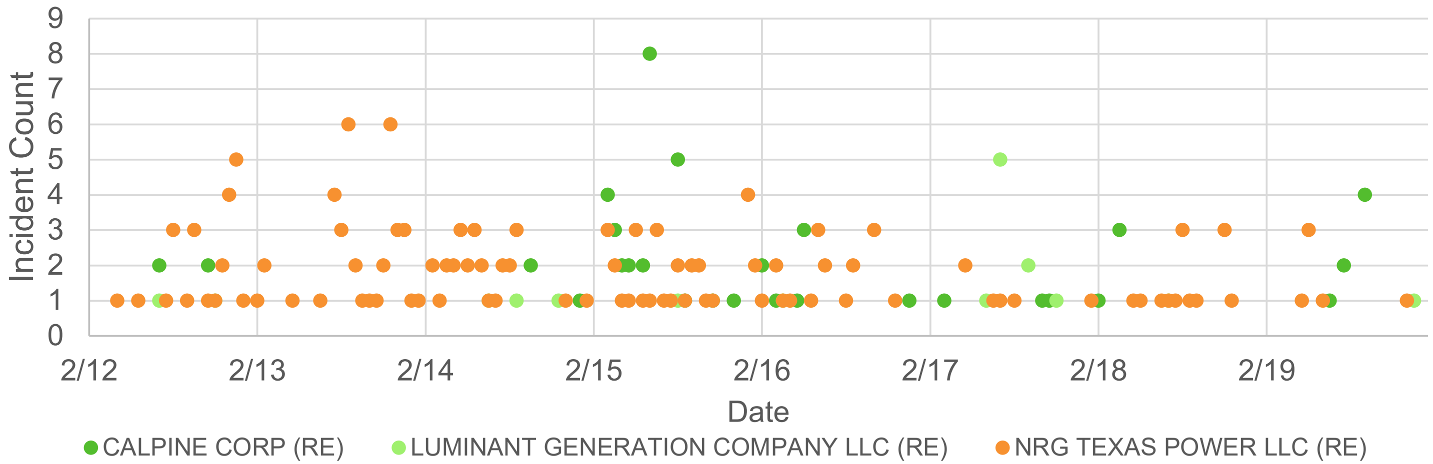
Capacity Reduction Incidents (Derate/Outages) by Generator Owners from February 12 – 19, 2021

NRG in the Houston area had a large number of capacity related issues over the course of the event.

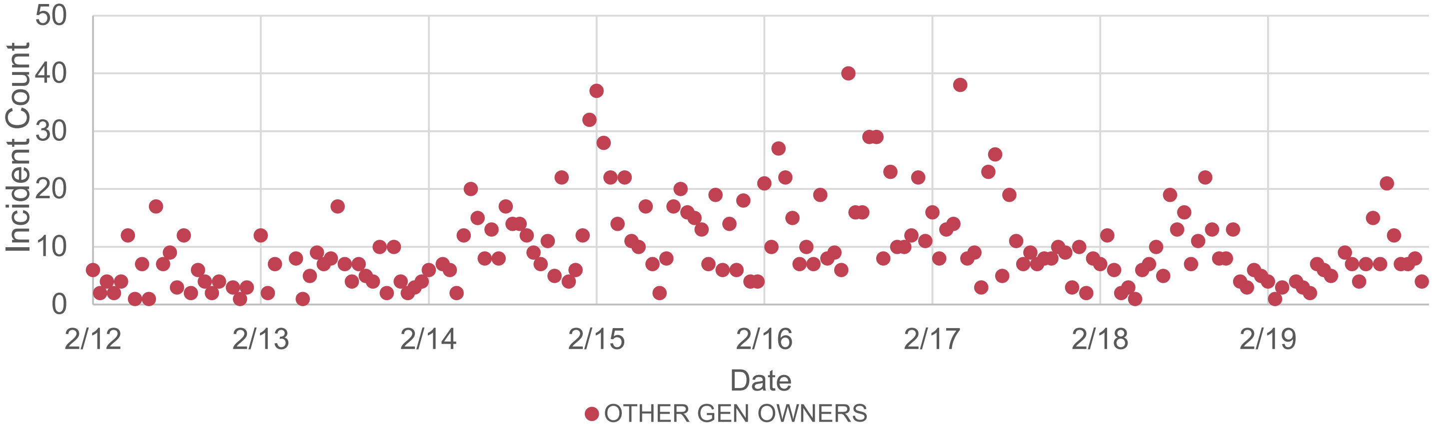
The other two top generation owners show increased capacity related issues later in the week.

For all other Generation Owners, the capacity related issues increased substantially during the heart of the blackout event. This data represents and aggregation of incidents for each hour; the high incident count in the bottom chart is a result of the large number of individual plant operators.

Top 3 Generation Owners in ERCOT



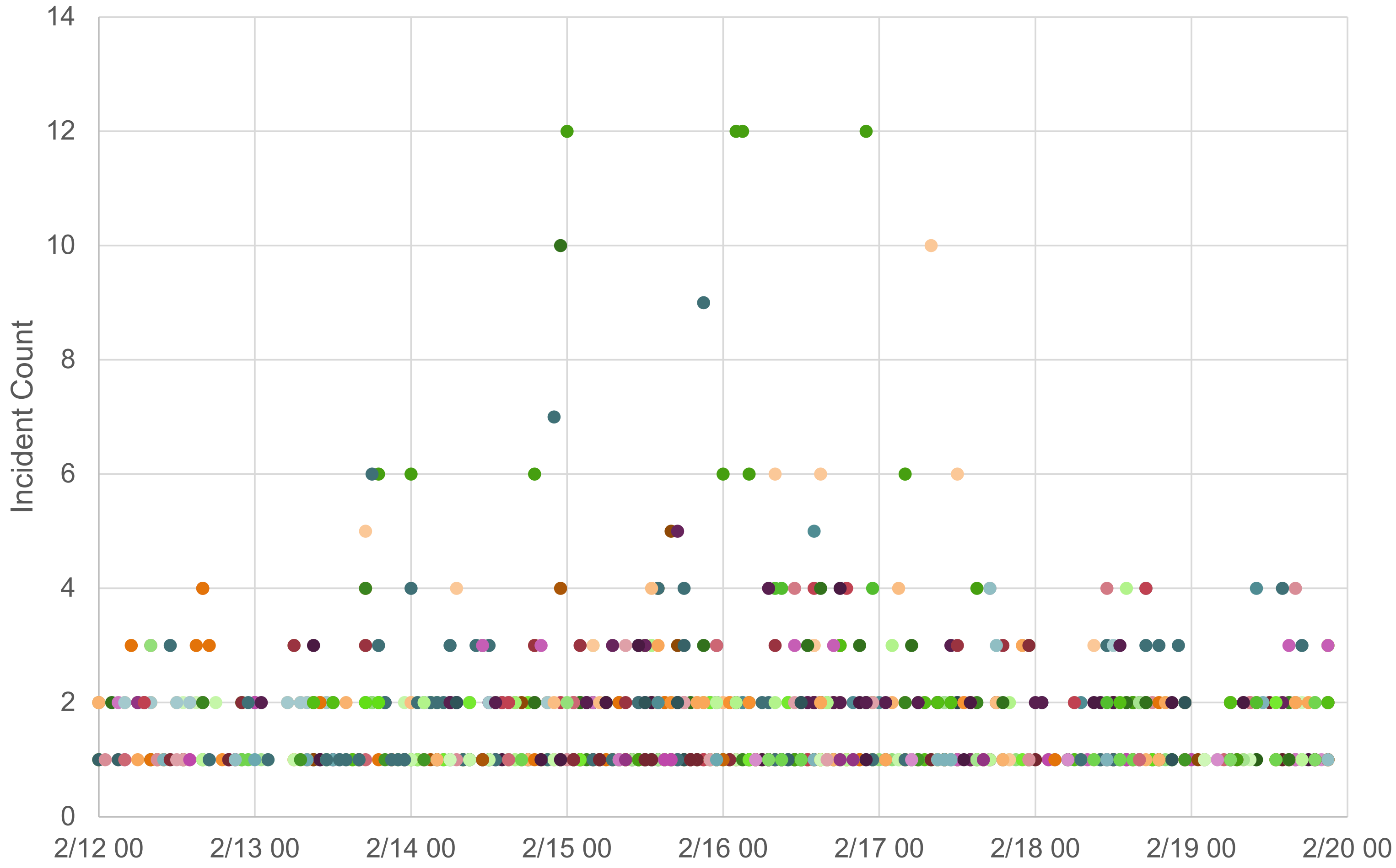
All Other Generation Owners in ERCOT



Capacity Reduction Incidents (Derate/Outages) by Plant from February 12 – 19, 2021

This chart illustrates the count of incidents by plant and by hour. You can see issues and many plants across the cold-snap event with some facilities even experiencing up to 12 incidents in one hour during the peak outage period on 02/15 - 02/17.

Incident Counts By Hour For Each Plant



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Previous Proceedings

I testified in each of the proceedings listed below on behalf of the Staff for the Virginia State Corporation Commission. In addition to the list below, my team performed work over the past 10 years for several regulated Utilities related to gas supply, and performed detailed supply analysis for three operating LNG export terminals, however, none of these projects included a formal testimony component or phase.

1. Case No. PUE-2015-00055- Natural Gas Investment Plan of Washington Gas Light
2. Case No. PUR-2017-00031- Appalachian Power Company: proprietary benchmark and basis 20-year price forecasts for natural gas (Henry Hub) and energy (PJM, AEP Zone),
3. Case No.R-2017-00122- Virginia Natural Gas, Inc. ("VNG") and Sequent Energy Management, L.P. ("Sequent") approval of an Asset Management Agreement
4. Case No. PUR-2018-00067- Virginia Electric and Power Company Fuel Factor
5. Case No. PUR-2018-00013- Roanoke Gas Rate Increase
6. Case No. PUR-2018-00203- Virginia Natural Gas, Inc. approval of the Asset Management Agreement
7. Case No. PUR-2019-00058- Appalachian Power Company 25-year commodity and power price forecasts contained in its 2019 Integrated Resource Plan
8. Case No. PUR-2019-00070- Virginia Electric and Power Company Fuel Factor
9. Case No. PUR-2020-00035-2020 Integrated Resource Plan of Virginia Electric and Power Company
10. Case No. PUR-2020-00031- Dominion Energy Virginia's Fuel Factor.

CASE NO. 00007064

APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX, CENTERPOINT ENERGY ARKLA, AND CENTERPOINT ENERGY TEXAS GAS FOR CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION	§ § § § § § § §	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

DIRECT TESTIMONY

OF

BRUCE H. FAIRCHILD

ON BEHALF OF

GAS UTILITIES PARTICIPATING IN THE REGULATORY ASSET DETERMINATION AND RELATED SECURITIZATION

July 30, 2021

TABLE OF CONTENTS

LIST OF SCHEDULES

LIST OF APPENDICES

DIRECT TESTIMONY OF BRUCE H. FAIRCHILD

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Bruce H. Fairchild, 3907 Red River, Austin, Texas 78751.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A. I am a principal in Financial Concepts and Applications, Inc. ("FINCAP"), a firm engaged in financial, economic, and policy consulting to business and government.

Q. ON WHOSE BEHALF ARE YOU PROVIDING TESTIMONY?

A. I am providing testimony on behalf of the gas utilities participating in this proceeding -- AgriTexGas, LP, Atmos Energy Corporation on behalf of its Mid-Tex Division and West Texas Division, Bluebonnet Natural Gas, LLC, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex, CenterPoint Energy Arkla, and CenterPoint Energy Texas Gas, Corix Utilities (Texas) Inc., CoServ Gas, Ltd., EPCOR Gas Texas Inc., NatGas, Inc., SiEnergy, LP, Texas Gas Service Company, a Division of ONE Gas, Inc., and Universal Natural Gas, LLC d/b/a Universal Natural Gas, Inc. (collectively, "participating gas utilities").

A. Qualifications

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS, AND PRIOR EXPERIENCE.

A. I hold a BBA degree from Southern Methodist University and MBA and Ph.D. degrees from the University of Texas at Austin. I am also a Certified Public Accountant. My previous employment includes working in the Controller's Department at Sears, Roebuck and Company and serving as Assistant Director of

Economic Research at the Public Utility Commission of Texas ("PUCT"). I have also been on the business school faculties at the University of Colorado at Boulder and the University of Texas at Austin, where I taught undergraduate and graduate courses in finance and accounting.

Q. BRIEFLY DESCRIBE YOUR EXPERIENCE IN UTILITY-RELATED MATTERS.

A. While at the PUCT, I assisted in managing a division comprised of approximately twenty-five professionals responsible for financial analysis, cost allocation and rate design, economic and financial research, and data processing systems. I testified on behalf of the PUCT staff in numerous cases involving most major investor-owned and cooperative electric, telephone, and water/sewer utilities in the state regarding a variety of financial, accounting, and economic issues. Since forming FINCAP in 1979, I have participated in a wide range of analytical assignments involving utility-related matters on behalf of utilities, industrial consumers, municipalities, and regulatory commissions. I have also prepared and presented expert testimony before a number of regulatory authorities addressing revenue requirements, cost allocation, and rate design issues for gas, electric, telephone, and water/sewer utilities. I have been a frequent speaker at regulatory conferences and seminars and have published research concerning various regulatory issues. A resume that contains the details of my experience and qualifications is attached as Appendix A, with Appendix B listing my prior testimony before regulatory agencies since leaving the PUCT.

B. Purpose of Testimony

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. The purpose of my testimony is four-fold. The first purpose is to describe generally how the extraordinary costs related to the winter weather event in February 2021 ("Winter Storm Uri") recorded as regulatory assets by participating gas utilities would be financed through customer rate relief ("CRR") bonds issued through the Texas Public Finance Authority ("TPFA"). The second purpose is to determine whether it would be more cost-effective to recover these regulatory assets through CRR bonds versus alternative recovery methods. The third purpose is to determine whether the use of CRR bonds would result in more affordable estimated monthly costs to customers than conventional recovery methods. Finally, I explain why the use of CRR bonds to finance and recover the extraordinary costs related to the February 2021 Winter Weather Event would provide tangible and quantifiable benefits to customers greater than other recovery methods and would serve the public interest.

C. Summary of Conclusions

Q. BRIEFLY SUMMARIZE THE CONCLUSIONS OF YOUR TESTIMONY.

A. For the reasons explained below, I conclude:

- Issuing CRR bonds is the most cost-effective method to recover the extraordinary Winter Storm Uri costs from customers;
- The issuance of CRR bonds to reimburse gas utilities for the regulatory assets has the least immediate impact on customers' monthly bills compared to conventional recovery methods; and

- Using CRR bonds to reimburse the participating gas utilities for their regulatory assets would enable the gas utilities to maintain their financial integrity, ensure their ability to raise debt and equity capital on reasonable terms to finance normal, ongoing expenditures as well as manage another crisis, should it arise.

II. BACKGROUND

Q. PLEASE DESCRIBE THE EVENTS LEADING TO THE PRESENT CASE.

A. Beginning on February 11, 2021, an unprecedented cold winter weather event hit Texas. On February 12, Governor Abbott issued a State of Disaster in Texas for all Texas counties, and the Railroad Commission of Texas ("Commission") issued an Emergency Order temporarily modifying natural gas utility curtailment priorities to ensure the protection of human needs customers throughout the storm. Natural gas usage by homes, businesses, and electric generating facilities surged while natural gas supply fell as production, processing, treating, and pipeline facilities froze or otherwise became inoperable. This prolonged winter storm resulted in a dramatic increase in natural gas prices as demand greatly exceeded supply. At the same time, gas utilities experienced major gas supply interruptions, including *force majeure* declarations from suppliers. To continue to supply customers and maintain system operations, gas utilities were required to purchase additional gas to meet demand and replace interrupted supplies at extremely high market prices. The combination of greater customer usage and increased gas prices resulted in gas utilities incurring extraordinary gas supply costs.

Q. DID THE COMMISSION TAKE ANY ACTION TO RECOGNIZE THAT GAS UTILITIES WERE INCURRING EXTRAORDINARY COSTS AS A RESULT OF WINTER STORM URI?

A. Yes. On February 13, 2021, the Commission issued a Notice to Local Distribution Companies ("Regulatory Asset NTO") stating that, to provide customers safe and reliable service, natural gas utility local distribution companies ("LDCs") may be required to pay extraordinarily high prices for natural gas and incur other extraordinary expenses responding Winter Storm Uri. The Regulatory Asset NTO authorized Texas LDCs to record the extraordinary costs in a regulatory asset account to defer and reduce their impact on customers. A copy of the Regulatory Asset NTO is attached to my testimony as Appendix C.

Q. DID THE LEGISLATURE TAKE ANY ACTION TO ADDRESS THE EXTRAORDINARY COSTS GAS UTILITIES INCURRED AS A RESULT OF WINTER STORM URI?

A. Yes. During the 87th Regular Session, the Texas Legislature passed, and on June 16, 2021, Governor Abbott signed, House Bill ("H.B.") 1520, attached to my testimony as Appendix D. The purpose of H.B. 1520 is to reduce the costs that customers would otherwise experience because of extraordinary costs that gas utilities incurred to secure gas supply and provide service during Winter Storm Uri, and to restore gas utility systems after the event. To this end, H.B. 1520 authorizes securitization financing that would provide rate relief by extending the period over which the extraordinary costs are recovered from customers and support the financial strength and stability of gas utilities. Before the CRR bonds may be issued, however, H.B. 1520 requires the Commission to ensure that the securitization financing provides tangible and quantifiable benefits to customers greater than would have been achieved absent the issuance of CRR bonds. It also requires the Commission to determine that CRR bonds are the most cost-effective method of funding regulatory asset reimbursements, consider customer affordability, and find that the securitization financing mechanism is in the public interest.

Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF HOW THE SECURITIZATION PROCESS CONTEMPLATED UNDER H.B. 1520 WILL BE CONSIDERED BY THE COMMISSION.

A. On June 17, 2021, the Commission issued a Notice to Gas Utilities ("NGU") directing those desiring to participate in the CRR bond program to file an Application for Regulatory Asset Determination ("Application"). This NGU is attached to my testimony as Appendix E. Each gas utility's Application must contain extensive data and documentation to support the regulatory asset recorded on its books. The NGU also requires that gas utilities demonstrate the CRR bonds would provide customers tangible and quantifiable benefits greater than would be achieved otherwise, would benefit customers through affordability, and would be in the public interest and consistent with the purposes of subchapter 1, chapter 104 of the Texas Utilities Code. After the Commission has issued its regulatory asset determinations, if it finds that the CRR bonds are most cost-effective, provide affordability benefits, and are in the public interest, it will issue a Financing Order requesting that the TPFA direct an issuing financing entity to issue the CRR bonds.

III. CUSTOMER RATE RELIEF BONDS

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

A. In this section, I provide an overview of the CRR bonds contemplated by H.B. 1520 to reimburse gas utilities for their regulatory assets and provide customers rate relief by allowing the extraordinary winter storm costs to be recovered differently than would be available through conventional recovery methods.

A. Securitized Financing

Q. WHAT IS SECURITIZED FINANCING?

A. Securitization is a financing technique used by many companies whereby certain assets are legally isolated in a special purpose entity ("SPE"). Generally, the SPE's primary asset is a revenue stream produced by financial assets such as loans, leases, or receivables, with its activities being carried out through a servicing agreement by another party. The SPE is also generally financed by selling debt and/or equity to investors, which are typically institutional investors such as banks, pension funds, and insurance companies. Bonds issued by an SPE are typically self-amortizing through payment of principal over time, and there is customarily a broad and diverse pool of underlying obligors that will make the payments to service the bonds. Securitizations are generally non-recourse and bankruptcy-remote from the underlying company.

Q. HAVE UTILITIES IN TEXAS USED SECURITIZATION AS A FORM OF FINANCING?

A. Yes. Securitization is a unique form of financing that has typically been used pursuant to specific statutory provisions by electric utilities in Texas to finance and recover costs from customers over longer periods of time. The securitizations by Texas utilities have involved the recovery of costs that are not incurred in the normal course of utility business. For example, securitization was used by electric utilities to recover "stranded costs" resulting from the transition from a regulated to competitive wholesale market for electricity in the early 2000s. Securitization has also been used to reimburse utilities for the extensive damage to facilities caused by hurricanes along the Gulf Coast. In utility securitizations, an SPE typically issues bonds backed primarily by the specific statutory and regulatory right to receive a charge paid to a utility by its customers, which in turn is remitted to the SPE. While it is common for the SPE to be managed by the utility pursuant to a service and administration agreement, care is taken to maintain the SPE as a separate entity and isolate its assets from the utility and its creditors.

Q. WHAT BENEFITS ARE DERIVED FROM SECURITIZATION FINANCING?

A. When authorized by the Legislature for use in the recovery of these types of extraordinary, non-typical costs, securitizations involve a unique, particularly high-quality stream of revenues, which the SPE has statutory and regulatory rights to receive, and that can be kept separate from a utility's other assets and activities. The SPE can then sell bonds secured by this revenue stream that are less risky than the utility itself. Because the bonds issued by SPEs are less risky, they typically have a higher credit rating than the debt of the utility. As a result, the bonds issued by the SPE carry a lower interest rate and, because the bonds are secured with a high-quality revenue stream, the SPE can be heavily debt financed, both of which reduce the carrying cost of the underlying asset. In the case of H.B. 1520, because the securitized bonds are a liability of a state agency-created SPE and not the utility, they are not carried on the utility's balance sheet. Accordingly, the securitized bonds should not increase the gas utility's debt load, which supports its financial strength and stability, nor should they reduce the utility's borrowing capacity, which should maintain the utility's ability to attract capital to finance property, plant, and equipment on reasonable terms.

Q. DESCRIBE THE SPE CONTEMPLATED UNDER H.B. 1520.

A. If securitization is approved by the Commission, H.B. 1520 authorizes the TPFA to create an issuing financing entity (the SPE) to issue CRR bonds. The issuing financing entity would be a self-funding, non-profit, public authority of Texas governed by a three-member board. The CRR bonds sold by the issuing financing entity would not be a liability of Texas, the Commission, or the participating gas utilities; rather, they would be securitized and repaid from customer rate relief charges assessed to all customers of the participating gas utilities. The customer rate relief charges would be sufficient to cover the SPE's costs, including initial financing costs, CRR bond principal and interest, and other financing, administrative, and operating expenses authorized by the Financing Order.

B. Structure of Customer Rate Relief Bonds

Q. WOULD THE CRR BONDS BE STRUCTURED LIKE TYPICAL UTILITY DEBT?

A. No. The long-term bonds issued by most large gas utilities are outstanding for a specified number of years. A fixed interest rate is usually paid on the original face amount periodically, with the entire principal balance being due at maturity. While this "balloon payment" debt structure is generally satisfactory for financing a large utility's permanent property, plant, and equipment, it is not well-suited to an entity having just a single, self-liquidating asset.

Q. HOW WOULD THE CRR BONDS MOST LIKELY BE STRUCTURED?

A. H.B. 1520 calls for the customer rate relief charge to be a uniform monthly volumetric charge applicable to all existing and future customers of participating gas utilities. Although the resulting revenue stream could be used to pay annual principal and interest payments on a single issue of CRR bonds (like a home mortgage), this is not the structure normally used. Because of differing portfolio and reinvestment considerations, large investors do not want all bonds having the same life. To amortize the CRR bonds while still allowing investors to select their preferred maturities, the bonds are anticipated to be split among several series or tranches, each with a different scheduled maturity and corresponding interest rate. In this way, on any given payment date, interest is paid on all the bond series, but principal is repaid only on the series that is maturing. This structuring into series or tranches enhances marketing of the bonds because it enables both shorter-term investors (e.g., banks) and longer-term investors (e.g., pension funds) to participate in the same securitization issue but offers each a maturity most suitable for its investment objectives. The actual structure of the CRR bonds would depend on the Commission's Financing Order, input from TPFA and investment bankers, and capital market conditions at the time the CRR bonds were issued.

Q. OVER WHAT PERIOD WOULD THE CRR BONDS MOST LIKELY BE STRUCTURED?

A. H.B. 1520 caps the maximum scheduled maturity of the CRR bonds to 30 years, with the Commission ultimately deciding in its Financing Order the period over which the bonds are to be repaid by customers. Because the CRR bonds would be secured only by customer rate relief charges and not physical assets, it is believed that investors would prefer the bonds to have a maximum term of between 10 and 15 years. I understand that in the securitizations approved by the PUCT for electric utilities, the scheduled maturity of the bonds has typically been less than 15 years.

C. Interest Rates on Customer Rate Relief Bonds

Q. WHAT INTEREST RATES WILL THE CRR BONDS BEAR?

A. The actual interest rates on the CRR bonds will depend on capital market conditions at the time they are issued, the maturity structure of the various series, and the rating assigned to the CRR bonds by rating agencies.

Q. WHAT BOND RATING WOULD LIKELY BE ASSIGNED TO THE CRR BONDS?

A. To achieve the lowest interest rate, the CRR bonds would need to be rated triple-A by the major bond rating agencies (i.e., Moody’s, Standard & Poor’s, and Fitch). Most of the characteristics and features required for the CRR bonds to be rated triple-A are provided for in H.B. 1520 and would also need to be included in the Financing Order.

Q. WHAT ARE CURRENT INTEREST RATES ON BONDS RATED TRIPLE-A?

A. The table below shows average interest rates between mid-June and mid-July 2021 on triple-A rated taxable bonds issued by government entities having different maturities over the next 15 years. These range from 0.19% to 2.07%, with the interest rate increasing with the length of the bond term:

Maturity (Years)	**Interest Rate**	**(Years)**	**Interest Rate**	**(Years)**	**Interest Rate**
1	0.19%	6	1.18%	11	1.77%
2	0.32%	7	1.36%	12	1.85%
3	0.50%	8	1.50%	13	1.92%
4	0.74%	9	1.62%	14	2.00%
5	0.96%	10	1.69%	15	2.07%

Q. COULD THE CRR BONDS HAVE A VARIABLE INTEREST RATE INSTEAD OF A FIXED INTEREST RATE?

A. Although floating-rate bonds could be issued, fixed interest rates allow the likely costs and benefits to be better evaluated in advance and would facilitate developing and maintaining a uniform monthly volumetric charge over time. Additionally, current interest rates are at historical lows, which are not expected to persist indefinitely. I understand that all the securitized bonds issued by Texas electric utilities have had fixed interest rates.

IV. COST-EFFECTIVENESS

Q. WHAT IS THE PURPOSE OF THIS SECTION?

A. H.B. 1520 requires that, before issuing a Financing Order, the Commission must determine that CRR bonds are the most cost-effective method of funding reimbursements to gas utilities of the regulatory asset associated with the extraordinary costs incurred in connection with Winter Storm Uri. The purpose of this section is to compare the expected costs associated with CRR bonds and the costs of other methods that might be used to finance the regulatory assets.

A. Alternative Methods

Q. WHAT ALTERNATIVE METHODS ARE AVAILABLE TO FUND THE EXTRAORDINARY COSTS INCURRED BY THE PARTICIPATING GAS UTILITIES ATTRIBUTABLE TO WINTER STORM URI?

A. There are basically three alternative methods. The first would be to include the extraordinary costs related to Winter Storm Uri in the gas utility's purchased gas cost ("PGC") recovery mechanism (sometimes referred to as a "purchased gas adjustment" (PGA), "gas cost recovery" (GCR) mechanism, "cost of gas clause" (COG), or "purchased gas factor" (PGF), depending on the utility). The second would be to treat the regulatory assets similar to rate case expenses, where they would be amortized over a relatively short period and recovered through an established rate or a specific surcharge added to customers' bills until the total amount is received. The third method would be to include the regulatory assets in rate base, amortize them over a longer time period (e.g., 10 to 15 years), and include the additional costs in the gas utilities' base service rates.

Q. PLEASE DISCUSS THE FIRST ALTERNATIVE, INCLUDING THE EXTRAORDINARY COSTS IN THE PGC RECOVERY MECHANISM.

A. Under this method, the regulatory asset would be included as a cost of gas and recovered from customers over a period of approximately up to a year through each participating gas utility's PGC recovery mechanism. The effect of this method would be to fund the extraordinary Winter Storm Uri costs from current customers. While this method may be the least expensive because carrying costs and administrative expenses would be minimized, as will be addressed later in my testimony, it would have the greatest immediate impact on current bills and be the least affordable method for customers.

Q. PLEASE DISCUSS THE SECOND ALTERNATIVE THAT WOULD ADJUST AN EXISTING RATE OR ADD A SURCHARGE TO CUSTOMER BILLS UNTIL THE EXTRAORDINARY COSTS ARE FULLY RECOVERED.

A. Similar to how rate case expenses are recovered, this method would amortize the regulatory asset over a relatively short period, such as three years, with an adjustment to existing rates or a surcharge being added to each customer's monthly bill until the regulatory asset is fully recovered. While this alternative would have a smaller monthly or annual impact than recovering the regulatory asset pursuant to the terms of the existing PGC recovery mechanism, it would still have a significant impact on customers' bills in the near-term and their affordability. Additionally, this method could adversely impact the financial integrity of certain gas utilities and their ability to attract capital. Specifically, many of the participating gas utilities financed the extraordinary costs of Winter Storm Uri, in whole or in part, with short-term debt, which has adversely impacted their borrowing capacity. As a result, the ability to raise additional debt to finance ordinary capital requirements would be impaired or potentially non-existent for certain utilities, as would their ability to manage another crisis. Additionally, this short-term debt matures prior to when the regulatory assets would be fully recovered approximately three years following the completion of this proceeding. Rolling over maturing short-term debt would continue to leave the gas utilities with limited or exhausted borrowing capacity, while refinancing it with permanent capital would not only increase the cost of capital but would strain their ability to raise additional debt and equity to finance normal, ongoing capital expenditures and withstand extraordinary events. Similarly, the ability to attract additional capital by those utilities that financed the extraordinary gas costs with permanent capital may already be significantly reduced.

Q. PLEASE DISCUSS THE THIRD ALTERNATIVE THAT WOULD INCLUDE THE REGULATORY ASSET IN RATE BASE AND RECOVER THE EXTRAORDINARY COSTS IN BASE SERVICE RATES.

A. Under the third method, the regulatory assets associated with Winter Storm Uri would remain on the gas utilities' books and be financed by the utility. For ratemaking purposes, the regulatory asset would be included in rate base along with property, plant, and equipment, and amortized over a longer period, such as 10 to 15 years. The capital carrying costs, income taxes, and amortization expense associated with the regulatory asset would then be included in the gas utilities' base service rates.

Q. HOW WOULD THE REGULATORY ASSET BE FUNDED UNDER THIS THIRD METHOD?

A. Because the regulatory asset is essentially treated like the gas utilities' other permanent assets, it would have to be correspondingly financed. Short-term debt currently being used to finance the regulatory assets by certain utilities would have to be replaced with long-term debt and common equity. As under the three-year amortization method, financing the regulatory asset with new long-term debt and equity could strain the utility's ability to raise additional capital to finance normal, ongoing expenditures and withstand extraordinary events. Additionally, the proportions and costs of new long-term debt and equity financing could be adversely affected by the fact that the assets being financed are not physical assets being used to provide service to customers, with the higher capital costs being reflected in rates.

B. Analysis of Cost-Effectiveness

Q. DESCRIBE YOUR ANALYSIS AND COMPARISON OF THE RELATIVE COST-EFFECTIVENESS OF FUNDING THE REGULATORY ASSETS WITH CRR BONDS VERSUS THE ALTERNATIVES IDENTIFIED ABOVE.

A. Because different time periods are involved in evaluating the costs of CRR bonds against the costs of alternative methods to fund reimbursements of the extraordinary costs incurred in connection with Winter Storm Uri, it is necessary to use analyses that take into account the time value of money and measure costs in comparable dollars. For efficiency and consistency with the aggregated nature of securitization cost recovery in H.B. 1520, I have not performed an analysis for each participating gas utility, but have used combined amounts for all of the gas utilities, which are developed in Schedule BHF-1, or representative values for gas utilities.

Q. HOW HAVE YOU TAKEN INTO ACCOUNT THE TIME VALUE OF MONEY IN YOUR ANALYSIS?

A. It is standard practice to analyze costs and benefits that occur over varying time periods using "present value," which accounts for the fact that a dollar received or paid in the future is worth less than one received or paid today. Present value analysis combines future nominal dollars into a single amount normally expressed in current dollars, so that the comparison is on an "apples to apples" basis. Nominal dollar benefits or costs in future years are converted to present value dollars using a "discount" rate, which is effectively an interest rate reflecting the time value, or opportunity cost, of money.

Q. WHAT WOULD BE THE ANNUAL COSTS OF CRR BONDS?

A. The estimated annual costs of the CRR bonds, including principal and interest and ongoing annual operating and administrative expenses, are developed in Schedule BHF-2.

Q. WHAT IS THE ESTIMATED TOTAL AMOUNT OF BONDS THAT WOULD BE ISSUED UNDER SECURITIZATION?

A. In the upper portion of Schedule BHF-2, an initial CRR bond issuance of $3,830 million is calculated. This amount is the sum of the total regulatory assets of $3,607 million contained in the participating gas utilities' Applications summarized on Schedule BHF-1, projected underwriting and issuance expenses, and amounts required to fund a debt service reserve. Underwriting and issuance costs are estimated to be 0.40% and 0.30%, respectively, of the CRR bonds issued. The 0.40% underwriting expense is consistent with the percentage in Texas electric securitizations, average and median percentages for other bond issuances by Texas government entities over the last year, and data from investment banks. The 0.30% issuance expense is in-line with recent percentages for other bond issuances by Texas government entities. It may be conservative (i.e., overstated) because the large size of the CRR bond issuance would involve economies of scale, but this allows for other reimbursable costs provided for in H.B. 1520 (e.g., costs incurred by the Commission and TPFA). The debt service reserve fund is equal to one-half of the average annual bond costs. This amount is based on discussions with utility Treasury departments, investment bankers, and the level required by other bonds issued by Texas government entities. It also reflects that H.B. 1520 allows the customer rate relief charge to be revised annually and trued-up as necessary.

Q. WHAT ARE THE ESTIMATED ANNUAL COSTS OF THE CRR BONDS?

A. In this analysis, the CRR bonds are assumed to have a maximum maturity of 10 years, with ten series being sized to result in approximately equal annual principal and interest payments, except for the final principal payment being partially met with funds from the debt service reserve. The bond payments are based on the interest rates between mid-June and mid-July 2021 presented earlier for triple-A rated, taxable bonds issued by government entities. To the bond payments, annual operating and administrative expenses equal to 0.60% of the initial bond issuance, or approximately $23 million, are added. Although electric utilities in Texas have been providing this service for between 0.05% and 0.125% plus projected outside expenses of less than $500,000 per year, the 0.60% is the maximum service fee allowed by the PUCT in recent electric securitizations. As with issuance expenses, the assumed 0.60% servicing fee may be overstated, but this again allows for other reimbursable costs provided for in H.B. 1520. As shown in the last column of the lower portion of Schedule BHF-2, the estimated costs on the CRR bonds are between approximately $411 million and $419 million in each of the ten years.

Q. WHAT WOULD BE THE COSTS IF THE EXTRAORDINARY STORM COSTS WERE RECOVERED THROUGH THE PARTICIPATING UTILITIES' PGC RECOVERY MECHANISMS?

A. Schedule BHF-1 lists the amounts that the participating gas utilities have calculated in their respective Applications that they would be entitled to recover through their respective PGC recovery mechanisms if this method were used. As shown there, this totals $3,604 million and would all be recovered through their PGC recovery mechanisms during the first year.

Q. WHAT WOULD BE THE ANNUAL COSTS IF THE REGULATORY ASSETS WERE AMORTIZED OVER THREE YEARS AND RECOVERED THROUGH A SURCHARGE TO CUSTOMERS?

A. Schedule BHF-1 also shows the total amount that each of the participating gas utilities has calculated in its Application that it would be entitled to recover if the regulatory asset associated with the extraordinary costs were amortized over three years and surcharged to customers. Dividing the total of $4,079 million by three would result in approximately $1,360 million being recovered in each of the three years.

Q. WHAT WOULD BE THE ANNUAL COST IF THE REGULATORY ASSETS WERE INCLUDED IN RATE BASE, AMORTIZED OVER A LONGER PERIOD, AND INCLUDED IN BASE RATES?

A. Schedule BHF-3 develops the annual costs if the regulatory assets of the participating utilities were included in rate base along with property, plant, and equipment and amortized over 10 years. As noted earlier, the regulatory assets contained in the participating gas utilities' Applications total $3,607 million. An annual carrying cost for the regulatory assets is based on capital structure ratios of 41% debt and 59% equity, a cost of debt of 4.75%, and a return on common equity ("ROE") of 9.5%. These representative values reflect those allowed in recent rate cases before the Commission. As shown in the upper portion of Schedule BHF-3, combining these capital structure ratios, cost of debt, and ROE, grossed up for associated federal income taxes at 21%, produces a capital carrying cost of 9.04%. Applying this percentage to the average unamortized balance of the regulatory asset in each year and adding annual amortization expense results in the declining total annual costs in each of the ten years shown on Schedule BHF-3.

Q. WHAT WAS THE NEXT STEP IN YOUR COST-EFFECTIVENESS ANALYSIS?

A. The annual costs to customers under the CRR bonds and the three methods described above to reimburse utilities for the extraordinary costs are summarized on Schedule BHF-4. The next step is to calculate the present value of the annual costs under the CRR bonds and each alternative method. There is not a single discount rate applicable to all customers. For those customers that have money to invest, their opportunity cost may currently be relatively low, while for those customers carrying balances on their credit cards, their time value of money may be in excess of 20%. Accordingly, I used a range of interest rates -- 5%, 10%, 15%, and 20% -- to discount the annual costs of the CRR bonds and each alternative method to calculate their present values, which are shown in the middle of Schedule BHF-4.

Q. WHAT ARE THE RESULTS OF THIS ANALYSIS?

A. At the bottom of Schedule BHF-4, the present values of the cost of the CRR bonds is subtracted from the present values of the costs of the alternative methods to calculate the saving under securitized financing. As summarized in the table below, the CRR bonds are the most cost-effective method to fund the regulatory assets of the participating gas utilities, with the savings ranging between $229 million and $1,384 million, depending on the method and discount rate used (millions of present value dollars):

Savings from CRR Bonds vs. Alternative Methods			
Discount Rate	**PGC Recovery**	**3-year Amortization**	**Rate Base Inclusion**
5%	$229	$506	$959
10%	$759	$869	$860
15%	$1,126	$1,094	$779
20%	$1,384	$1,231	$712

Q. HAVE YOU PERFORMED ANY SENSITIVITY ANALYSES OF THESE RESULTS?

A. Yes. For the CRR bond financing and method that includes the regulatory assets in rate base, I also calculated the present value using a maximum maturity of the bonds of 15 years and amortizing the regulatory asset over 15 years. As shown on Schedule BHF-5, using 15 years versus ten years does not change the conclusion. Again, the CRR bonds are the most cost-effective method to fund the extraordinary storm costs incurred by the participating gas utilities, with the savings from securitization ranging between $316 million and $1,744 million, depending on the method and discount rate used.

Q. WHAT IF A DISCOUNT RATE LOWER THAN 5%, SAY 3%, IS USED TO CALCULATE PRESENT VALUE?

A. If a time value of money of only 3% is used to discount the annual costs of CRR bond financing and the alternative methods, then recovery of the extraordinary gas costs currently through the PGC mechanism becomes slightly more cost-effective, but CRR bond securitization continues to be more cost-effective than both the 3-year amortization or inclusion in rate base methods. However, as will be discussed in the next section, recovery through the PGC mechanism is the least affordable method, and it is doubtful that 3% is representative of the time value of money to the majority of customers.

Q. WHAT HAPPENS IF INTEREST RATES WERE TO CHANGE BETWEEN NOW AND WHEN THE CRR BONDS ARE ISSUED?

A. I also performed a sensitivity analysis assuming that interest rates on the CRR bonds increase 50% over those used in the analyses on Schedules BHF-4 and BHF-5. When these higher interest rates are substituted into the 10-year analyses on Schedule BHF-4, the CRR bonds remain the most cost-effective except for where costs are recovered through the PGC mechanism and discounted at 5%. Substituting the higher interest rates into the 15-year sensitivity analysis on Schedule BHF-5 shows the CRR bonds to be the most cost-effective in all cases. Of course, if interest rates were to increase, so too would the cost of money to customers, with higher discount rates applying to more customers and the 5% discount rate becoming less applicable. A rise in interest rates would also likely increase the cost of capital to utilities and result in the annual costs of the alternative recovery methods being greater, which would improve the relative cost-effectiveness of the CRR bonds.

V. CUSTOMER AFFORDABILITY

Q. WHAT IS THE PURPOSE OF THIS SECTION?

A. In addition to cost-effectiveness, H.B. 1520 requires that the Commission must find that CRR bonds are reasonably expected to provide benefits to customers in the way of affordability. The purpose of this section is to perform an analysis that compares the estimated impact on customers' monthly bills resulting from the issuance of CRR bonds versus the estimated impact on customers' monthly bills that would result under conventional recovery methods. My analysis of customer affordability considers only the residential and small commercial classes because the customers comprising gas utilities' larger classes often have vastly dissimilar gas usage, which causes bill impact calculations based on averages for these other classes to have limited meaning.

Q. WHAT CONVENTIONAL RECOVERY METHODS DID YOU COMPARE SECURITIZATION AGAINST TO EVALUATE CUSTOMER AFFORDABILITY?

A. My analysis of customer affordability compares the cost of financing the regulatory asset using CRR bonds with the same three methods used in the analysis of cost-effectiveness described above. These are: 1) to include the extraordinary expenses in the gas utility's PGC recovery mechanism, 2) to amortize the regulatory assets over a relatively short period and recover them through a surcharge added to customers' bills, and 3) to include the regulatory assets in rate base, amortize them over a longer time period, and recover them through base rates.

Q. HOW DID YOU COMPARE THE RELATIVE AFFORDABILITY OF THE CRR BONDS AGAINST THE OTHER CONVENTIONAL RECOVERY METHODS?

A. Whereas the cost-effectiveness analysis above evaluates the costs of the CRR bonds versus the alternative methods over time, the affordability analysis focuses on the immediate impact of each method on residential and commercial customers' bills. Therefore, I use the first-year costs of each method shown on Schedule BHF-4 to estimate the respective impacts on customer's monthly bills.

Q. WHAT IS THE IMPACT ON CUSTOMERS' BILLS OF FINANCING THE REIMBURSEMENT OF THE REGULATORY ASSETS USING CRR BONDS?

A. As noted earlier, H.B. 1520 calls for the customer rate relief charge to be a uniform monthly volumetric charge. As developed on Schedule BHF-6, dividing the first year cost of the CRR bonds of $411 million shown on Schedule BHF-4 by total 2020 volumes of 325,102,345 Mcf reported by the participating gas utilities in their Applications produces a customer rate relief charge of $1.26 per Mcf. As developed on Schedule BHF-1, the average monthly usages for residential and commercial customers are 4.04 Mcf and 26.87 Mcf, respectively, again using data from the participating utilities' Applications. Multiplying these average monthly usages by the customer rate relief charge of $1.26 produces an estimated monthly cost under the CRR bonds of $5.10 to a residential customer and $33.94 to a commercial customer (Schedule BHF-6).

Q. WHAT IS THE IMPACT ON CUSTOMERS' BILLS OF EACH OF THE THREE CONVENTIONAL METHODS OF COST RECOVERY?

A. The estimated monthly costs to customers under each of the three conventional recovery methods are also developed in Schedule BHF-6. Again, a volumetric customer rate relief charge under each method is calculated by dividing the first-year costs from Schedule BHF-4 by the total 2020 volumes of the participating gas utilities. The resulting uniform monthly customer rate relief charges are then multiplied by the average monthly usage of a residential and commercial customer from Schedule BHF-1 to calculate the estimated monthly cost under each conventional recovery method. As summarized in the table below, the average monthly cost for residential customers of $5.10 in the first year under CRR bond securitization compares with $44.77 if the extraordinary costs are recovered through the PGC mechanism; $16.89 if recovered through a 3-year amortization charge; and $8.33 if included in rate base. For commercial customers, the average first-year CRR charge of $33.94 per month compares with $297.86, $112.36, and $55.41, respectively, under the three conventional recovery methods.

Q. WHAT ARE THE ESTIMATED MONTHLY SAVINGS TO CUSTOMERS UNDER SECURITIZATION VERSUS CONVENTIONAL RECOVERY METHODS?

A. The estimated monthly costs to customers resulting from the issuance of CRR bonds are compared with the estimated monthly costs to customers that would result from the application of conventional recovery methods in the table below. As can be seen, the use of the CRR bonds to finance the extraordinary costs incurred in connection with Winter Storm Uri has the least immediate impact on customers' estimated monthly bills, with annual first-year savings ranging between $3.23 and $39.67 per month for the average residential customer and between $21.47 and $263.92 per month for the average commercial customer. First year total savings for residential customers from CRR bond securitization range between $38.73 and $476.03, and for commercial customers between $257.65 and $3,167.08:

Comparison of First-year Savings of CRR Bonds vs. Conventional Methods				
	CRR	**PGC**	**3-year**	**Inclusion in**
	Securitization	**Mechanism**	**Amortization**	**Rate Base**
Residential:				
Monthly Cost	$5.10	$44.77	$16.89	$8.33
Monthly Savings		$39.67	$11.79	$3.23
Annual Savings		$476.03	$141.458	$38.73
Commercial:				
Monthly Cost	$33.94	$297.86	$112.36	$55.41
Monthly Savings		$263.92	$78.42	$21.47
Annual Savings		$3,167.08	$941.07	$257.65

Q. HOW IS AFFORDABILITY AFFECTED UNDER THE SENSITIVITY ANALYSES DESCRIBED EARLIER?

A. Lengthening the maximum maturity of the CRR bonds and the amortization of the regulatory asset if included in rate base from 10 to 15 years lowers the first-year monthly cost under these methods from those shown in the table above, with there being no change in the costs under the PGC recovery and 3-year amortization methods. The average cost to a residential customer under securitization drops from $5.10 to $3.72 per month and from $33.94 to $24.77 per month for a commercial customer. For the rate base inclusion method, the cost to a residential customer drops from $8.33 to $6.90 and for a commercial customer from $55.41 to $45.92. The $3.72 and $24.77 per month costs to the average residential and commercial customer, respectively, continue to be lower under securitization than those under the three conventional recovery methods.

Meanwhile, a 50% increase in the interest rate on CRR bonds with 10- and 15-year maximum maturities produces first-year costs for a residential customer of $5.63 and $3.87 a month, respectively, and $37.43 and $25.75 a month, respectively, for a commercial customer. These are still below the monthly first-year costs of the three conventional recovery methods, so that even if interest rates rise 50%, CRR bond securitization remains the most affordable.

VI. PUBLIC INTEREST

Q. DOES CRR BOND SECURITIZATION ACCOMPLISH THE OBJECTIVES OF H.B. 1520?

A. Yes. The purpose of H.B. 1520 is to provide rate relief to customers by extending the period over which the extraordinary costs of Winter Storm Uri are recovered and support the financial strength and stability of gas utilities. As described earlier in my testimony, the issuance of CRR bonds to reimburse gas utilities for the regulatory assets authorized by the Commission in the Regulatory Asset NTO would defer these costs over the life of the CRR bonds and substantially reduce the immediate impact on customers' bills compared to conventional recovery methods. As also described earlier, using CRR bonds to reimburse the participating gas utilities for their regulatory assets would eliminate the need for them to finance these substantial assets with short-term debt or permanent capital. This would, in turn, enable the gas utilities to maintain their financial integrity and ensure their ability to raise debt and equity capital on reasonable terms. Additionally, it would preserve their borrowing power so that the gas utilities could access capital to finance normal, ongoing expenditures as well as manage another crisis, should it arise.

Q. IS CRR BOND SECURITIZATION THE MOST COST-EFFECTIVE METHOD OF FUNDING REGULATORY ASSET REIMBURSEMENT TO BE MADE TO GAS UTILITIES?

A. Yes. As shown earlier, issuing CRR bonds is the most cost-effective method to recover the extraordinary Winter Storm Uri costs from customers. Using various discount rates between 5% and 20%, the savings from issuing CRR bonds versus other alternative methods of cost recovery are expected to range between $229 million and $1,384 million in present value dollars. Sensitivity analyses lengthening the maximum maturity of the CRR bonds, using a lower discount rate, and assuming a significant increase in interest rates does not affect this conclusion, with securitization being more cost-effective than the other methods in virtually every case.

Q. DOES CRR BOND SECURITIZATION PROVIDE AFFORDABILITY BENEFITS TO CUSTOMERS COMPARED TO CONVENTIONAL RECOVERY METHODS?

A. Yes. A comparison of the estimated monthly costs to the average residential and commercial customer in the first year resulting from the issuance of CRR bonds versus recovery of the regulatory assets through conventional recovery methods shows that the CRR bonds have the least immediate impact on customers' estimated monthly bills. Therefore, recovering the extraordinary costs associated with Winter

Storm Uri through CRR bonds provides customers more near-term affordability than other conventional methods.

Q. DOES THE SECURITIZATION OF THE EXTRAORDINARY COSTS ASSOCIATED WITH WINTER STORM URI USING CRR BONDS PROVIDE CUSTOMERS TANGIBLE AND QUANTIFIABLE BENEFITS?

A. Yes. As described above, using CRR bonds to finance the participating gas utilities' regulatory assets is expected to save customers hundreds of millions of present value dollars versus recovering the extraordinary storm costs through other methods. Additionally, both residential and commercial customers benefit immediately through lower estimated monthly costs under CRR bond financing when compared to conventional recovery methods. Both of these are tangible and quantifiable benefits to customers from securitization greater than would have been achieved absent the issuance of CRR bonds.

Q. IS IT YOUR OPINION THAT USING CRR BONDS TO FINANCE THE EXTRAORDINARY COSTS ASSOCIATED WITH WINTER STORM URI IS IN THE PUBLIC INTEREST?

A. Yes. For the reasons developed and described above, I believe using CRR bonds to reimburse participating gas utilities for their regulatory assets is consistent with the purposes of H.B. 1520 and in the public interest.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS CASE?

A. Yes, it does.

APPENDIX A

BRUCE H. FAIRCHILD

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Summary of Qualifications

M.B.A. and Ph.D. in finance, accounting, and economics; Certified Public Accountant. Extensive consulting experience involving regulated industries, valuation of closely-held businesses, and other economic analyses. Previously held managerial and technical positions in government, academia, and business, and taught at the undergraduate, graduate, and executive education levels. Broad experience in technical research, computer modeling, and expert witness testimony.

Employment

Principal, FINCAP, Inc. (Sep. 1979 to present)	Economic consulting firm specializing in regulated industries and valuation of closely-held businesses. Assignments have involved electric, gas, telecommunication, and water/sewer utilities, with clients including utilities, consumer groups, municipalities, regulatory agencies, and cogenerators. Areas of participation have included revenue requirements, rate of return, rate design, tariff analysis, avoided cost, forecasting, and negotiations. Other assignments have involved some seventy valuations as well as various economic (e.g., damage) analyses, typically in connection with litigation. Presented expert witness testimony before courts and regulatory agencies on over one hundred occasions.
Adjunct Assistant Professor, University of Texas at Austin (Sep. 1979 to May. 1981)	Taught undergraduate courses in finance: Fin. 370 – Integrative Finance and Fin. 357 – Managerial Finance.
Assistant Director, Economic Research Division, Public Utility Commission of Texas (Sep. 1976 to Aug. 1979)	Division consisted of approximately twenty-five financial analysts, economists, and systems analysts responsible for rate of return, rate design, special projects, and computer systems. Directed Staff participation in rate cases, presented testimony on approximately thirty-five occasions, and was involved in some forty other cases ultimately settled. Instrumental in the initial development of rate of return and financial policy for newly-created agency. Performed independent research and managed State and Federal funded projects. Assisted in preparing appeals to the Texas Supreme Court and testimony presented before the Interstate Commerce Commission and Department of Energy. Maintained communications with financial community, industry representatives, media, and consumer groups. Appointed by Commissioners as Acting Director.

Assistant Professor, College of Business Administration, University of Colorado at Boulder (Jan. 1977 to Dec. 1978)	Taught graduate and undergraduate courses in finance: Fin. 305 – Introductory Finance, Fin. 401 – Managerial Finance, Fin. 402 – Case Problems in Finance, and Fin. 602 – Graduate Corporate Finance.
Teaching Assistant, University of Texas at Austin (Jan. 1973 to Dec. 1976)	Taught undergraduate courses in finance and accounting: Acc. 311 – Financial Accounting, Acc. 312 – Managerial Accounting, and Fin. 357 – Managerial Finance. Elected to College of Business Administration Teaching Assistants' Committee.
Internal Auditor, Sears, Roebuck and Company, Dallas, Texas (Nov. 1970 to Aug 1972)	Performed audits on internal operations involving cash, accounts receivable, merchandise, accounting, and operational controls, purchasing, payroll, etc. Developed operating and administrative policy and instruction. Performed special assignments on inventory irregularities and Justice Department Civil Investigative Demands.
Accounts Payable Clerk, Transcontinental Gas Pipeline Corp., Houston, Texas (May. 1969 to Aug. 1969)	Processed documentation and authorized payments to suppliers and creditors.

Education

Ph.D., Finance, Accounting, and Economics, University of Texas at Austin (Sep. 1974 to May 1980)	Doctoral program included coursework in corporate finance, investment theory, accounting, and economics. Elected to honor society of Phi Kappa Phi. Received University outstanding doctoral dissertation award. Dissertation: *Estimating the Cost of Equity to Texas Public Utility Companies*
M.B.A., Finance and Accounting, University of Texas at Austin, (Sep. 1972 to Aug. 1974)	Awarded Wright Patman Scholarship by World and Texas Credit Union Leagues. Professional Report: *Planning a Small Business Enterprise in Austin, Texas*
B.B.A., Accounting and Finance, Southern Methodist University, Dallas, Texas (Sep. 1967 to Dec. 1971)	Dean's List 1967-1971 and member of Phi Gamma Delta Fraternity.

Other Professional Activities

Certified Public Accountant, Texas Certificate No. 13,710 (October 1974); entire exam passed in May 1972. Member of the American Institute of Certified Public Accountants (Honorary).

Participated as session chairman, moderator, and paper discussant at annual meetings of Financial Management Association, Southwestern Finance Association, American Finance Association, and other professional associations.

Visiting lecturer in Executive M.B.A program at the University of Stellenbosch Graduate Business School, Belleville, South Africa (1983 and 1984).

Associate Editor of *Austin Financial Digest*, 1974-1975. Wrote and edited a series of investment and economic articles published in a local investment advisory service.

Military

Texas Army National Guard, Feb. 1970 to Sep. 1976. Specialist 5th Class with duty assignments including recovery vehicle operator for armor unit and company clerk for finance unit.

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"Energy Conservation in Existing Residences, Project Director for development of instruction manual and workshops promoting retrofitting of existing homes, *Governor's Office of Energy Resources* and *Department of Energy* (1977-1978).

"Linear Algebra," "Calculus," "Sets and Functions," and "Simulation Techniques," contributed to and edited four mathematics programmed learning texts for MBA students, *Texas Bureau of Business Research* (1975).

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"Financial Aspects of Cost of Capital and Common Cost Considerations," Kidder, Peabody & Co. Two-Day Rate Case Workshop for Regulated Utility Companies, New York, New York (June 1993).

"Cost-of-Service Studies and Rate Design," General Management of Electric Utilities (A Training Program for Electric Utility Managers from Developing Countries), Austin, Texas (October 1989 and November 1990 and 1991).

"Rate Base and Revenue Requirements," The University of Texas Regulatory Institute Fundamentals of Utility Regulation, Austin, Texas (June 1989 and 1990).

"Determining the Cost of Capital in Today's Diversified Companies," New Mexico State University Public Utilities Course Part II, Advanced Analysis of Pricing and Utility Revenues, San Francisco, California (June 1990).

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"Impact of Regulations," Business and the Economy, Leadership Dallas, Dallas, Texas (November 1989).

"Accounting and Finance Workshop" and "Divisional Cost of Capital," New Mexico State University Current Issues Challenging the Regulatory Process, Albuquerque, New Mexico (April 1985 and 1986) and Santa Fe, New Mexico (March 1989).

"Divisional Cost of Equity by Risk Comparability and DCF Analyses," NARUC Advanced Regulatory Studies Program, Williamsburg, Virginia (February 1988) and USTA Rate of Return Task Force, Chicago, Illinois (June 1988).

"Revenue Requirements," Revenue, Pricing, and Regulation in Texas Water Utilities, Texas Water Utilities Conference, Austin, Texas (August 1987 and May 1988).

"Rate Filing – Basic Ratemaking," Texas Gas Association Accounting Workshop, Austin, Texas (March 1988).

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APPENDIX B

BRUCE H. FAIRCHILD
SUMMARY OF TESTIMONY BEFORE REGULATORY AGENCIES

.	Utility Case	Agency	Docket	Date	Nature of Testimony
1.	Arkansas Electric Cooperative	Arkansas PSC	U-3071	Aug-80	Wholesale Rate Design
2.	East Central Oklahoma Electric Cooperative	Oklahoma CC	26925	Sep-80	Retail Rate Design
3.	Kansas Gas & Electric Company	Kansas CC	115379-U	Nov-80	PURPA Rate Design Standards
4.	Kansas Gas & Electric Company	Kansas CC	128139-U	May-81	Attrition
5.	City of Austin Electric Department	City of Austin	--	Jun-81	PURPA Rate Design Standards
6.	Tarrant County Water Control and Improvement District No. 1	Texas Water Commission	--	Oct-81	Wholesale Rate Design
7.	Owentown Gas Company	Texas RRC	2720	Jan-82	Revenue Requirements and Retail Rate Design
8.	Kansas Gas & Electric Company	Kansas CC	134792-U	Aug-82	Attrition
9.	Mississippi Power Company	Mississippi PSC	U-4190	Sep-82	Working Capital
10.	Lone Star Gas Company	Texas RRC	3757; 3794	Feb-83	Rate of Return on Equity
11.	Kansas Gas & Electric Company	Kansas CC	134792-U	Feb-83	Rate of Return on Equity
12.	Southwestern Bell Telephone Company	Oklahoma CC	28002	Oct-83	Rate of Return on Equity
13.	Morgas Company	Texas RRC	4063	Nov-83	Revenue Requirements
14.	Seagull Energy	Texas RRC	4541	Jul-84	Rate of Return
15.	Southwestern Bell Telephone Company	FCC	84-800	Nov-84	Rate of Return on Equity
16.	Kansas Gas & Electric Company, Kansas City Power & Light Company, and Kansas Electric Power Cooperatives	Kansas CC	142098-U; 142099-U; 142100-U	May-85	Nuclear Plant Capital Costs and Allowance for Funds Used During Construction
17.	Lone Star Gas Company	Texas RRC	5207	Oct-85	Overhead Cost Allocation
18.	Westar Transmission Company	Texas RRC	5787	Nov-85 Jan-86 Jul-86	Rate of Return, Rate Design, and Gas Processing Plant Economics
19.	City of Houston	Texas Water Commission	RC-022; RC-023	Nov-86	Line Losses and Known and Measurable Changes
20.	ENSTAR Natural Company	Alaska PUC	TA 50-4; R-87-2; U-87-2	Nov-86 May-87 May-87	Cost Allocation, Rate Design, and Tax Rate Changes
21.	Brazos River Authority	Texas Water Commission	RC-020	Jan-87	Revenue Requirements and Rate Design
22.	East Texas Industrial Gas Company	Texas RRC	5878	Feb-87	Revenue Requirements and Rate Design

Bruce H. Fairchild
Summary of Testimony Before Regulatory Agencies
(Continued)

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
23.	Seagull Energy	Texas RRC	6629	Jun-87	Revenue Requirements
24.	ENSTAR Natural Company	Alaska PUC	U-87-42	Jul-87 Sep-87 Sep-87	Cost Allocation, Rate Design, and Contracts
25.	High Plains Natural Gas Company	Texas RRC	6779	Sep-87	Rate of Return
26.	Hughes Texas Petroleum	Texas RRC	2-91,855	Jan-88	Interim Rates
27.	Cavallo Pipeline Company	Texas RRC	7086	Sep-88	Revenue Requirements
28.	Union Gas System, Inc.	Kansas CC	165591-U	Mar-89 Aug-89	Rate of Return
29.	ENSTAR Natural Gas Company	Alaska PUC	U-88-70	Mar-89	Cost Allocation and Bypass
30.	Morgas Co.	Texas RRC	7538	Aug-89	Rate of Return and Cost Allocation
31.	Corpus Christi Transmission Company	Texas RRC	7346	Sep-89	Revenue Requirements
32.	Amoco Gas Co.	Texas RRC	7550	Oct-89	Rate of Return and Cost Allocation
33.	Iowa Southern Utilities	Iowa Utilities Board	RPU-89-7	Nov-89 Mar-90	Rate of Return on Equity
34.	Southwestern Bell Telephone Company	FCC	89-624	Feb-90 Apr-90	Rate of Return on Equity
35.	Lower Colorado River Authority	Texas PUC	9427	Mar-90 Aug-90 Aug-90	Revenue Requirements
36.	Rio Grande Valley Gas Company	Texas RRC	7604	May-90	Consolidated FIT and Depreciation
37.	Southern Union Gas Company	El Paso PURB	--	Oct-90	Disallowed Expenses and FIT
38.	Iowa Southern Utilities	Iowa Utilities Board	RPU-90-8	Nov-90 Feb-91	Rate of Return on Equity
39.	East Texas Gas Systems	Texas RRC	7863	Dec-90	Revenue Requirements
40.	San Jacinto Gas Transmission	Texas RRC	7865	Dec-90	Revenue Requirements
41.	Southern Union Gas Company	Austin; Texas RRC	-- 7878	Feb-91 Feb-91	Rate of Return and Acquisition Adjustment
42.	Southern Union Gas Company	Port Arthur; Texas RRC	-- 8033	Mar-91 Aug-91 Oct-91	Rate of Return and Acquisition Adjustment
43.	Cavallo Pipeline Company	Texas RRC	8016	Jun-91	Revenue Requirements

Bruce H. Fairchild
Summary of Testimony Before Regulatory Agencies
(Continued)

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
44.	New Orleans Public Service Inc.	New Orleans City Council	CD-91-1	Jun-91 Mar-92	Rate of Return on Equity
45.	Houston Pipe Line Company	Texas RRC	8017	Jul-91	Rate of Return
46.	Southern Union Gas Company	El Paso PURB	--	Aug-91 Sep-91	Acquisition Adjustment
47.	Southwestern Gas Pipeline, Inc.	Texas RRC	8040	Jan-92 Feb-92	Rate Design and Settlement
48.	City of Fort Worth	Texas Water Commission	8748-A 9261-A	Mar-92 Aug-92 Dec-92 Oct-94 Nov-94	Interim Rates, Revenue Requirements, and Public Interest
49.	Southern Union Gas Company	Oklahoma Corp. Com.	--	Jun-92	Rate of Return
50.	Minnegasco	Minnesota PUC	G-008/GR-92-400	Jul-92 Dec-92	Rate of Return
51.	Guadalupe-Blanco River Authority	Texas PUC	11266	Sep-92	Cost Allocation and Bond Funds
52.	Dorchester Intra-State Gas System	Texas RRC	8111	Oct-92 Nov-92	Rate Impact of System Upgrade
53.	Corpus Christi Transmission Company GP and GPII	Texas RRC	8300 8301	Oct-92 Oct-92	Revenue Requirements
54.	East Texas Industrial Gas Company	Texas RRC	8326	Mar-93	Revenue Requirements
55.	Arkansas Louisiana Gas Company	Arkansas PSC	93-081-U	Apr-93 Oct-93	Rate of Return on Equity
56.	Texas Utilities Electric Company	Texas PUC	11735	Jun-93 Jul-93	Impact of Nuclear Plant Construction Delay
57.	Minnegasco	Minnesota PUC	G-008/GR-93-1090	Nov-93 Apr-94	Rate of Return
58.	Gulf States Utilities Company	Municipalities	--	May-94 Oct-94 Nov-94	Rate of Return on Equity
59.	Louisiana Power & Light Company	Louisiana PSC	U-20925	Aug-94 Feb-95	Rate of Return on Equity
60.	San Jacinto Gas Transmission	Texas RRC	8429	Sep-94	Revenue Requirements
61.	Cavallo Pipeline Company	Texas RRC	8465	Sep-94	Revenue Requirements
62.	Eastrans Limited Partnership	Texas RRC	8385	Oct-94	Revenue Requirements
63.	Gulf States Utilities Company	Louisiana PSC	U-19904	Oct-94	Rate of Return on Equity

Bruce H. Fairchild
Summary of Testimony Before Regulatory Agencies

(Continued)

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
64.	Entergy Services, Inc.	FERC	ER95-112-000	Mar-95 Nov-95	Rate of Return on Equity
65.	East Texas Gas Systems	Texas RRC	8435	Apr-95	Revenue Requirements
66.	System Energy Resources, Inc.	FERC	ER95-1042-000	May-95 Dec-95 Jan-96	Rate of Return on Equity
67.	Minnegasco	Minnesota PUC	G-008/GR-95-700	Aug-95 Dec-95	Rate of Return
68.	Entex	Louisiana PSC	U-21586	Aug-95	Rate of Return
69.	City of Fort Worth	Texas NRCC	SOAH 582-95-1084	Nov-95	Public Interest of Contract
70.	Seagull Energy Corporation	Texas RRC	8589	Nov-95	Revenue Requirements
71.	Corpus Christi Transmission Company LP	Texas RRC	8449	Feb-96	Revenue Requirements
72.	Missouri Gas Energy	Missouri PSC	GR-96-285	Apr-96 Sep-96 Oct-96	Rate of Return
73.	Entex	Mississippi PSC	96-UA-202	May-96	Rate of Return
74.	Entergy Gulf States, Inc.	Louisiana PSC	U-22084	May-96	Rate of Return on Equity (Gas)
75.	Entergy Gulf States, Inc.	Louisiana PSC	U-22092	May-96 Oct-96	Rate of Return on Equity
76.	American Gas Storage, L.P.	Texas RRC	8591	Sep-96	Revenue Requirements
77.	Entergy Louisiana, Inc.	Louisiana PSC	U-20925	Sep-96 Oct-96	Rate of Return on Equity
78.	Lone Star Pipeline and Gas Company	Texas RRC	8664	Oct-96 Jan-97	Rate of Return
79.	Entergy Arkansas, Inc.	Arkansas PSC	96-360-U	Oct-96 Sep-97	Rate of Return on Equity
80.	East Texas Gas Systems	Texas RRC	8658	Nov-96	Revenue Requirements
81.	Entergy Gulf States, Inc.	Texas PUC	16705	Nov-96 Jul-97	Rate of Return on Equity
82.	Eastrans Limited Partnership	Texas RRC	8657	Nov-96	Revenue Requirements
83.	Enserch Processing, Inc.	Texas RRC	8763	Nov-96	Interim Rates
84.	Entergy New Orleans, Inc.	City of New Orleans	UD-97-1	Feb-97 Mar-97 May-98	Rate of Return on Equity

Bruce H. Fairchild
Summary of Testimony Before Regulatory Agencies
(Continued)

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
85.	ENSTAR Natural Gas Company	Alaska PUC	U-96-108	Mar-97 Apr-97	Service Area Certificate
86.	San Jacinto Gas Transmission	Texas RRC	8741	Sep-97	Revenue Requirements
87.	Missouri Gas Energy	Missouri PSC	GR-98-140	Nov-97 Apr-98 May-98	Rate of Return
88.	Corpus Christi Transmission Company LP	Texas RRC	8762	Dec-97	Revenue Requirements
89.	Texas-New Mexico Power Company	Texas PUC	17751	Feb-98	Excess Cost Over Market
90.	Southern Union Gas Company	Texas RRC	8878	May-98	Rate of Return
91.	Entergy Louisiana, Inc.	Louisiana PSC	U-20925	May-98 Jul-98	Financial Integrity
92.	Entergy Gulf States, Inc.	Louisiana PSC	U-22092	May-98 Jul-98	Financial Integrity
93.	ACGC Gathering Company, LLC	Texas RRC	8896	Sep-98	Cost-based Rates
94.	American Gas Storage, L.P.	Texas RRC	8855	Oct-98	Revenue Requirements
95.	Duke Energy Intrastate Network	Texas RRC	8940	Jun-99	Rate of Return
96.	Aquila Energy Corporation	Texas RRC	8970	Aug-99	Revenue Requirements
97.	San Jacinto Gas Transmission	Texas RRC	8974	Sep-99	Revenue Requirements
98.	Southern Union Gas Company	El Paso PURB	--	Oct-99	Rate of Return
99.	TXU Lone Star Pipeline	Texas RRC	8976	Oct-99 Feb-00	Rate of Return
100.	Sharyland Utilities, L.P.	Texas PUC	21591	Nov-99	Rate of Return
101.	TXU Lone Star Gas Distribution	Texas RRC	9145	Apr-00 Aug-00	Rate of Return
102.	Rotherwood Eastex Gas Storage	Texas RRC	9136	May-00	Revenue Requirements
103.	Eastex Gas Storage & Exchange, Inc.	Texas RRC	9137	May-00	Revenue Requirements
104.	Eastex Gas Storage & Exchange, Inc.	Texas RRC	9138	Jul-00	Revenue Requirements
105.	East Texas Gas Systems	Texas RRC	9139	Jul-00	Revenue Requirements
106.	Eastrans Limited Partnership	Texas RRC	9140	Aug-00	Revenue Requirements
107.	Reliant Energy – Entex	City of Tyler	--	Oct-00	Rate of Return
108.	City of Fort Worth	Texas NRCC	SOAH 582-00-1092	Dec-00	CCN – Rates and Financial Ability
109.	Entergy Services, Inc.	FERC	RTO1-75	Dec-00	Rate of Return on Equity

Bruce H. Fairchild
Summary of Testimony Before Regulatory Agencies
(Continued)

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
110	ENSTAR Natural Gas Company	Alaska PUC	U-00-88	Jun-01 Aug-01 Nov-01 Sep-02 Dec-02	Revenue Requirements, Cost Allocation, and Rate Design
111.	TXU Gas Distribution	Texas RRC	9225	Jul-01	Rate of Return
112.	Centana Intrastate Pipeline LLC	Texas RRC	9243	Aug-01	Rate of Return
113.	Maxwell Water Supply Corp.	Texas NRCC	SOAH-582-01-0802	Oct-01 Mar-02 Apr-02	Reasonableness of Rates
114.	Reliant Energy Arkla	Arkansas PSC	01-243-U	Dec-01 Jun-01	Rate of Return
115.	Entergy Services, Inc.	FERC	ER01-2214-000	Mar-02	Rate of Return on Equity
116.	TXU Lone Star Pipeline	Texas RRC	9292	Apr-02	Rate of Return
117.	Southern Union Gas Company	El Paso PURB	--	Apr-02	Rate of Return
118.	San Jacinto Gas Transmission Co.	Texas RRC	9301	May-02	Rate of Return
119.	Duke Energy Intrastate Network	Texas RRC	9302	May-02	Rate of Return
120.	Reliant Energy Arkla	Oklahoma CC	200200166	May-02	Rate of Return
121.	TXU Gas Distribution	Texas RRC	9313	Jul-02 Sep-02	Rate of Return
122.	Entergy Mississippi, Inc.	Mississippi PSC	2002-UN-256	Aug-02	Rate of Return on Equity
123.	Aquila Storage & Transportation LP	Texas RRC	9323	Sep-02	Revenue Requirements
124.	Panther Pipeline Ltd.	Texas RRC	9291	Oct-02	Revenue Requirements
125.	SEMCO Energy	Michigan PSC	U-13575	Nov-02	Revenue Requirements
126.	CenterPoint Energy Entex	Louisiana PSC	U-26720	Jan-03	Rate of Return
127.	Crosstex CCNG Transmission Ltd.	Texas RRC	9363	May-03	Revenue Requirements
128.	TXU Gas Company	Texas RRC	9400	May-03 Jan-04	Rate of Return
129.	Eastrans Limited Partnership	Texas RRC	9386	May-03	Rate of Return
130.	CenterPoint Energy Entex	City of Houston		Jun-03	Rate of Return
131.	East Texas Gas Systems, L.P.	Texas RRC	9385	Jun-03	Rate of Return
132.	ENSTAR Natural Gas Company	Alaska RCA	U-03-084	Aug-03 Nov-03	Line Extension Surcharge
133.	CenterPoint Energy Arkla	Louisiana PSC		Nov-03	Rate of Return
134.	ENSTAR Natural Gas Company	Alaska RCA	U-03-091	Feb-04	Cost Separation and Taxes

Bruce H. Fairchild
Summary of Testimony Before Regulatory Agencies
(Continued)

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
135.	Sid Richardson Pipeline, Ltd.	Texas RRC	9532	Jun-04 Nov-04	Revenue Requirements
136.	ETC Katy Pipeline, Ltd.	Texas RRC	9524	Sep-04	Revenue Requirements
137.	CenterPoint Energy Entex	Mississippi PSC	03-UN-0831	Sep-04	Rate Formula
138.	Centana Intrastate Pipeline LLC	Texas RRC	9527	Sep-04	Rate of Return
139.	SEMCO Energy	Michigan PSC	U-14338	Dec-04	Revenue Requirements
140.	Atmos Energy – Energas	Texas RRC	9539	Feb-05	Regulatory Policy
141.	Crosstex North Texas Pipeline, L.P.	Texas RRC	9613	Sep-05	Revenue Requirements
142.	SiEnergy, L.P.	Texas RRC	9604	Dec-05	Rate of Return, Income Taxes, and Cost Allocation
143.	ENSTAR Natural Gas Company	Alaska RCA	TA-140-4	Feb-06	Connection Fees
144.	SEMCO Energy	Michigan PSC	U-14984	May-06 Dec-06	Revenue Requirements
145.	Atmos Energy – Mid-Tex	Texas RRC	9676	May-06 Oct-06	Revenue Requirements
146.	EasTrans Limited Partnership	Texas RRC	9659	Jun-06	Rate of Return
147.	Kinder Morgan Texas Pipeline, L.P.	Texas RRC	9688	Jul-06	Rate of Return
148.	Crosstex CCNG Transmission Ltd.	Texas RRC	9660	Aug-06	Revenue Requirements
149.	Enbridge Pipelines (North Texas), LP	Texas RRC	9691	Oct-06	Rate of Return
150.	Panther Interstate Pipeline Energy	FERC	CP03-338-00	Mar-07	Revenue Requirements
151.	El Paso Electric Company	Texas PUC	34494	Jul-07	CCN
152.	El Paso Electric Company	NM PRC	07-00301-UT	Jul-07	CCN
153.	Atmos Energy	Kansas CC	08-ATMG-280-RTS	Sep-07 Feb-08	Rate of Return on Equity
154.	Centana Intrastate Pipeline LLC	Texas RRC	9759	Sep-07	Rate of Return
155.	Texas Gas Service Company	Texas RRC	9770	Nov-07	Rate of Return
156.	ENSTAR Natural Gas Company	Alaska RCA	U-08-25	Jun-08	Rate Class Switching
157.	ConocoPhillips Transportation Alaska	Alaska RCA	TL-131-301	Oct-08	Rate of Return
158.	ExxonMobil Pipeline Co.	Alaska RCA	TL-140-304	Nov-08	Rate of Return
159.	Crosstex North Texas Pipeline, L.P.	Texas RRC	9843	Dec-08	Revenue Requirements
160.	Koch Alaska Pipeline Company	Alaska RCA	TL 128-308	Dec-08	Rate of Return
161.	Unocal Pipeline Company	Alaska RCA	TL 118-312	Dec-08	Rate of Return

Bruce H. Fairchild
Summary of Testimony Before Regulatory Agencies
(Continued)

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
162.	ETC Katy Pipeline, Ltd.	Texas RRC	9841	Dec-08	Revenue Requirements
163.	Oklahoma Natural Gas	Oklahoma CC	200800348	Jan-09	Rate of Return on Equity
164.	Entergy Mississippi, Inc.	Mississippi PSC	EC-123-0082	Mar 09	Rate of Return on Equity
165.	ENSTAR Natural Gas Company	Alaska RCA	U-09-69 U-09-70	Jun-09 Jul-09 Oct-09	Revenue Requirements, Cost Allocation, and Rate Design
166.	EasTrans, LLC	Texas RRC	9857	Jun-09	Rate of Return
167.	Oklahoma Natural Gas	Oklahoma CC	200900110	Jun-09	Rate of Return
168.	Crosstex CCNG Transmission Ltd.	Texas RRC	9858	Jun-09	Revenue Requirements
169.	ConocoPhillips Transportation Alaska	Alaska RCA	TL-137-301	Jul-09	Rate of Return
170.	ENSTAR Natural Gas Company	Alaska RCA	U-08-142	Jul-09	Gas Cost Adjustment
171.	Kinder Morgan Texas Pipeline, LLC	Texas RRC	9889	Jul-09	Rate of Return
172.	Koch Alaska Pipeline Company	Alaska RCA	TL 133-308	Aug-09	Rate of Return
173.	ExxonMobil Pipeline Co.	Alaska RCA	TL-147-304	Nov-09	Rate of Return
174.	Texas Gas Service Company	El Paso PURB	--	Dec-09	Rate of Return
175.	Unocal Pipeline Company	Alaska RCA	TL126-312	Dec-09	Rate of Return
176.	Kuparuk Transportation Company	Alaska RCA	P-08-05	Apr-10	Rate of Return
177.	Trans-Alaska Pipeline System	FERC	ISO9-348-000	Apr 10 Oct 10	Rate of Return
178.	Texas Gas Service	Texas RRC	9988	May 10 Aug 10	Rate of Return
179.	SEMCO Energy Gas Company	Michigan PSC	U-16169	Jun 10 Dec 10	Revenue Requirements
180.	ConocoPhillips Transportation Alaska	Alaska RCA	TL-137-301	Jul 10	Rate of Return
181.	Koch Alaska Pipeline Company, LLC	Alaska RCA	TL-138-308	Aug 10	Rate of Return
182.	CPS Energy	Texas PUC	36633	Sep 10 Apr 11	Rate of Return for MOU
183.	ExxonMobil Pipeline Co.	Alaska RCA	TL-151-304	Dec 10	Rate of Return
184.	Unocal Pipeline Company	Alaska RCA	TL132-312	Feb 11	Rate of Return
185.	New Mexico Gas Company	NM PRC	11-00042-UT	Mar 11	Rate of Return
186.	ConocoPhillips Transportation Alaska	Alaska RCA	TL-143-301	May 11	Rate of Return

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
187.	Enbridge Pipelines (Southern Lights)	FERC	IS11-146-000	Jun 11 Nov 11	Rate of Return
188.	Koch Alaska Pipeline Company, LLC	Alaska RCA	TL-138-___	Jul 11	Rate of Return
189.	Unocal Pipeline Company	Alaska RCA	TL126-___	Dec 11	Rate of Return
190.	Kansas Gas Service	Kansas CC	12-KGSC-835-RTS	May 12 Oct 12	Rate of Return
191.	ExxonMobil Pipeline Co.	Alaska RCA	TL-157-304	Jun 12	Rate of Return
192.	ConocoPhillips Transportation Alaska	Alaska RCA	TL-149-301	Jul 12	Rate of Return
193.	Seaway Crude Pipeline Company	FERC	IS12-226-000	Aug 12 Feb 13	Rate of Return
194.	Cross Texas Transmission, LLC	Texas PUC	40604	Aug 12 Oct 12 Nov 12	Revenue Requirements
195.	Wind Energy Transmission Texas	Texas PUC	40606	Aug 12 Nov 12	Revenue Requirements
196.	Lone Star Transmission LLC	Texas PUC	40798	Nov 12	Revenue Requirements
197.	West Texas Gas Company	Texas RRC	10235	Jan 13	Rate of Return
198.	Cross Texas Transmission, LLC	Texas PUC	41190	Feb 13	Revenue Requirements
199.	ExxonMobil Pipeline Co.	Alaska RCA	TL-162-304	Apr 13	Rate of Return
200.	EasTrans,LLC	Texas RRC	10276	Jul 13	Rate of Return
201.	ConocoPhillips Transportation Alaska	Alaska RCA	TL-152-301	Jul 13	Rate of Return
202.	BP Pipelines (Alaska) Inc.	Alaska RCA	TL-143-311	Sep 13	Rate of Return
203.	Wind Energy Transmission Texas	Texas PUC	41923	Oct 13	Revenue Requirements
204.	Oliktok Pipeline Company	Alaska RCA	P-13-013	Nov 13	Rate of Return
205.	Aqua Texas Southeast Region-Gray	Texas CEQ	2013-2007-UCR	Apr 14	Revenue Requirements
206.	Entergy Mississippi	Mississippi PSC	EC-123-0082	Jun 14	Rate of Return on Equity
207.	Westlake Ethylene Pipeline	Texas RRC	10358	Jul 14 Aug 15	Rates
208.	ExxonMobil Pipeline Co.	Alaska RCA	TL-164-304	Jul 14	Rate of Return
209.	ConocoPhillips Transportation Alaska	Alaska RCA	TL-154-301	Aug 14	Rate of Return
210.	Enstar Natural Gas Company	Alaska RCA	TA-262-4	Sep 14 Jun 15	Revenue Requirements, Cost Allocation, and Rate Design

Bruce H. Fairchild
Summary of Testimony Before Regulatory Agencies
(Continued)

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
211.	Oliktok Pipeline Company	Alaska RCA	TL-44-334	Mar 15	Rate of Return
212.	Entergy Arkansas, Inc.	Arkansas PSC	15-0150U	Apr 15 Oct 15 Dec 15	Rate of Return on Equity
213.	Wind Energy Transmission Texas	Texas PUC	44746	Jun 15	Revenue Requirements
214.	Texas City	Texas RRC	10408	Jun 15 Nov 15	Pipeline Annual Assessment
215.	Oklahoma Natural Gas	Oklahoma CC	201500213	Jul 15 Nov 15	Rate of Return
216.	PTE Pipeline LLC	Alaska RCA	P-12-015	Sep 15	Rate of Return
217.	Northeast Transmission Development, LLC	FERC	ER16-453	Dec 15	Formula Rates
218.	Oncor Electric Delivery	Texas PUC	45188	Dec 15	Public Interest of Acquisition
219.	Corix Utilities (Texas)	Texas PUC	45418	Dec 15 Oct 16	Rate of Return
220.	Texas Gas Service	Texas RRC	10488	Dec 15	Rate of Return
221.	Texas Gas Service	Texas RRC	10506	Mar 16 Jun 16	Rate of Return
222.	Kansas Gas Service	Kansas CC	16-KGSG-491-RTS	May 16 Sep 16	Rate of Return on Equity
223.	Enstar Natural Gas Company	Alaska RCA	TA-285-4	Jun 16 Apr 17	Revenue Requirements, Cost Allocation, and Rate Design
224.	Texas Gas Service	Texas RRC	10526	Jun 16	Rate of Return
225.	West Texas LPG Pipeline	Texas RRC	10455	Aug 16 Jan 17	Rates and Rate of Return
226.	Liberty Utilities	Texas PUC	46356	Sep 16 Feb 17 Jun 17	Revenue Requirements and Rate of Return
227.	DesertLink LLC	FERC	ER17-135	Oct 16	Formula Rates
228.	Houston Pipe Line Co.	Texas RRC	10559	Nov 16	Revenue Requirements
229.	Texas Gas Service	Texas RRC	10656	Jun 17	Rate of Return
230.	Trans-Pecos Pipeline	Texas RRC	10646	Sep 17 Feb 18	Revenue Requirements
231.	Comanche Trail Pipeline	Texas RRC	10647	Sep 17 Feb 18	Revenue Requirements
232.	Alpine High Pipeline	Texas RRC	10665	Oct 17 Feb 18	Revenue Requirements

Bruce H. Fairchild
Summary of Testimony Before Regulatory Agencies
(Continued)

No.	Utility Case	Agency	Docket	Date	Nature of Testimony
233.	SiEnergy, LP	Texas RRC	10679	Jan 18	Rate of Return
234.	Targa Midland Gas Pipeline LLC	Texas RRC	10690	Jan 18	Revenue Requirements
235.	ET Fuel, LP	Texas RRC	10706	Apr 18	Revenue Requirements
236.	Texas Gas Service	Texas RRC	10739	Jun 18	Rate of Return
237.	Kansas Gas Service	Kansas CC	18-KGSG-560-RTS	Jun 18 Nov 18	Rate of Return on Equity
238.	Oliktok Pipeline Company	Alaska RCA	TL46-334	Jul 18	Rate of Return
239.	Red Bluff Express, LLC	Texas RRC	10752	Jul 18	Revenue Requirements
240.	PTE Pipeline LLC	Alaska RCA	P-18-0__	Jul 18	Rate of Return
241.	Agua Blanca, LLC	Texas RRC	10761	Aug 18	Revenue Requirements
242.	Texas Gas Service	Texas RRC	10766	Aug 18	Rate of Return
243.	Republic Transmission LLC	FERC	ER19-___	Dec 18	Formula Rates
244.	Gulf Coast Express Pipeline LLC	Texas RRC	10825	Feb 19	Revenue Requirements
245.	Cook Inlet Natural Gas Storage Alaska, LLC	Alaska RCA	U-18-043	Mar 19 Apr 19	Accumulated Deferred Income Taxes and Working Capital
246.	Impulsora Pipeline LLC	Texas RRC	10829	Mar 19	Revenue Requirements
247.	SEMCO Energy Gas Co.	Michigan PSC	U-20479	May 19 Oct 19	Revenue Requirements
248.	Liberty Utilities (Fox River) LLC	AAA	01-18-0002-2510	Jul 19 Oct 19	Revenue Requirements
249.	AMP Intrastate Pipeline LLC	Texas RRC	10887	Aug 19	Revenue Requirements
250.	Corix Utilities (Texas) Inc.	Texas PUC	49923	Aug 19 Jul 20 Aug 20	TCJA Tax Expense Reduction
251.	Colonial Pipeline Company	FERC	OR18-7-002	Nov 19 Feb 20 May 20 Jul 20	Rate of Return
252.	Texas Gas Service	Texas RRC	10928	Dec 19 Apr 20	Rate of Return
253.	Mississippi Power Company	Mississippi PSC	2019-UN-219	Feb 20	Rate of Return on Equity
254.	Corix Utilities (Texas)	Texas PUC	50557	Mar 20 Mar 21	Rate of Return and Excess ADFIT
255.	SouthCross CCNG Transmission	Texas RRC	10967	May 20	Revenue Requirements
256.	Kinder Morgan Border Pipeline LLC	Texas RRC	10980	Jun 20	Revenue Requirements

257.	Monarch Utilities I LP	Texas PUC	50944	Jul 20 Nov 20	Rate of Return
258.	West Texas Gas, Inc.	Texas RRC	10998	Aug 20	Revenue Requirements, Rate of Return, and Cost of Service Study
259.	Centric Gas Services, LLC	Texas RRC		Oct 20	Rate of Return
260.	CoServ Gas, Ltd	Texas RRC	00005136	Nov 20	Rate of Return
261.	Permian Highway Pipeline LLC	Texas RRC	00005306	Dec 20	Revenue Requirements
262.	Whistler Pipeline LLC	Texas RRC	00005675	Feb 21	Revenue Requirements
263.	Oklahoma Natural Gas	Oklahoma CC	202100063	May 21	Rate of Return
264.	Oliktok Pipeline Company	Alaska RCA	TL47-334	Jul 21	Rate of Return

RAILROAD COMMISSION OF TEXAS
Oversight and Safety Division
Gas Services Department

NOTICE TO LOCAL DISTRIBUTION COMPANIES

Notice of Authorization for Regulatory Asset Accounting for Local Distribution Companies Affected by the February 2021 Winter Weather Event

On February 12, 2021, Governor Greg Abbott declared a State of Disaster in Texas for all Texas counties in response to the unprecedented cold winter weather event that began in Texas on Thursday, February 11, 2021 and is expected to continue until, at a minimum, Thursday, February 18, 2021 ("2021 Winter Weather Event"). The Commission is aware that, due to the demand for natural gas during the 2021 Winter Weather Event, natural gas utility local distribution companies ("LDCs") may be required to pay extraordinarily high prices in the market for natural gas and may be subjected to other extraordinary expenses when responding to the 2021 Winter Weather Event. The Commission encourages LDCs to continue to work to ensure that the citizens of the State of Texas are provided with safe and reliable natural gas service.

Through this Notice, the Commission authorizes LDCs to use an accounting mechanism and a subsequent process through which those regulated companies may seek future recovery of extraordinary expenses resulting from the effects of the 2021 Winter Weather Event in order to partially defer and reduce the impact on customers of these extraordinary expenses. The Commission has exclusive, original jurisdiction to prescribe the manner and form of the books, records, and accounts for gas utilities pursuant to the Gas Utility Regulatory Act, Texas Utility Code § 102.101(a), (b) and (d). **The Commission hereby authorizes each LDC to record in a regulatory asset account the extraordinary expenses associated with the 2021 Winter Weather Event, including but not limited to gas cost and other costs related to the procurement and transportation of gas supply.**

This Notice only authorizes the ability to record the expenses related to securing natural gas throughout the 2021 Winter Weather Event in a regulatory asset account and does **not** authorize the reasonableness, necessity, or accuracy of the expenses placed into the regulatory asset account. In future rate proceedings, the expenses will be fully subject to review for reasonableness and accuracy, and the LDCs shall bear the burden to prove that the expenses would not have been incurred but for the 2021 Winter Weather Event.

If you have questions regarding this notice, please contact the Commission at mark.evarts@rrc.texas.gov.

Please Forward to the Appropriate Section of Your Company

Austin, Texas **February 2021**

H.B. No. 1520

AN ACT

relating to certain extraordinary costs incurred by certain gas utilities relating to Winter Storm Uri and a study of measures to mitigate similar future costs; providing authority to issue bonds and impose fees and assessments.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 1232.002, Government Code, is amended to read as follows:

Sec. 1232.002. PURPOSE. The purpose of this chapter is to provide a method of financing for:

(1) the acquisition or construction of buildings; [~~and~~]

(2) the purchase or lease of equipment by executive or judicial branch state agencies; and

(3) customer rate relief bonds authorized by the Railroad Commission of Texas in accordance with Subchapter I, Chapter 104, Utilities Code.

SECTION 2. Section 1232.066(a), Government Code, is amended to read as follows:

(a) The board's authority under this chapter is limited to the financing of:

(1) the acquisition or construction of a building;

(2) the purchase or lease of equipment; [~~or~~]

(3) stranded costs of a municipal power agency; or

(4) customer rate relief bonds approved by the Railroad Commission of Texas in accordance with Subchapter I, Chapter 104, Utilities Code.

SECTION 3. Subchapter C, Chapter 1232, Government Code, is amended by adding Section 1232.1072 to read as follows:

Sec. 1232.1072. ISSUANCE OF OBLIGATIONS FOR FINANCING CUSTOMER RATE RELIEF PROPERTY. (a) The definitions in Section 104.362, Utilities Code, apply to terms used in this section.

(b) The authority may create an issuing financing entity for the purpose of issuing customer rate relief bonds approved by the Railroad Commission of Texas in a financing order, as provided by Subchapter I, Chapter 104, Utilities Code.

(c) An issuing financing entity created under this section is a duly constituted public authority and instrumentality of the state and is authorized to issue customer rate relief bonds on behalf of the state for the purposes of Section 103, Internal Revenue Code of 1986 (26 U.S.C. Section 103).

(d) The issuing financing entity must be governed by a governing board of three members appointed by the authority. A member of the governing board may be a current or former director of the authority. A member of the governing board serves without compensation but is entitled to reimbursement for travel expenses incurred in attending board meetings.

(e) The issuing financing entity must be formed in accordance with, be governed by, and have the powers, rights, and privileges provided for a nonprofit corporation organized under the Business Organizations Code, including Chapter 22 of that code, subject to the express exceptions and limitations provided by this section and Subchapter I, Chapter 104, Utilities Code. A single organizer selected by the executive director of the authority shall prepare the certificate of formation of the issuing financing entity under Chapters 3 and 22, Business Organizations Code. The certificate of formation must be consistent with the provisions of this section.

(f) The authority shall establish the issuing financing entity to act on behalf of the state as its duly constituted authority and instrumentality to issue customer rate relief bonds approved under Subchapter I, Chapter 104, Utilities Code.

(g) On a request to the authority from the Railroad Commission of Texas, the authority shall direct an issuing financing entity to issue customer rate relief bonds in accordance with a financing order issued by the railroad commission as provided in Subchapter I, Chapter 104, Utilities Code.

(h) Before the issuance of any customer rate relief bonds, the authority and the Railroad Commission of Texas shall ensure that adequate provision is made in any financing order for the recovery of all issuance costs and all other fees, costs, and expenses of the authority, the issuing financing entity, and any advisors or counsel hired by the authority or the entity for the purposes of this section during the life of the customer rate relief bonds.

(i) Customer rate relief bonds are limited obligations of the issuing financing entity payable solely from customer rate relief property and any other money pledged by the issuing financing entity to the payment of the bonds and are not a debt of this state, the Railroad Commission of Texas, the authority, or a gas utility.

(j) The Railroad Commission of Texas shall ensure that customer rate relief charges are imposed, collected, and enforced in an amount sufficient to pay on a timely basis all bond obligations, financing costs, and bond administrative expenses associated with any issuance of customer rate relief bonds.

(k) The authority and the Railroad Commission of Texas have all the powers necessary to perform the duties and responsibilities described by this section. This section shall be interpreted broadly in a manner consistent with the most cost-effective financing of customer rate relief property, including regulatory assets, extraordinary costs, and related financing costs approved by the Railroad Commission of Texas in accordance with Subchapter I, Chapter 104, Utilities Code.

(l) Any interest on the customer rate relief bonds is not subject to taxation by and may not be included as part of the measurement of a tax by this state or a political subdivision of this state.

(m) The authority shall make periodic reports to the Railroad Commission of Texas and the public regarding each financing made in accordance with Section 104.373(b), Utilities Code, and if required by the applicable financing order.

(n) The issuing financing entity shall issue customer rate relief bonds in accordance with and subject to other provisions of Title 9 applicable to the authority.

<u>(o) The issuing financing entity may exercise the powers granted to the governing body of an issuer with regard to the issuance of obligations and the execution of credit agreements under Chapter 1371. A purpose for which bonds, obligations, or other evidences of indebtedness are issued under this section and Subchapter I, Chapter 104, Utilities Code, constitutes an eligible project for purposes of Chapter 1371 of this code.</u>

<u>(p) Assets of an issuing financing entity may not be considered part of any state fund and must be held outside the state treasury. The liabilities of the issuing financing entity may not be considered to be a debt of the state or a pledge of the state's credit. An issuing financing entity must be self-funded from customer rate relief property and established in accordance with Subchapter I, Chapter 104, Utilities Code. A state agency may provide money appropriated for the purpose to the issuing financing entity to provide for initial operational expenses of the issuing financing entity.</u>

SECTION 4. Section 1232.108, Government Code, is amended to read as follows:

Sec. 1232.108. LEGISLATIVE AUTHORIZATION REQUIRED. Except as permitted by Section <u>1232.1072,</u> 1232.109, 2166.452, or 2166.453, before the board may issue and sell bonds, the legislature by the General Appropriations Act or other law must have authorized:

(1) the specific project for which the bonds are to be issued and sold; and

(2) the estimated cost of the project or the maximum amount of bonded indebtedness that may be incurred by the issuance

and sale of bonds for the project.

SECTION 5. Chapter 104, Utilities Code, is amended by adding Subchapter I to read as follows:

SUBCHAPTER I. CUSTOMER RATE RELIEF BONDS

Sec. 104.361. PURPOSE; RAILROAD COMMISSION DUTY. (a) The purpose of this subchapter is to reduce the cost that customers would otherwise experience because of extraordinary costs that gas utilities incurred to secure gas supply and provide service during Winter Storm Uri, and to restore gas utility systems after that event, by providing securitization financing for gas utilities to recover those costs. The securitization financing mechanism authorized by this subchapter will:

(1) provide rate relief to customers by extending the period during which the costs described by this subsection are recovered from customers; and

(2) support the financial strength and stability of gas utility companies.

(b) The railroad commission shall ensure that securitization provides tangible and quantifiable benefits to customers, greater than would have been achieved absent the issuance of customer rate relief bonds.

Sec. 104.362. DEFINITIONS. In this subchapter:

(1) "Ancillary agreement" means a financial arrangement entered into in connection with the issuance or payment of customer rate relief bonds that enhances the marketability, security, or creditworthiness of customer rate relief bonds, including a bond, insurance policy, letter of credit, reserve

account, surety bond, interest rate or currency swap arrangement, interest rate lock agreement, forward payment conversion agreement, credit agreement, other hedging arrangement, or liquidity or credit support arrangement.

(2) "Authority" means the Texas Public Finance Authority.

(3) "Bond administrative expenses" means all costs and expenses incurred by the railroad commission, the authority, or any issuing financing entity to evaluate, issue, and administer customer rate relief bonds issued under this subchapter, including fees and expenses of the authority, any bond administrator, and the issuing financing entity, fees for paying agents, trustees, and attorneys, and fees for paying for other consulting and professional services necessary to ensure compliance with this subchapter, applicable state or federal law, and the terms of the financing order.

(4) "Bond obligations" means the principal of a customer rate relief bond and any premium and interest on a customer rate relief bond issued under this subchapter, together with any amount owed under a related ancillary agreement or credit agreement.

(5) "Credit agreement" has the meaning assigned by Section 1371.001, Government Code.

(6) "Customer rate relief bonds" means bonds, notes, certificates, or other evidence of indebtedness or ownership the proceeds of which are used directly or indirectly to recover, finance, or refinance regulatory assets approved by the railroad

commission, including extraordinary costs and related financing costs, and that are:

(A) issued by an issuing financing entity under a financing order; and

(B) payable from and secured by customer rate relief property and amounts on deposit in any trust accounts established for the benefit of the customer rate relief bondholders as approved by the applicable financing order.

(7) "Customer rate relief charges" means the amounts authorized by the railroad commission as nonbypassable charges to repay, finance, or refinance regulatory assets, including extraordinary costs, financing costs, bond administrative expenses, and other costs authorized by the financing order:

(A) imposed on and included in customer bills of a gas utility that has received a regulatory asset determination under Section 104.365;

(B) collected in full by a gas utility that has received a regulatory asset determination under Section 104.365, or its successors or assignees, or a collection agent, as servicer, separate and apart from the gas utility's base rates; and

(C) paid by all existing or future customers receiving service from a gas utility that has received a regulatory asset determination under Section 104.365 or its successors or assignees, even if a customer elects to purchase gas from an alternative gas supplier.

(8) "Customer rate relief property" means:

(A) all rights and interests of an issuing financing entity or any successor under a financing order, including the right to impose, bill, collect, and receive customer rate relief charges authorized in the financing order and to obtain periodic adjustments to those customer rate relief charges as provided in the financing order and in accordance with Section 104.370; and

(B) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified by Paragraph (A), regardless of whether the revenues, collections, claims, rights to payments, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payments, payments, money, or proceeds.

(9) "Financing costs" means any of the following:

(A) interest and acquisition, defeasance, or redemption premiums that are payable on customer rate relief bonds;

(B) a payment required under an ancillary agreement or credit agreement or an amount required to fund or replenish reserve or other accounts established under the terms of an indenture, ancillary agreement, or other financing document pertaining to customer rate relief bonds;

(C) issuance costs or ongoing costs related to supporting, repaying, servicing, or refunding customer rate relief bonds, including servicing fees, accounting or auditing fees, trustee fees, legal fees or expenses, consulting fees, administrative fees, printing fees, financial advisor fees or expenses, Securities and Exchange Commission registration fees, issuer fees, bond administrative expenses, placement and underwriting fees, capitalized interest, overcollateralization funding requirements including amounts to fund or replenish any reserve established for a series of customer rate relief bonds, rating agency fees, stock exchange listing and compliance fees, filing fees, and any other bond administrative expenses; and

(D) the costs to the railroad commission of acquiring professional or consulting services for the purpose of evaluating extraordinary costs under this subchapter.

(10) "Financing order" means an order adopted under Section 104.366 approving the issuance of customer rate relief bonds and the creation of customer rate relief property and associated customer rate relief charges for the recovery of regulatory assets, including extraordinary costs, related financing costs, and other costs authorized by the financing order.

(11) "Financing party" means a holder of customer rate relief bonds, including a trustee, a pledgee, a collateral agent, any party under an ancillary agreement, or other person acting for the holder's benefit.

(12) "Gas utility" means:

(A) an operator of natural gas distribution pipelines that delivers and sells natural gas to the public and that is subject to the railroad commission's jurisdiction under Section 102.001; or

(B) an operator that transmits, transports, delivers, or sells natural gas or synthetic natural gas to operators of natural gas distribution pipelines and whose rates for those services are established by the railroad commission in a rate proceeding filed under this chapter.

(13) "Issuing financing entity" means a special purpose nonmember, nonstock, nonprofit public corporation established by the authority under Section 1232.1072, Government Code.

(14) "Nonbypassable" means a charge that:

(A) must be paid by all existing or future customers receiving service from a gas utility that has received a regulatory asset determination under Section 104.365 or the gas utility's successors or assignees, even if a customer elects to purchase gas from an alternative gas supplier; and

(B) may not be offset by any credit.

(15) "Normalized market pricing" means the average monthly pricing at the Henry Hub for the three months immediately preceding the month during which extraordinary costs were incurred, plus contractual adders to the index price and other non-indexed gas procurement costs.

(16) "Regulatory asset" includes extraordinary costs:

(A) recorded by a gas utility in the utility's books and records in accordance with the uniform system of accounts prescribed for natural gas companies subject to the provisions of the Natural Gas Act (15 U.S.C. Section 717 et seq.) by the Federal Energy Regulatory Commission and generally accepted accounting principles; or

(B) classified as a receivable or financial asset under international financial reporting standards under the railroad commission's authorization in the Notice of Authorization for Regulatory Asset Accounting for Local Distribution Companies Affected by the February 2021 Winter Weather Event issued February 13, 2021.

(17) "Servicer" means, with respect to each issuance of customer rate relief bonds, the entity identified by the railroad commission in the financing order as servicer responsible for collecting customer rate relief charges from participating gas utilities, remitting all collected funds to the applicable issuing financing entity or the bond trustee, calculating true-up adjustments, and performing any other duties as specified in the financing order.

(18) "Winter Storm Uri" means the North American winter storm that occurred in February 2021.

Sec. 104.363. EXTRAORDINARY COSTS. For the purposes of this subchapter, extraordinary costs are the reasonable and necessary costs related to Winter Storm Uri, including carrying costs, placed in a regulatory asset and approved by the railroad commission in a regulatory asset determination under Section 104.365.

Sec. 104.364. JURISDICTION AND POWERS OF RAILROAD COMMISSION AND OTHER REGULATORY AUTHORITIES. (a) The railroad commission may authorize the issuance of customer rate relief bonds if the requirements of Section 104.366 are met.

(b) The railroad commission may assess to a gas utility costs associated with administering this subchapter. Assessments must be recovered from rate-regulated customers as part of gas cost.

(c) The railroad commission has exclusive, original jurisdiction to issue financing orders that authorize the creation of customer rate relief property. Customer rate relief property must be created and vested in an issuing financing entity and does not constitute property of the railroad commission or any gas utility.

(d) Except as provided by Subsection (c), this subchapter does not limit or impair a regulatory authority's plenary jurisdiction over the rates, charges, and services rendered by gas utilities in this state under Chapter 102.

Sec. 104.365. REGULATORY ASSET DETERMINATION. (a) The railroad commission, on application of a gas utility to recover a regulatory asset, shall determine the regulatory asset amount to be recovered by the gas utility. A gas utility may request recovery of a regulatory asset under this subchapter only if the regulatory asset is related to Winter Storm Uri.

(b) A gas utility desiring to participate in the customer rate relief bond process under a financing order by requesting recovery of a regulatory asset must file an application with the railroad commission on or before the 60th day after the effective date of the Act enacting this subchapter.

(c) If the railroad commission does not make a final determination regarding the regulatory asset amount to be recovered by a gas utility before the 151st day after the gas utility files the application, the railroad commission is considered to have approved the regulatory asset amount requested by the gas utility.

(d) The regulatory asset determination is not subject to reduction, impairment, or adjustment by further action of the railroad commission, except as authorized by Section 104.370.

(e) The regulatory asset determination is not subject to rehearing by the railroad commission and may be appealed only to a Travis County district court by a party to the proceeding. The appeal must be filed not later than the 15th day after the date the order is signed by the railroad commission.

(f) The judgment of the district court may be reviewed only by direct appeal to the Supreme Court of Texas. The appeal must be filed not later than the 15th day after the date of entry of judgment.

(g) All appeals shall be heard and determined by the district court and the Supreme Court of Texas as expeditiously as possible with lawful precedence over other matters. Review on appeal shall be based solely on the record before the railroad commission and briefs to the court and limited to whether the financing order:

(1) complies with the constitution and laws of this state and the United States; and

(2) is within the authority of the railroad commission to issue under this subchapter.

(h) The railroad commission shall establish a schedule, filing requirements, and a procedure for determining the prudence of the costs included in a gas utility's regulatory asset.

(i) To the extent a gas utility subject to this subchapter receives insurance proceeds, governmental grants, or other sources

<u>of funding that compensate or otherwise reimburse or indemnify the gas utility for extraordinary costs following the issuance of customer rate relief bonds, the gas utility may record the amount in a regulatory liability account and that amount shall be reviewed in a future proceeding. If an audit conducted under a valid gas purchase agreement identifies a change of greater than five percent to the total amount of the gas supply costs incurred during the event for which regulatory asset recovery was approved, the gas utility may record the amount in a regulatory asset or regulatory liability account and that amount shall be reviewed for recovery in a future proceeding.</u>

<u>Sec. 104.366. FINANCING ORDERS AND ISSUANCE OF CUSTOMER RATE RELIEF BONDS. (a) If the railroad commission determines that customer rate relief bond financing for extraordinary costs is the most cost-effective method of funding regulatory asset reimbursements to be made to gas utilities, the railroad commission, after the final resolution of all applications filed under Section 104.365, may request the authority to direct an issuing financing entity to issue customer rate relief bonds. Before making the request, the railroad commission must issue a financing order that complies with this section.</u>

<u>(b) To make the determination described by Subsection (a), the railroad commission must find that the proposed structuring, expected pricing, and proposed financing costs of the customer rate relief bonds are reasonably expected to provide benefits to customers by:</u>

<u>(1) considering customer affordability; and</u>

(2) comparing:

(A) the estimated monthly costs to customers resulting from the issuance of customer rate relief bonds; and

(B) the estimated monthly costs to customers that would result from the application of conventional recovery methods.

(c) The financing order must:

(1) include a finding that the use of the securitization financing mechanism is in the public interest and consistent with the purposes of this subchapter;

(2) detail the total amount of the regulatory asset determinations to be included in the customer rate relief bond issuance;

(3) authorize the recovery of any tax obligation of the gas utilities arising or resulting from:

(A) receipt of customer rate relief bond proceeds; or

(B) collection or remittance of customer rate relief charges through the gas utilities' gas cost recovery mechanism or other means that the railroad commission determines reasonable;

(4) authorize the issuance of customer rate relief bonds through an issuing financing entity;

(5) include a statement of:

(A) the aggregated regulatory asset determination to be included in the principal amount of the customer rate relief bonds, not to exceed $10 billion for any separate bond issue;

(B) the maximum scheduled final maturity of the customer rate relief bonds, not to exceed 30 years, except that the legal final maturity may be longer based on rating agency and market considerations; and

(C) the maximum interest rate that the customer rate relief bonds may bear, not to exceed the maximum net effective interest rate allowed by law;

(6) provide for the imposition, collection, and mandatory periodic formulaic adjustment of customer rate relief charges in accordance with Section 104.370 by all gas utilities and successors of gas utilities for which a regulatory asset determination has been made under Section 104.365 to ensure that the customer rate relief bonds and all related financing costs will be paid in full and on a timely basis by customer rate relief charges;

(7) authorize the creation of customer rate relief property in favor of the issuing financing entity and pledge of customer rate relief property to the payment of the customer rate relief bonds;

(8) direct the issuing financing entity to disperse the proceeds of customer rate relief bonds, net of bond issuance costs, reserves, and any capitalized interest, to gas utilities for which a regulatory asset determination has been made under Section 104.365 and include the amounts to be distributed to each participating gas utility;

(9) provide that customer rate relief charges be collected and allocated among customers of each gas utility for

which a regulatory determination has been made under Section 104.365 through uniform monthly volumetric charges to be paid by customers as a component of the gas utility's gas cost or in another manner that the railroad commission determines reasonable; and

(10) reflect the commitment made by a gas utility receiving proceeds that the proceeds are in lieu of recovery of those costs through the regular ratemaking process or other mechanism to the extent the costs are reimbursed to the gas utility by customer rate relief bond financing proceeds.

(d) The financing order may provide for a centralized servicer to coordinate with participating gas utilities who bill and collect customer rate relief charges and to provide certain collection and forecast data required for calculating true-up adjustments. The financing order may not provide for the railroad commission, the authority, the issuing financing entity, or a participating utility to act as servicer.

(e) The principal amount determined by the railroad commission must be increased to include an amount sufficient to:

(1) pay the financing costs associated with the issuance, including all bond administrative expenses to be paid from the proceeds of the bonds;

(2) reimburse the authority and the railroad commission for any costs incurred for the issuance of the customer rate relief bonds and related bond administrative expenses;

(3) provide for any applicable bond reserve fund; and

(4) capitalize interest for the period determined necessary by the railroad commission.

(f) The authority, consistent with this subchapter and the terms of the financing order, shall:

(1) direct an issuing financing entity to issue customer rate relief bonds at the railroad commission's request, in accordance with the requirements of Chapter 1232, Government Code, and other provisions of Title 9, Government Code, that apply to bond issuance by a state agency;

(2) determine the methods of sale, types of bonds, bond forms, interest rates, principal amortization, amount of reserves or capitalized interest, and other terms of the customer rate relief bonds that in the authority's judgment best achieve the economic goals of the financing order and effect the financing at the lowest practicable cost; and

(3) reimburse the railroad commission, the authority, or any issuing financing entity for bond administrative expenses and other costs authorized under this subchapter.

(g) To the extent authorized in the applicable financing order, an issuing financing entity may enter into credit agreements or ancillary agreements in connection with the issuance of customer rate relief bonds.

(h) The financing order becomes effective in accordance with its terms. The financing order, together with the customer rate relief property and the customer rate relief charges authorized by the financing order, is irrevocable and not subject to reduction, impairment, or adjustment by further action of the railroad commission, except as provided under Subsection (j) and authorized by Section 104.370.

(i) The railroad commission shall issue a financing order under this section not later than the 90th day following the date of the conclusion of all proceedings filed under Section 104.365.

(j) A financing order is not subject to rehearing by the railroad commission. A financing order may be appealed only to a Travis County district court by a party to the proceeding. The appeal must be filed not later than the 15th day after the date the financing order is signed by the railroad commission.

(k) The judgment of the district court may be reviewed only by direct appeal to the Supreme Court of Texas. The appeal must be filed not later than the 15th day after the date of entry of judgment.

(l) All appeals shall be heard and determined by the district court and the Supreme Court of Texas as expeditiously as possible with lawful precedence over other matters. Review on appeal shall be based solely on the record before the railroad commission and briefs to the court and is limited to whether the financing order:

(1) complies with the constitution and laws of this state and the United States; and

(2) is within the authority of the railroad commission to issue under this subchapter.

(m) The railroad commission shall transmit a financing order to the authority after all appeals under this section have been exhausted.

(n) The authority shall direct an issuing financing entity to issue customer rate relief bonds as soon as practicable and not later than the 180th day after receipt of a financing order issued under this section, except that the authority may cause the issuance after the 180th day if necessary based on bond market conditions, the receipt of necessary approvals, and the timely receipt of necessary financial disclosure information from each participating gas utility.

(o) The issuing financing entity shall deliver customer rate relief bond proceeds net of upfront financing costs in accordance with the applicable financing order.

(p) For the benefit of the authority, the issuing financing entity, holders of customer rate relief bonds, and all other financing parties, the railroad commission shall guarantee in a financing order that the railroad commission will take all actions in the railroad commission's powers to enforce the provisions of the financing order to ensure that customer rate relief charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the customer rate relief bonds and all related financing costs and bond administrative expenses.

(q) The railroad commission shall make periodic reports to the public regarding each financing.

Sec. 104.367. PROPERTY RIGHTS. (a) Customer rate relief bonds are the limited obligation solely of the issuing financing entity and are not a debt of a gas utility or a debt or a pledge of the faith and credit of this state or any political subdivision of this state.

(b) Customer rate relief bonds are nonrecourse to the credit or any assets of this state or the authority. A trust fund created in connection with the issuance of customer rate relief bonds is not subject to Subtitle B, Title 9, Property Code.

(c) The rights and interests of an issuing financing entity or the successor under a financing order, including the right to receive customer rate relief charges authorized in the financing order, are only contract rights until pledged in connection with the issuance of the customer rate relief bonds, at which time the rights and interests become customer rate relief property.

(d) Customer rate relief property created under a financing order is vested ab initio in the issuing financing entity. Customer rate relief property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, notwithstanding that the imposition and collection of customer rate relief charges depends on further acts of the gas utility or others that have not yet occurred. The financing order remains in effect, and the customer rate relief property continues to exist, for the same period as the pledge of the state described by Section 104.374.

(e) All revenue and collections resulting from customer rate relief charges constitute proceeds only of a property right arising from the financing order.

(f) An amount owed by an issuing financing entity under an ancillary agreement or a credit agreement is payable from and secured by a pledge and interest in the customer rate relief property to the extent provided in the documents evidencing the ancillary agreement or credit agreement.

Sec. 104.368. PROPERTY INTEREST NOT SUBJECT TO SETOFF, COUNTERCLAIM, SURCHARGE, OR DEFENSE. The interest of an issuing financing entity or pledgee in customer rate relief property, including the revenue and collections arising from customer rate relief charges, is not subject to setoff, counterclaim, surcharge, or defense by the gas utility or any other person or in connection with the bankruptcy of the gas utility, the authority, or any other entity. A financing order remains in effect and unabated notwithstanding the bankruptcy of the gas utility, the authority, an issuing financing entity, or any successor or assignee of the gas utility, authority, or issuing financing entity.

Sec. 104.369. CUSTOMER RATE RELIEF CHARGES NONBYPASSABLE. A financing order must include terms ensuring that the imposition and collection of the customer rate relief charges authorized in the order are nonbypassable.

Sec. 104.370. TRUE-UP MECHANISM. (a) A financing order must include a formulaic true-up charge adjustment mechanism that requires that the customer rate relief charges be reviewed and adjusted at least annually by the servicer or replacement servicer, including a subservicer or replacement subservicer, at time periods and frequencies provided in the financing order, to:

(1) correct any overcollections or undercollections of the preceding 12 months; and

(2) ensure the expected recovery of amounts sufficient to provide for the timely payment of customer rate relief bond principal and interest payments and other financing costs.

(b) True-up charge adjustments must become effective not later than the 30th day after the date the railroad commission receives a true-up charge adjustment letter from the servicer or replacement servicer notifying the railroad commission of the pending adjustment.

(c) Any administrative review of true-up charge adjustments must be limited to notifying the servicer of mathematical or clerical errors in the calculation. The servicer may correct the error and refile a true-up charge adjustment letter, with the adjustment becoming effective as soon as practicable but not later than the 30th day after the date the railroad commission receives the refiled letter.

Sec. 104.371. SECURITY INTERESTS; ASSIGNMENT; COMMINGLING; DEFAULT. (a) Customer rate relief property does not constitute an account or general intangible under Section 9.106, Business & Commerce Code. The creation, granting, perfection, and enforcement of liens and security interests in customer rate relief property that secures customer rate relief bonds are governed by Chapter 1208, Government Code.

(b) The priority of a lien and security interest perfected under this section is not impaired by any later adjustment of customer rate relief charges under a mechanism adopted under Section 104.370 or by the commingling of funds arising from customer rate relief charges with other funds. Any other security interest that may apply to those funds is terminated when the funds are transferred to a segregated account for the issuing financing entity or a financing party. If customer rate relief property has been transferred to a trustee or another pledgee of the issuing financing entity, any proceeds of that property must be held in trust for the financing party.

(c) If a default or termination occurs under the customer rate relief bonds, a district court of Travis County, on application by or on behalf of the financing parties, shall order the sequestration and payment to the financing parties of revenue arising from the customer rate relief charges.

Sec. 104.372. BOND PROCEEDS IN TRUST. (a) The issuing financing entity may deposit proceeds of customer rate relief bonds issued by the issuing financing entity under this subchapter with a trustee selected by the issuing financing entity or the proceeds may be held by the comptroller in a dedicated trust fund outside the state treasury in the custody of the comptroller.

(b) Bond proceeds, net of the financing costs and reserves described by Subdivisions (2) and (3), including investment income, must be held in trust for the exclusive benefit of the railroad commission's policy of reimbursing gas utility costs and applied in accordance with the financing order. The issuing financing entity shall deliver the net proceeds, as provided in the applicable financing order, to:

(1) reimburse each gas utility the regulatory asset amount determined to be reasonable for that gas utility in the financing order;

(2) pay the financing costs of issuing the bonds; and

(3) provide bond reserves or fund any capitalized interest, as applicable.

(c) On full payment of the customer rate relief bonds and any related financing costs, any customer rate relief charges or other amounts held as security for the bonds shall be used to provide credits to gas utility customers as provided in the financing order.

Sec. 104.373. REPAYMENT OF CUSTOMER RATE RELIEF BONDS. (a) As long as any customer rate relief bonds or related financing costs remain outstanding, uniform monthly volumetric customer rate relief charges must be paid by all current and future customers that receive service from a gas utility for which a regulatory asset determination has been made under Section 104.365. A gas utility and its successors, assignees, or replacements shall continue to bill and collect customer rate relief charges from the gas utility's current and future customers until all customer rate relief bonds and financing costs are paid in full.

(b) The authority shall report to the railroad commission the amount of the outstanding customer rate relief bonds issued by the issuing financing entity under this subchapter and the estimated amount of annual bond administrative expenses.

(c) All revenue collected from the customer rate relief charges shall be remitted promptly by the applicable servicers to the issuing financing entity or the bond trustee for the customer rate relief bonds to pay bond obligations and ongoing financing costs, including bond administrative expenses, to ensure timely payment of bond obligations and financing costs.

(d) Customer rate relief property, including customer rate relief charges, may be applied only as provided by this subchapter.

(e) Bond obligations are payable only from sources provided for payment by this subchapter.

Sec. 104.374. PLEDGE OF STATE. (a) Customer rate relief bonds issued under this subchapter and any related ancillary agreements or credit agreements are not a debt or pledge of the faith and credit of this state or a state agency or political subdivision of this state. A customer rate relief bond, ancillary agreement, or credit agreement is payable solely from customer rate relief charges as provided by this subchapter.

(b) Notwithstanding Subsection (a), this state, including the railroad commission and the authority, pledges for the benefit and protection of the financing parties and the gas utility that this state will not take or permit any action that would impair the value of customer rate relief property, or, except as permitted by Section 104.370, reduce, alter, or impair the customer rate relief charges to be imposed, collected, and remitted to financing parties until the principal, interest and premium, and contracts to be performed in connection with the related customer rate relief bonds and financing costs have been paid and performed in full. Each issuing financing entity shall include this pledge in any documentation relating to customer rate relief bonds.

(c) Before the date that is two years and one day after the date that an issuing financing entity no longer has any payment obligation with respect to customer rate relief bonds, the issuing financing entity may not wind up or dissolve the financing entity's operations, may not file a voluntary petition under federal bankruptcy law, and neither the board of the issuing financing entity nor any public official nor any organization, entity, or other person may authorize the issuing financing entity to be or to become a debtor under federal bankruptcy law during that period.

The state covenants that it will not limit or alter the denial of authority under this subsection, and the provisions of this subsection are hereby made a part of the contractual obligation that is subject to the state pledge made in this section.

Sec. 104.375. TAX EXEMPTION. (a) The sale or purchase of or revenue derived from services performed in the issuance or transfer of customer rate relief bonds issued under this subchapter is exempt from taxation by this state or a political subdivision of this state.

(b) A gas utility's receipt of customer rate relief charges is exempt from state and local sales and use taxes and utility gross receipts taxes and assessments, and is excluded from revenue for purposes of franchise tax under Section 171.1011, Tax Code.

Sec. 104.376. RECOVERABLE TAX EXPENSE. A tax obligation of the gas utility arising from receipt of customer rate relief bond proceeds or from the collection or remittance of customer rate relief charges is an allowable expense under Section 104.055.

Sec. 104.377. ISSUING FINANCING ENTITY OR FINANCING PARTY NOT PUBLIC UTILITY. An issuing financing entity or financing party may not be considered to be a public utility or person providing natural gas service solely by virtue of the transactions described by this subchapter.

Sec. 104.378. NO PERSONAL LIABILITY. A commissioner of the railroad commission, a railroad commission employee, a member of the board of directors of the authority, an employee of the authority, or a director, officer, or employee of any issuing financing entity is not personally liable for a result of an exercise of a duty or responsibility established under this subchapter.

Sec. 104.379. CATASTROPHIC WEATHER EVENT STUDY. (a) The railroad commission shall conduct a study on measures to mitigate catastrophic weather events, including measures to:

(1) establish natural gas storage capacity to ensure a reliable gas supply, including location, ownership, and other pertinent factors regarding gas storage capacity;

(2) assess the advantages and disadvantages of requiring local distribution companies to use hedging tactics to avoid volatile customer rates; and

(3) assess the advantages and disadvantages of prohibiting spot market purchases during a catastrophic weather event that contribute to volatile customer rates.

(b) Not later than December 1, 2022, the railroad commission shall report the railroad commission's findings to the governor, the lieutenant governor, and the speaker of the house of representatives.

(c) This section expires August 31, 2023.

Sec. 104.380. SEVERABILITY. After the date customer rate relief bonds are issued under this subchapter, if any provision in this title or portion of this title or related provisions in Title 9, Government Code, are held to be invalid or are invalidated, superseded, replaced, repealed, or expire for any reason, that occurrence does not affect the validity or continuation of this subchapter or any other provision of this title or related provisions in Title 9, Government Code, that are relevant to the issuance, administration, payment, retirement, or refunding of customer rate relief bonds or to any actions of a gas utility, its successors, an assignee, a collection agent, or a financing party, which shall remain in full force and effect.

SECTION 6. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2021.

H.B. No. 1520

______________________________ ______________________________

President of the Senate Speaker of the House

I certify that H.B. No. 1520 was passed by the House on April 20, 2021, by the following vote: Yeas 139, Nays 5, 1 present, not voting; and that the House concurred in Senate amendments to H.B. No. 1520 on May 28, 2021, by the following vote: Yeas 130, Nays 12, 1 present, not voting.

____

Chief Clerk of the House

I certify that H.B. No. 1520 was passed by the Senate, with amendments, on May 26, 2021, by the following vote: Yeas 29, Nays 2.

____

Secretary of the Senate

APPROVED: ____________________

Date

____

Governor

RAILROAD COMMISSION OF TEXAS
Oversight and Safety Division
Gas Services Department

NOTICE TO GAS UTILITIES

Procedure for Gas Utilities to File an Application for Regulatory Asset Determination Pursuant to H.B. No. 1520, Texas Utilities Code, chapter 104, subchapter I, and Participate in Securitization of Extraordinary Costs Incurred as a Result of the February 2021 Winter Weather Event

Background

On February 12, 2021, Governor Greg Abbott declared a State of Disaster in Texas for all Texas counties in response to the unprecedented cold winter weather event that began in Texas on Thursday, February 11, 2021 ("February 2021 Winter Weather Event" or "Winter Storm Uri").

On February 13, 2021, the Commission issued a *Notice to Local Distribution Companies* (the "Regulatory Asset NTO") authorizing each natural gas utility local distribution company "to record in a regulatory asset account the extraordinary expenses associated with the 2021 Winter Weather Event, including but not limited to gas cost and other costs related to the procurement and transportation of gas supply." The Regulatory Asset NTO only authorized the ability to record extraordinary expenses related to the February 2021 Winter Weather Event and deferred the Commission's determination regarding the reasonableness, necessity, and accuracy of the extraordinary expenses recorded in the regulatory asset account.

H.B. 1520

On June 16, 2021, H.B. 1520 (87th Regular Session), *relating to certain extraordinary costs incurred by certain gas utilities relating to Winter Storm Uri and a study of measures to mitigate similar future costs; providing authority to issue bonds and impose fees and assessments*, became effective. H.B. 1520 authorizes the Commission to issue a Financing Order directing the Texas Public Finance Authority ("TFPA") to issue bonds for the purposes of reducing the costs that customers would otherwise experience due to extraordinary costs that gas utilities incurred to secure gas supply and to provide service during Winter Storm Uri. The new law provides securitization financing ("customer rate relief bonds") for gas utilities that choose to participate to recover those extraordinary costs, thereby (1) providing rate relief to customers by extending the period during which these extraordinary costs would otherwise be recovered; and (2) supporting the financial strength and stability of gas utility companies.

H.B. 1520 requires that the Commission undertake two specific actions. First, Texas Utilities Code section 104.365, as added by H.B. 1520, requires the Commission to determine the regulatory asset amount to be recovered by a gas utility upon application by the gas utility within 150 days after the date of the application. Second, section 104.366 authorizes the Commission, after it has issued all of the regulatory asset determinations and determined that customer rate relief bonds are the most cost-effective method of funding regulatory asset reimbursements, to issue a Financing Order requesting that the TPFA direct an issuing financing entity to issue the customer rate relief bonds.

Procedure for Filing Applications for Regulatory Asset Determination

The Commission expects to convene one or more proceeding(s) to issue the regulatory asset determinations and Financing Order if the statutory requirements are met.

Gas utilities as defined in Tex. Util. Code § 104.362(12) desiring to participate in securitization pursuant to H.B. 1520 are encouraged to file an *Application for Regulatory Asset Determination* **on Friday, July 30, 2021** in accordance with Tex. Util. Code § 104.365(b). Before a gas utility may file its application, the company must be set up to file its documents through the Commission's Case Administration Service Electronic System ("CASES"). The company must contact Gas Services at (512) 463-7167 or MOS@rrc.texas.gov before filing its application to be fully authorized to file its application through CASES and be assigned a case number for this filing.

After each *Application for Regulatory Asset Determination* has been received, the Commission's Hearings Division may consolidate the cases into one or multiple proceeding(s). An Administrative Law Judge will be assigned and will make pre-hearing rulings, issue a procedural schedule, issue a protective order, if applicable, and issue any other necessary rulings as may arise. The procedural schedule deadlines will be expedited as the Commission expects to complete the regulatory asset determinations within the deadline set forth in H.B. 1520.

Information to be Included in an Application for Regulatory Asset Determination

Due to the expedited nature of the regulatory asset review and determination, the Commission directs each applicant to propose for recovery only extraordinary gas procurement costs incurred during the February 2021 Winter Weather Event in its application. Such costs may include taxes, any financing and other costs incurred to secure and pay for natural gas volumes purchased during the 2021 Winter Weather Event, and the gas utility's legal and consulting expenses relating to its gas procurement costs and this proceeding. Other extraordinary costs associated with the 2021 Winter Weather Event, such as overtime, equipment charges, or similar non-fuel related expenses, may be recorded in a separate regulatory asset, which will be reviewed for reasonableness in each gas utility's subsequent rate proceeding, as applicable.

The Commission requires each gas utility to include in its application pre-filed testimony, supporting documentation, and evidence of, at a minimum, the following information:

1. The gas utility's total gas costs incurred for February 2021.

2. The gas utility's total gas costs recovered for February 2021.

3. The gas utility's total volumes (Mcf) for February 2021.

4. The gas utility's total gas costs for February 2021 using the Normalized Market Pricing definition set forth in section 104.362(15).

5. The total extraordinary costs proposed by the gas utility to be approved in a regulatory asset determination, including the following:

    a. The gas utility's proposed extraordinary gas procurement costs for February 2021, calculated as the lesser of: 1) the difference between the gas utility's total gas procurement costs incurred for February 2021 and the gas utility's total gas procurement costs recovered for February 2021; or 2) the difference between the gas utility's total gas procurement costs incurred for February 2021 and the gas utility's total gas procurement costs for February 2021 using the Normalized Market Pricing definition set forth in section 104.362(15);

b. The gas utility's financing costs or any other costs incurred to secure and pay for natural gas volumes that are included in extraordinary gas cost;
c. The gas utility's estimate of its legal and consulting expenses resulting from its election to participate in a securitization pursuant to H.B. 1520;
d. Carrying costs included in the proposed regulatory asset, including the basis for the carrying costs and the calculation of the carrying costs; and
e. The gas utility's expected tax obligation if securitization financing is authorized.

6. Support and evidence for the reasonableness, necessity, and prudence of all costs included in the gas utility's regulatory asset, including:

    a. General ledger entries (by FERC account) associated with the regulatory asset and supporting documentation for each entry, including but not limited to:

        i. Invoices

            1. Gas Purchases (FERC accounts 800-804);
            2. Transportation (FERC account 858);
            3. Other Gas Supply Expenses (FERC accounts 805-813);
            4. Imbalances or other penalties and fees incurred;
            5. Adjustments;
            6. Meter Statements;
            7. Proof of Payment/Payment Arrangements;
            8. Gas Withdrawn from Storage (FERC account 808.1); and
            9. Gas Delivered to Storage (FERC account 808.2).

        ii. Contracts

            1. Gas Purchase (including penalties, if applicable);
            2. Spot Purchases (Confirmation Agreements); and
            3. Transportation.

        iii. Customer Bills

            1. One or more residential bill(s); and
            2. One or more commercial bill(s).

    b. Invoices and supporting documentation of the gas utility's legal and consulting expenses resulting from its election to participate in a securitization pursuant to H.B. 1520. Include a summary spreadsheet that ties to supporting documentation.

7. The information required in Paragraph 6(a)(i)-(iii) above for January, February, and March 2021.

8. Evidence as to how securitization would provide tangible and quantifiable benefits to utility customers, greater than would be achieved absent the issuance of customer rate relief bonds.

9. Evidence that customer rate relief bond financing for extraordinary costs is the most cost-effective method of funding regulatory asset reimbursements to the gas utility including:

    a. Evidence that proposed structuring, expected pricing, and proposed financing costs of customer rate relief bonds are reasonably expected to provide benefits to customers by considering customer affordability and comparing:

        i. The estimated monthly costs to customers resulting from issuance of customer rate relief bonds; and
        ii. The estimated monthly costs to customers that would result from the application of conventional recovery methods.

    b. Include an Excel worksheet that models this comparison and provides for sensitivity analysis using key variables.

10. Evidence of how a securitization financing mechanism would be in the public interest and is consistent with the purposes of subchapter I, chapter 104, Texas Utilities Code.

11. Evidence and detail of any expected tax obligation arising or resulting from receipt of customer rate relief bond proceeds; or collection or remittance of customer rate relief charges through the gas utilities' gas cost recovery mechanism or other means that the Commission may determine as reasonable.

12. Normalized volumes by customer class for the year ending December 31, 2020 and total customer count by customer class as of December 31, 2020.

13. A statement of commitment that if the gas utility receives proceeds pursuant to a securitization, those proceeds are in lieu of recovery of costs through the regular ratemaking process or other mechanism.

14. Any other information the gas utility deems pertinent to its application.

Additionally, gas utilities are encouraged to file proposed procedural schedules with their applications that anticipate expedited timelines. Gas utilities are likewise encouraged to file proposed protective orders to the extent the gas utility will be filing information it deems confidential and/or proprietary. Gas utilities should not upload any documents through the CASES Online Portal that are considered confidential. Any files containing potentially confidential information should be delivered to the RRC using previously established processes in accordance with RRC rules. To the extent applicable, gas utilities shall disclose the terms of the contracts and related transaction confirmations related to gas procurement costs to be securitized pursuant to the terms of the governing protective order. Gas utilities may adopt portions of other gas utilities' testimony, as necessary.

Please Forward to the Appropriate Section of Your Company

DATA FOR PARTICIPATING GAS UTILITIES

	Amount to be Recovered			Customer Count and Usage Information				
				Residential Customers		Commercial Customers		
Gas Utility	**Regulatory Asset**	**Purchased Gas Costs**	**3-year Amortization**	**Count**	**Annual Mcf**	**Count**	**Annual Mcf**	**Total Mcf**
	(000s)	(000s)	(000s)					
Atmos Energy	2,038,998	2,026,592	2,345,177	1,885,414	105,174,336	149,107	60,487,264	172,953,731
CenterPoint Energy								
Entex	1,131,471	1,132,892	1,251,066	1,688,270	68,498,910	94,829	18,413,319	94,547,960
Arkla	9,808	9,880	10,903	12,887	931,741	1,635	134,996	1,066,737
Texas Gas Service	290,104	302,560	329,909	628,837	26,024,086	34,276	10,587,407	40,271,506
CoServe Gas, Ltd.	69,045	63,428	69,560	134,758	10,100,382	2,911	1,478,698	11,860,868
Universal Natural Gas, LLC	32,443	33,845	35,219	17,959	893,452	271	138,022	1,031,474
SiEnergy, LP	18,742	19,421	20,935	31,531	1,475,688	183	68,989	1,557,021
EPCOR Gas Texas	11,360	11,360	11,360	4,708	243,716	125	46,700	292,203
Bluebonnet Natural Gas	1,980	1,927	2,277	587	17,428	12	1,580	62,433
AgriTexGas, LP	1,326	1,291	1,291	2,468	216,435	73	27,272	1,369,496
Natgas Inc.	971	971	971	997	44,724	101	24,888	78,456
Corix Utilities (Texas) Inc.	285	216	236	240	7,508	23	2,952	10,460
Totals	**3,606,534**	**3,604,383**	**4,078,905**	**4,408,656**	**213,628,406**	**283,546**	**91,412,087**	**325,102,345**
Average Use per Month (Mcf)					**4.04**		**26.87**	

Source: Schedules A and H of Participating Gas Utilities' Applications.

ANNUAL COST OF CUSTOMER RATE RELIEF BONDS

Bond Principal (000s):

Total Regulatory Asset		3,606,534
Underwriting Expenses @	0.40%	15,319
Issuance Expenses @	0.30%	11,489
Debt Service Reserve Funding	50.0%	196,366
Bond Principal		**3,829,707**

Annual Costs (000s):

Year	Interest Rate	Principal Payment	Interest Expense	Bond Costs	Operation & Admin. @ 0.60%	Annual Costs
1	0.19%	347,300	40,370	387,670	22,978	410,649
2	0.32%	350,773	39,723	390,496	22,978	413,475
3	0.50%	354,281	38,585	392,865	22,978	415,844
4	0.74%	357,824	36,819	394,643	22,978	417,621
5	0.96%	361,402	34,165	395,567	22,978	418,545
6	1.18%	365,016	30,713	395,729	22,978	418,707
7	1.36%	368,666	26,420	395,086	22,978	418,065
8	1.50%	372,353	21,407	393,760	22,978	416,738
9	1.62%	376,076	15,840	391,916	22,978	414,894
10	1.69%	576,203	9,742	389,579	22,978	412,558
Total		3,829,892				

ANNUAL COST OF RATE BASE INCLUSION

Rate of Return:

Source	% of Total	Component Cost	Weighted Cost	Tax Factor	Weighted Cost
Debt	41.0%	4.75%	1.95%	1.0000	1.95%
Equity	59.0%	9.50%	5.61%	1.2658	7.09%
Total	**100.0%**				**9.04%**

Annual Costs (000s):

Year	Regulatory Asset	Average Accumulated Amortization	Average Unamortized Balance	Return and Income Taxes	Amortization Expense	Annual Costs
1	3,606,534	180,327	3,426,207	309,813	360,653	670,466
2	3,606,534	540,980	3,065,554	277,201	360,653	637,854
3	3,606,534	901,633	2,704,900	244,589	360,653	605,242
4	3,606,534	1,262,287	2,344,247	211,977	360,653	572,630
5	3,606,534	1,622,940	1,983,594	179,365	360,653	540,019
6	3,606,534	1,983,594	1,622,940	146,753	360,653	507,407
7	3,606,534	2,344,247	1,262,287	114,141	360,653	474,795
8	3,606,534	2,704,900	901,633	81,530	360,653	442,183
9	3,606,534	3,065,554	540,980	48,918	360,653	409,571
10	3,606,534	3,426,207	180,327	16,306	360,653	376,959

COST-EFFECTIVENESS OF CRR BONDS VERSUS ALTERNATIVE METHODS

Annual Costs (000s):

		Alternative Methods		
Year	Securitized Customer Rate Relief Bonds	Purchased Gas Cost Recovery	3-Year Amortization Charge	Inclusion in Rate Base
1	410,649	3,604,383	1,359,635	670,466
2	413,475	-	1,359,635	637,854
3	415,844	-	1,359,635	605,242
4	417,621	-	-	572,630
5	418,545	-	-	540,019
6	418,707	-	-	507,407
7	418,065	-	-	474,795
8	416,738	-	-	442,183
9	414,894	-	-	409,571
10	412,558	-	-	376,959

Present Value (000s):

5%	3,288,460	3,517,517	3,794,060	4,247,288
10%	2,677,498	3,436,644	3,546,244	3,537,836
15%	2,235,224	3,361,104	3,329,047	3,014,656
20%	1,906,571	3,290,336	3,137,405	2,618,813

Savings from Securitized CRR Bonds (000s):

5%		229,058	505,600	958,828
10%		759,147	868,746	860,338
15%		1,125,881	1,093,824	779,433
20%		1,383,765	1,230,834	712,242

COST-EFFECTIVENESS OF 15-YEAR CRR BONDS VERSUS ALTERNATIVE METHODS

Annual Costs (000s):

		Alternative Methods		
Year	**Securitized Customer Rate Relief Bonds**	**Purchased Gas Cost Recovery**	**3-Year Amortization Charge**	**Inclusion in Rate Base**
1	299,731	3,604,383	1,359,635	555,684
2	301,568	-	1,359,635	533,942
3	303,107	-	1,359,635	512,201
4	304,262	-	-	490,460
5	304,863	-	-	468,719
6	304,968	-	-	446,977
7	304,551	-	-	425,236
8	303,688	-	-	403,495
9	302,490	-	-	381,754
10	300,972	-	-	360,012
11	299,267	-	-	338,271
12	297,347	-	-	316,530
13	295,210	-	-	294,789
14	292,878	-	-	273,047
15	290,322	-	-	251,306

Present Value (000s):

5%	3,201,153	3,517,517	3,794,060	4,500,302
10%	2,404,656	3,436,644	3,546,244	3,517,305
15%	1,892,157	3,361,104	3,329,047	2,862,128
20%	1,546,461	3,290,336	3,137,405	2,405,230

Savings from Securitized CRR Bonds:

5%		316,365	592,907	1,299,149
10%		1,031,988	1,141,588	1,112,650
15%		1,468,948	1,436,891	969,971
20%		1,743,876	1,590,944	858,770

AFFORDABILITY OF CRR BONDS VERSUS CONVENTIONAL METHODS

	Securitized Customer Rate Relief Bonds	Conventional Methods: Purchased Gas Cost Recovery	Conventional Methods: 3-Year Amortization Charge	Conventional Methods: Inclusion in Rate Base
Extraordinary Winter Storm Uri Costs:				
1st-year Costs (a)	$ 410,648,713	$ 3,604,382,693	$ 1,359,634,943	$ 670,466,009
Total Mcf (b)	325,102,345	325,102,345	325,102,345	325,102,345
Cost per Mcf	**$ 1.26**	**$ 11.09**	**$ 4.18**	**$ 2.06**
Residential Customers:				
Average Mcf Use per Month (b)	4.04	4.04	4.04	4.04
Monthly Cost -- Residential	**$ 5.10**	**$ 44.77**	**$ 16.89**	**$ 8.33**
Savings from CRR Bonds:				
Per Month		$ 39.67	$ 11.79	$ 3.23
First Year		$ 476.03	$ 141.45	$ 38.73
Commercial Customers:				
Average Mcf Use per Month (b)	26.87	26.87	26.87	26.87
Monthly Cost -- Commercial	**$ 33.94**	**$ 297.86**	**$ 112.36**	**$ 55.41**
Savings from CRR Bonds:				
Per Month		$ 263.92	$ 78.42	$ 21.47
First Year		$ 3,167.08	$ 941.07	$ 257.65

(a) Schedule BHF-4.
(b) Schedule BHF-1.

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

AFFIDAVIT OF BRUCE H. FAIRCHILD

BEFORE ME, the undersigned authority, on this day personally appeared Bruce H. Fairchild who having been placed under oath by me did depose as follows:

1. "My name is Bruce H. Fairchild. I am over the age of eighteen (18) and fully competent to make this affidavit. I am a principal in Financial Concepts and Applications, Inc. The facts stated herein are true and correct based upon my personal knowledge.

2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

Further affiant sayeth not.

Bruce H. Fairchild

SUBSCRIBED AND SWORN TO BEFORE ME by the said Bruce H. Fairchild on this 22nd day of July 2021.

Notary Public in and for the State of Texas

STEPHANIE TANNER
Notary Public, State of Texas
Notary ID 12852236-6
My Commission Exp. 02-09-2023

CASE NO. 00007064

APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX, CENTERPOINT ENERGY ARKLA AND CENTERPOINT ENERGY TEXAS GAS FOR CUSTOMER RATE RELIEF AND RELATED REGULATORY ASSET DETERMINATION	**§ § § § § § § § §**	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

PROTECTIVE ORDER

This Protective Order shall govern the use of all information deemed confidential or highly sensitive confidential information by a party providing information to the Railroad Commission of Texas ("Commission") or responding to discovery requests, including information whose confidentiality may be under dispute in this docket and all dockets consolidated herewith. This order may be modified by the Examiner *sua sponte*, or on advice of the Open Records Coordinator, Office of General Counsel, and the Railroad Commission of Texas.

1. Designation of Protected Materials

Any party or person producing or filing a document, including, but not limited to, records stored or encoded on a computer disk or other similar electronic storage medium, in this proceeding may designate that document, or any portion of it, as confidential by typing or stamping on its face **"PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTIVE ORDER ISSUED IN CASE NO. 00007064"** (hereinafter referred to as "protected materials"). The documents shall be consecutively Bates Stamped when necessary.

2. Materials Excluded from Protected Materials Designation

Protected materials shall not include any information or document contained in the public files of the Commission or any other federal or state agency, court, or local government authority subject to the Public Information Act or under the Federal Freedom of Information Act provided however, that any party or person may assert any privilege or exception available under these Acts. Protected materials also shall not include materials that at the time of or prior to disclosure in these proceedings, is or was publicly disclosed, on a non-confidential basis. The disclosure of materials to a party, its customers, or their respective employees, agents, consultants, or counsel in the normal course of business shall not preclude a claim that such materials are protected materials hereunder. Protected materials disclosed by someone other than an employee, agent, or consultant of the originating party in violation of this Protective Order shall not lose their status as protected material as a result of such disclosure.

3. Definition of "reviewing party."

A "reviewing party" is defined for purposes of this Protective Order as a party expressly admitted or that has had a Motion to Intervene granted in Case No. 00007064.

4. Definition of "producing party."

A "producing party" is defined for purposes of this Protective Order as a party expressly admitted or that has had a Motion to Intervene granted in Case No. 00007064, which has had discovery propounded upon it in any form as provided by applicable law.

5. Access to Protected Materials

A reviewing party shall be permitted access to protected materials only through its authorized representatives. "Authorized representatives" of a party include its counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by the party and directly engaged in these proceedings, provided that such person has signed the certification required by Paragraph 8.

6. Designation of Highly Sensitive Protected Materials

The term "highly sensitive protected materials" is a subset of "protected materials." The term refers to, but is not limited to, documents and information, the provision of which to the reviewing party or its authorized representatives would: (1) expose the producing party or any of its affiliates to an unreasonable risk of harm, or (2) would result in disclosure of information that would be subject to a privilege against disclosure, a contractual confidentiality agreement or other Protective Agreement or agreement. Highly sensitive protected materials further include, but are not limited to, business operations or financial information that is commercially sensitive. Documents so classified by a producing party shall bear the designation "HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO THE PROTECTIVE ORDER ISSUED IN CASE NO. 00007064."

7. Restrictions on Copies and Inspection of Highly Sensitive Protected Materials

Highly sensitive protected materials shall be made available for inspection only at the address specified pursuant to Paragraph 9. Additionally, only one copy of highly sensitive protected materials shall be provided to counsel of any party to Case No. 00007064 upon written request following completion of the certifications required by Paragraph 8 herein. A party may make one additional copy of reproduced highly sensitive protected materials for use in this proceeding pursuant to this Protective Order. No additional copies of such highly sensitive protected materials may be made, except that additional copies may be made in order to have sufficient copies for introduction of the material into the evidentiary record if the material is to be offered for admission into the record. A record of any copies that are made of highly sensitive protected material shall be kept and a copy of the record shall be sent to the producing party upon request. The record shall include information on the location and the person in possession of the copy. The authorized representatives for the purpose of access to highly sensitive protected materials must be persons who are: (1) counsel for the reviewing party, (2) consultants for the reviewing party working under the direction of the reviewing party's counsel, (3) permanent non-elected employees of municipalities that are parties in Case No. 00007064, who have primary responsibility for utility regulation. The authorized representatives for the Commission's Director of Gas Services or the State of Texas for the purpose of access to these materials shall consist of its respective counsel of record in this docket and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by those agencies and directly engaged in this docket. Limited notes may be made of highly sensitive protected materials, and such notes shall themselves be treated as highly sensitive protected material unless such notes are restricted to a description of the document and a general characterization of its subject matter in a manner that does not include any substantive information contained in such highly sensitive protected materials.

8. Required Certification

Each person who inspects the protected materials shall, before such inspection, agree in writing to follow certification set forth in Exhibit A to this Order:

> I certify my understanding that the protected materials are provided to me pursuant to the terms and restrictions of the Protective Order in Case No. 00007064, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the protected materials, any notes, memoranda, or any other form of information regarding or derived from the protected materials shall not be disclosed to anyone other than in accordance with the Protective Order and shall be used only for the purpose of the proceeding in Case No. 00007064. I acknowledge that the obligations imposed by this certification are pursuant to a ruling issued by the Examiners in this docket. However, if the information contained in the protected materials is obtained from independent sources that did not obtain such information from documents obtained in this docket, the understanding stated herein shall not apply.

In addition, reviewing parties who are permitted access to highly sensitive protected material under the terms of this ruling shall, before inspection of such materials, agree in writing to the following certification set forth in Exhibit A to this Protective Order:

> I certify that I am eligible to have access to highly sensitive protected materials under the terms of the Protective Order in Case No. 00007064.

A copy of each signed certification shall be provided to counsel for the party asserting confidentiality. Except for highly sensitive protected materials, any authorized representative may disclose protected materials to any other person who is an authorized representative, provided that, if the person to whom disclosure is to be made has not executed and provided for delivery of a signed certification to the party asserting confidentiality, that certification shall be executed prior to any disclosure. An authorized representative may disclose highly sensitive protected material to other reviewing representatives who are permitted access to such materials and have executed the additional certification required for persons who receive access to highly sensitive protected material. In the event that any authorized representative to whom protected materials are disclosed ceases to be engaged in these proceedings, access to protected materials by that person shall be terminated and all notes or memoranda or other information derived from the protected material shall be returned to the party on whose behalf that person was acting. Any person who has agreed to either or both of the foregoing certifications shall continue to be bound by the provisions of this Protective Order, even if no longer engaged in these proceedings. Parties who assert confidentiality shall maintain a list of persons who sign a certification pursuant to this Paragraph.

9. Voluminous Materials

(a) Voluminous protected materials which exceed eight linear feet shall be made available for inspections in its normal repository between the hours of 9:30 a.m. and 5:00 p.m., Monday through Friday (except holidays) in accordance with the Texas Rules of Civil Procedure. A party shall notify the other parties of the address at which the voluminous data will be produced simultaneously with the production of such data. For purposes of this Protective Order voluminous materials or data shall mean responses to a particular question or subpart that consist of one hundred pages or more in the aggregate.

(b) Except for highly sensitive protected materials as provided for in Paragraph 7, and for protected materials that are voluminous, the party asserting confidentiality shall provide a party one copy of the protected materials upon receipt of the signed certifications described in Paragraph 8. Except as provided above for highly sensitive protected materials, parties may take notes regarding the information contained in protected materials made available for inspection pursuant to Paragraph 9(a). Only one copy of such protected materials shall be reproduced for each party. Parties shall make a diligent, good-faith effort to limit the amount of copying requested to only that which is appropriate for purposes of this proceeding. Notwithstanding the foregoing provisions of this Paragraph 9(b), a party may make further copies of reproduced protected materials for use in this proceeding pursuant to this Protective Order, but a record shall be maintained as to the documents produced and the number of copies made, and upon request, the party shall provide the party asserting confidentiality with a copy of that record.

10. Availability for Purposes of this Filing

All protected materials shall be made available to the parties solely for the purposes of this proceeding. Protected materials, as well as a party's notes, memoranda, or other information regarding, or derived from the protected materials are to be treated confidentially by the parties and shall not be disclosed or used by the party except as permitted and provided in this Protective Order. Information derived from or describing the protected materials shall be maintained in a secure place and shall not be placed in the public or general files of the party except in accordance with the provisions of this Protective Order. A party must take all reasonable precautions to ensure that the protected materials, including notes and analysis made from protected materials, are not viewed or taken by any person other than an authorized representative of the party.

All non-voluminous protected materials may be reviewed only during the "reviewing period," which period shall commence upon issuance of this Protective Order and continue until conclusion of the plenary jurisdiction of the Commission in this proceeding. The "reviewing period" shall reopen if the Commission regains jurisdiction due to a remand as provided by law. Protected materials that are admitted into the evidentiary record or accompanying the evidentiary record as offers of proof, may be reviewed while this proceeding or any appeals hereof are pending.

11. Treatment of Protected Materials

(a) If a party tenders for filing any written testimony, exhibit, brief, or other submission that quotes from protected materials or discloses the confidential content of protected materials, the confidential portion of such testimony, exhibit, brief, or other submission shall be sealed and shall be filed and served in accordance with the appropriate procedures utilized by the Commission. The Examiners may subsequently, on their own motion or on motion of a party, issue a ruling respecting whether or not the inclusion, incorporation, or reference to protected materials is such that the written testimony, exhibit, brief, or other submission should remain under seal.

(b) Any party or person giving testimony in this proceeding may designate those portions of his or her testimony deemed to be confidential materials in accordance with Paragraph 1 of this Protective Order by advising the Examiner of such fact. In that event, the Examiner shall, on a case-by-case basis, devise procedures which are fair to all parties without unduly burdening the record in this docket.

(c) All protected materials filed with the Commission, the Examiner, any other judicial or administrative body in support of or as part of a motion, other pleading, brief, or other document, shall be filed and served in sealed envelopes or other appropriate containers.

12. Changes to Protective Order

Nothing herein restricts the party seeking protected material and the party producing the protected material from agreeing to other procedures/methods for handling of protected material, including highly sensitive protected material. In addition, each party shall have the right to seek changes in this Protective Order as appropriate from the Examiners, the Commission, or the courts. Nothing herein shall prevent any party from opposing efforts to seek changes to this ruling.

13. Judicial Findings

In the event that the Examiner at any time in the course of this proceeding finds that all or part of the protected materials are not confidential, by finding, for example, that such materials have entered the public domain, those materials shall nevertheless be subject to the protection afforded by this ruling for three full working days, unless otherwise ordered, from the latest of (i) the date of receipt by the party asserting confidentiality of the Examiner's order, or (ii) the date of a final and appealable Commission order denying an appeal filed within the three full working day period from the Examiner's order; or (iii) approval of such order by operation of law following the filing of such an appeal. Neither the party asserting confidentiality, nor any reviewing party waives its right to seek additional administrative or judicial remedies after the Commission's denial of any appeal.

14. Disclosure of Protected Materials

(a) During the pendency of Case No. 00007064 at the Commission, in the event that a party wishes to disclose protected materials to any person to whom disclosure is not authorized by this Protective Order, or wishes to have changed the designation of certain information or material as protected materials by alleging, for example, that such information or material has entered the public domain, such party shall first file and serve on all parties written notice of such proposed disclosure or request for change in designation, identifying with particularity each of such protected materials. In the event that the party asserting confidentiality wishes to contest such proposed disclosure or request for change in designation, that party shall file with the Commission its objection to such proposal, with supporting sworn affidavits, if any, within five working days after receiving such notice of proposed disclosure or request for change in designation. Failure of that party to file such an objection within this period shall be deemed a waiver of objection to the proposed disclosure or request for change in designation. Upon the request of either the producing party or reviewing party or upon the Examiner's own initiative, the Examiner may conduct a prehearing conference. If either the producing or reviewing party wishes to submit materials in question for an in camera inspection, it shall do so at the time of filing its written notice or objection to disclosure. Responses to such an objection, with supporting affidavits, if any, shall be filed within five working days after receipt of the objection. The Examiner will determine whether the proposed disclosure or change in designation is appropriate. The burden is on the party asserting confidentiality to show that such proposed disclosure or change in designation should not be made. If the Examiner determines that such proposed disclosure or change in designation should be made, disclosure shall not take place earlier than three full working days after such determination unless otherwise ordered. No party waives any right to seek additional administrative or judicial remedies concerning such Examiner's ruling. As long as the periods set out in this Protective Order for filing the pleadings described above for consideration by the Examiner and for challenging the determination of the Examiner or the Commission have not expired and while a challenge is pending, the protected materials shall maintain the confidential treatment and status provided for in this Protective Order.

(b) All protected materials shall be afforded the confidential treatment and status provided for in this Protective Order during the period an appeal on an Examiner's ruling is pending before the Commission and during the periods for challenging the various orders.

(c) All notices, applications, responses, or other correspondence shall be made in a manner that protects protected materials from unauthorized disclosure.

15. Objection to Protected Materials

Nothing in this ruling shall be construed as precluding any party from objecting to the use of protected materials on grounds other than confidentiality, including the lack of required relevance. Nothing in this ruling shall be construed as an agreement by any party that the protected materials are entitled to confidential classification.

16. Acts upon Conclusion of Proceeding

Following the conclusion of these proceedings, each party must, no later than thirty days following receipt of the notice described below, destroy or return to the party asserting confidentiality all copies of the protected materials provided by that party pursuant to this Protective Order and all copies reproduced by a reviewing party, and counsel for each party must provide to the party asserting confidentiality a verified certification that, to the best of his or her knowledge, information, and belief, all copies of notes, memorandum, and other documents regarding or derived from the protected materials (including copies of protected materials) that have not been so returned, if any, have been destroyed, other than notes, memoranda, or other documents which contain information in a form which, if made public, would not cause disclosure of protected materials. Promptly following the conclusion of this proceeding, counsel for the party asserting confidentiality will send a written notice to all parties, reminding them of their obligations under this Paragraph. Nothing in this Paragraph shall prohibit counsel for each party from retaining two copies of any filed testimony, exhibit, brief, application for rehearing, or other pleading which refers to protected materials provided that any such protected materials retained by counsel shall remain subject to the provisions of this ruling. As used in this Paragraph, "conclusion of this proceeding" refers to the exhaustion of available appeals, or the running of the time for making of such appeals, as provided by applicable law. If, following any appeal, the Commission conducts a remand proceeding, then "the conclusion of these proceedings" is extended by the remand to the exhaustion of available appeals, or the running of the time for the making of such appeals, as provided by applicable law. If, following any appeal, the Commission conducts a remand proceeding, then the "conclusion of this proceeding" is extended by the remand to the exhaustion of available appeals of the remand or the running of time for making such appeals of the remand, as provided by applicable law.

17. Compliance with Legal Requirements

This Protective Order is subject to the requirements of the Public Information Act, the Open Meetings Act, and any other applicable law, provided that parties subject to those acts will give the party asserting confidentiality notice, if possible, under those acts, prior to disclosure pursuant to those acts.

18. Effect of Court Order

If required by order of a government or judicial body, the party may release to such body the confidential information required by such order, provided, however, the party agrees that prior to such disclosure, it shall promptly notify the party asserting confidentiality of the order and allow such party sufficient time to contest release of the confidential information; provided, further, the party shall use its best efforts to prevent such confidential information from being disclosed.

The term "best efforts" as used in the preceding paragraph requires that the party's attempt to ensure that disclosure is not made by its employees or authorized representatives unless such disclosure is pursuant to a final order of a governmental or judicial body or written opinion of the Attorney General which was sought in compliance with V.T.C.A., Government Code §552.301 (Public Information). The party is not required to delay compliance with a lawful order to disclose such information but is simply required to timely notify the party asserting confidentiality, or its counsel, that it has received a challenge to the confidentiality of the information and that the reviewing party will either proceed under the provisions of §552.301 of the Texas Government Code or intends to comply with the final governmental or court order.

19. Effect of Violation of Court Order

In the event of a breach of the provisions contained in Paragraph 18, the party asserting confidentiality will not have an adequate remedy in money or damages, and accordingly, shall in addition to any other available legal or equitable remedies, be entitled to an injunction against such breach. The producing party shall not be relieved of proof of any element required to establish the right to injunctive relief.

Signed this ______ day of _______, 2021.

____
Name
Administrative Law Judge

EXHIBIT A

CERTIFICATIONS

Certification for protected materials only:

I certify my understanding that the protected materials are provided to me pursuant to the terms and restrictions of the Protective Order in Case No. 00007064, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the protected materials, any notes, memoranda, or any other form of information regarding or derived from the protected materials shall not be disclosed to anyone other than in accordance with the Protective Order and shall be used only for the purpose of the proceeding in Case No. 00007064. I acknowledge that the obligations imposed by this certification are pursuant to a ruling issued by the Examiners in this docket. However, if the information contained in the protected materials is obtained from independent sources that did not obtain such information from documents obtained in this docket, the understanding stated herein shall not apply.

Signature	Party Represented
Printed Name	Date

Additional certification for highly sensitive protected materials:

I certify that I am eligible to have access to highly sensitive protected materials under the terms of the Protective Order in Case No. 00007064.

Signature	Party Represented
Printed Name	Date

Testimony Workpapers

The Testimony Workpapers are being provided electronically.