


Staff Briefing Papers

Meeting Date	March 8, 2018	Agenda Item # *5
Company	CenterPoint Energy	
Docket No.	G-008/M-17-533	
	In the Matter of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas' Request for Change in Demand Units	
Issues	<ol style="list-style-type: none"> 1. Should the Commission approve CenterPoint Energy's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2017? 2. Should the Commission accept CenterPoint Energy's proposed design-day level? 	
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 Relevant Documents	Date
CenterPoint Energy – Petition	July 3, 2017
CenterPoint Energy – Update and Revision	November 1, 2017
Department of Commerce – Comments	January 2, 2018
CenterPoint Energy – Reply Comments	January 11, 2018

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I. Statement of the Issues

Should the Commission approve CenterPoint Energy's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2017?

Should the Commission accept CenterPoint Energy's proposed design-day level?

II. Introduction

PUC staff reviewed CenterPoint Energy's (CenterPoint or the Company) 2017-2018 Demand Entitlement petition, and the comments filed by the Department of Commerce (Department).

In its January 2, 2018 *Comments*, the Department recommended that the Commission:

- Approve CenterPoint's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2017; and
- Approve the design-day level proposed by CenterPoint.

PUC staff agrees with the Department's recommendations.

The purpose of these briefing papers is to provide additional discussion of the allocation of Northern Natural Gas (NNG) – Firm Deferred Delivery (FDD) storage costs between commodity and demand costs, and CenterPoint's reserve margin.

III. NNG-FDD

CenterPoint acquired 2.8 Bcf of FDD storage service from NNG and acquired another 0.5 BCF of FDD storage as a permanent release from an NNG shipper, for total new FDD storage of 3.3 Bcf effective June 1, 2017.

Because CenterPoint's petition did not clearly explain, or provide the detail of, the calculation of the allocation of the FDD service storage costs between demand and commodity costs, PUC Staff asked CenterPoint to provide the calculation and explanation of the allocations between demand and commodity costs. CenterPoint explained that the Company assigned 100% of the Capacity fees to commodity (energy) costs in the PGA, plus 25% of the reservation fees. The other 75% of the reservation fees were assigned to demand costs.

PUC staff notes that this allocation is consistent with the allocation approved by the Commission for fixed storage costs associated with a previous contract CenterPoint had for NNG-FDD service.¹

¹ ORDER APPROVING CHANGES IN DEMAND ENTITLEMENTS AND SETTING STORAGE-COST ALLOCATION, Docket No. G-008/M-15-644 (February 22, 2016).

PUC staff believes the proposed allocation of the fixed NNG-FDD storage costs between demand and commodity costs is reasonable.

IV. Reserve Margin

CenterPoint calculates its estimated design-day at 1,357,000 decatherms (Dths)² and adds a physical reserve requirement of 36,000 Dths for a total design-day estimate of 1,393,000 Dths.³ With proposed total design-day available capacity of 1,409,596 Dths, there is a reserve margin of 16,596 Dths or 1.19%.

CenterPoint includes a physical reserve requirement in its design-day requirements. PUC staff is unaware of any other Minnesota natural gas utility doing this. If the physical reserve is removed from the design-day requirements estimate, CenterPoint's reserve margin is 52,596 Dths, or approximately 3.88%.

CenterPoint provides a discussion of its design-day forecasting models on pages 4-5 of its July 3, 2017, Petition. Regarding its traditional design-day Model, CenterPoint states in part:

CenterPoint Energy uses the model to be sure we have enough capacity to delivery [sic] gas when the temperature is approaching a Design Day scenario; we have to be extremely cautious about the Design Day estimate. It is critically important that we have the capacity to serve firm customers if a Design Day occurs; using a 95% Confidence Interval upper limit is responsible, if not necessary, to assure sufficient capacity.

By using the 95% confidence level, the likelihood the actual use per customer being above the estimate is a 2.5% chance; therefore, CPE is comfortable with the 3% reserve margin. The company also has about 42,600 DT of available reserve to cover that 2.5% chance, but continues to look for additional options, either entitlements or peaking service, to cover the requirements.

The Department reviewed CenterPoint's design-day analysis and conducted alternative analysis. The Department concluded that CenterPoint's design-day forecasting "approach is reasonable, and that CenterPoint likely has sufficient capacity to serve needs on an all-time peak day even with the seemingly low reserve margin."⁴

² CenterPoint's Petition at page 5.

³ Id at page 4.

⁴ Department's January 2, 2018 *Comments* at page 9. The Department calculated a reserve margin of 0.47%. However, it appears that in its calculation of the reserve margin, the Department used the incorrect design-day plus physical reserve estimate from page 2 of Exhibit B3 of CenterPoint's November 1, 2017 Update of 1,403,000 (identified as incorrect on page 6, footnote 9 of the Department's January 2, 2018 *Comments*), instead of the correct amount of 1,393,000 identified on page 4 of CenterPoint's petition.

The Department provided a brief but interesting summary of the differences between the electric and natural gas industries in terms of setting reserve requirements, and the factors impacting how natural gas reserve margins are developed.⁵

V. Decision Options

1. Approve CenterPoint's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2017. [Department] or
2. Do not approve CenterPoint's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2017.
3. Accept the design-day level proposed by CenterPoint. [Department] or
4. Do not accept the design-day level proposed by CenterPoint.

⁵ Department's January 2, 2018 *Comments* at Attachment 5.