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– VIA ELECTRONIC FILING –

June 19, 2020

Mr. Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

Re: **Annual Incentive Compensation Compliance Filing
Reply Letter - Docket No. G-008/GR-17-285**

Dear Mr. Seuffert:

CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (the “Company”), hereby respectfully submits its reply to the Letter of the Minnesota Department of Commerce (“Department”), filed on June 5, 2020 and the Revised Letter filed on June 8, 2020 (the “Department Letters”) in the above-captioned docket.

The Company contends that the Commission should accept the Company’s Short Term Incentive Compensation Compliance filing as revised by its filing on April 28, 2020 (“STI Filing”), as compliant with the requirements established in Docket No. G-008/GR-15-424 (the “2015 Rate Case”). In the alternative, as discussed below, the Commission should order the Company to issue a smaller refund than that proposed by the Department.

I. Short Term Incentive and Compliance Requirements

In its June 3, 2016 Order in Docket No. G-008/GR-15-424 (“2015 Rate Case Order”), the Commission ordered the Company to refund STI amounts allowed in rates but not paid out to ratepayers.¹ Also in that Order, the Commission ordered the Company to provide a separate reporting of Service Company² STI amounts paid and included in allocations to Minnesota compared to the amount included in base rates. As the Commission is aware, the amount of STI deemed recoverable in rates is composed of STI paid directly to employees of the Company

¹ This requirement was carried forward in the settlement of more recent 2017 rate case.

²As has been previously discussed in the Company’s rate cases, Service Company is a separate CenterPoint, Inc. subsidiary that employs individuals providing centralized services to a variety of CenterPoint’s divisions or subsidiaries. *In the Matter of the Application of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas for the Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, Docket No. G-008/GR-17-285, Direct Testimony of Michelle Townsend, page 3;20 (CenterPoint Energy, Aug. 08, 2017)

and a portion of corporate allocations which reflects the STI paid to employees of Service Company.

As described in more detail in the testimony of Randolph Sutton in the 2017 rate case,³ the Company's STI Plan is a variable compensation plan. STI provides additional employee compensation only if pre-determined goals are achieved by our parent company CenterPoint Energy, Inc, including goals that directly benefit customers such as safety and customer service performance. This links a portion of each employee's compensation with the success of the larger company and helps direct employee efforts towards the larger goals of the organization. The target award for each employee is a percent of the employee's annual eligible base pay earnings, and the STI awarded to that employee will be more or less than their target depending on individual's and CenterPoint Energy Inc.'s performance. This compensation system was explicitly discussed in the 2015 Rate Case Order.⁴

II. Department Analysis

In general, the Department's analysis fails to correctly apply the 2015 Rate Case Order, which requirements were carried through in the Company's 2017 Rate Case.

The Department's analysis incorrectly disregards the Commission's most recent Order pertaining to the Company's STI filing, which affirms the methodology that has been used by the Company for STI payouts in 2016, 2017 and 2018. The Department also incorrectly claims that a refund is required even though more STI was paid out (adjusted for the 15% cap) based on looking at corporate allocations separately from Minnesota operations STI instead of reviewing the total-The Department also relies on an order specific to Xcel Energy (rather than the Company) to support its position.

A. Total Company Results

The Department, without explanation, did not incorporate the "Total Company Results" component, which is applied to reflect CenterPoint's performance on the STI performance metrics. This component can either increase payout above 100% of target or reduce payout to less than 100% of target. The Total Company Results component has been included in the actual payout calculation since 2016.

³ *In the Matter of the Application of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas for the Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, Docket No. G-008/GR-17-285, Rebuttal Testimony of Randolph H. Sutton, page 7;3-10 (CenterPoint Energy, Feb. 5, 2018).

⁴ Testimony on this point was also provided in the 2017 Rate Case. *In the Matter of the Application of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas for the Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, Docket No. G-008/GR-17-285, Rebuttal Testimony of Randolph H. Sutton, page 7;3-10 (CenterPoint Energy, Feb. 5, 2018).

The exclusion of the Total Company Results component is inconsistent with how information has been provided previously. The Commission specifically approved this methodology when it approved the Company's 2018 STI Compliance Filing in its Order issued on September 4, 2019.⁵ Inclusion of the Total Company Results component incentivizes employees to work towards achievement of each Company goal, which benefit the rate payers.

B. Separate Treatment of Corporate Allocations and Minnesota Operations STI

The Department Letters take the position that a refund is required if the allocated portion of payout for Service Company is below the amount allowed in rates, even if the total payout exceeds that allowed in rates. This is not consistent with the reason the Commission began requiring the reporting of the Service Company portion of STI. The specific reference to Service Company STI was included for the first time in the 2015 Rate Case Order, and was included to ensure that information pertaining to STI included in corporate allocations would be provided in the Company's subsequent STI compliance filings, and that any required refund would include the corporate allocation as well as the Company component.⁶

Comparing the total amount recovered in rates to the total payout, subject to the 15% cap of base pay from the 2017 settlement, allows CenterPoint Energy to make reasonable changes to its business structure between rate cases, favoring efficiency and flexibility over limiting the Company to an established historical structure. An artificial division between STI included in corporate allocations and STI paid to the Company's employees would penalize the Company for that efficiency and would lead to under recovery of authorized expenses.

The Department supports its argument by citing to an order issued to Xcel Energy, not CenterPoint (the "Xcel STI Order").⁷ Notably, the Xcel STI Order language highlighted by the Department in its Letters is tied directly to language from Xcel's earlier rate case, which is not relevant to the Company.⁸

III. Re-Analysis of 2018 STI

Although the Department does not seek a refund associated with the 2018 STI Compliance Filing, it re-analyzes 2018 STI using a new methodology, despite the entry of the 2018 STI Compliance Order on September 4, 2019. It is not appropriate to revisit 2018 STI payments more than nine months after the Commission has issued its decision on the matter.

⁵ It does not appear that the Department responded to, or the Commission acted on, the filings for 2016 or 2017.

⁶ See, *Staff Briefing Papers* (Vol. II: Financial Issues)(filed April 21, 2016) at 21.

⁷ Docket No. 17-429, *In the Matter of Northern States Power Company's Petition for Approval of Its 2016 Incentive Compensation Plan Report*.

⁸ *Order Requiring Incentive Compensation Refund*, Docket No. E.G.-002/M-17-429 (August 13, 2018) (emphasis in original) quoting Docket No. E-002/GR-92-1185, *Order After Reconsideration*, at 7 (emphasis added).

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IV. Alternative Proposed Refund and Method

In the event the Commission determines that a refund is required due to the underpayment of STI specific to corporate allocations instead of looking at the total, the Company contends that the amount of refund due is \$52,994, as calculated in the revised Attachment A,⁹ rather than the \$147,212 referenced in the Department's June 8 Letter. Due to the size of the refund, the Company would propose to include the \$52,994 as part of any interim rate refund in the current rate case, Docket No. G-008/GR-19-524.

V. Conclusion

The Company appreciates the opportunity to respond to the Department Letters. As discussed above, the Company disagrees with the Department's analysis, which disregards the September 9, 2019 Order.

Please contact me at 612-321-4480 or Andrew.Sudbury@centerpointenergy.com with questions.

Sincerely,

/s/ Andrew Sudbury
Andrew Sudbury
Manager, Regulatory and Rates

Enclosures

cc: Service List – Docket No. G-008/GR-17-285

⁹ Reference updated attached number - \$52,994 (1,047,041-994,047 instead of 1,047,041-899,829)

CenterPoint Energy's Alternative Recommendation				
	(A)	(B)	(C)	
Line		<u>Included in Base Rates</u>	<u>2019 Actual Incurred (Paid in 2020)</u>	<u>Calculated Refund</u>
1	Minnesota Utility Operations	\$1,897,774	\$2,092,053	-
2		<u>(\$96,047)</u>		
3		\$1,801,727		
4	Service Company	\$1,485,511	\$994,047	\$52,994
5		<u>(\$438,470)</u>		
6		\$1,047,041		
7	Total	\$2,848,768[1]	\$2,997,958	\$52,994

[1] The Company's test-year projected Minnesota utility STI was \$1,897,774, reduced by a \$96,047 adjustment recommended by the Department of Commerce. Corporate-allocated STI was \$1,485,511, adjusted downward by \$438,470. See 2017 Rate Case, Direct Testimony and Attachments of Dale V. Lusti (Minnesota Department of Commerce Department of Energy Resources), January 8, 2018.

[2] Columns A, B, C from Table 2, pg. 5 of the 2019 Report filed on April 28, 2020.

[3] This table is CenterPoint Energy's proposed alternative to the Company's recommendation of accepting the original filing as complete

CERTIFICATE OF SERVICE

Kristen Ruud served the above Reply Letter of CenterPoint Energy to all persons at the addresses indicated on the attached list by having the document delivered by electronic filing.

/s/
Kristen Ruud
Regulatory Analyst
CenterPoint Energy

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