Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: **November 6, 2014... *Agenda Item # 1**

Company: CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas

Docket No. G-008/GR-13-316
In the Matter of the Application by CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota

Issue: Should the Commission approve CenterPoint Energy's compliance filing?

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Dorothy Morrissey... 651-201-2232
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Relevant Documents

CenterPoint Energy – Compliance Filing .... Sep. 8, 2014
Department - Comments.. Oct. 8, 2014
CenterPoint Energy - Reply Comments (Non-Public) .... Oct. 20, 2014

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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October 29, 2014

Statement of the Issue

Should the Commission approve CenterPoint Energy's compliance filing?

Background

On August 2, 2013, CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas (CenterPoint or the Company) filed a general rate case. CenterPoint requested an annual rate increase of $44,322,000, or approximately five percent, over existing rates.

On September 3, 2013, the Commission issued its Order Setting Interim Rates authorizing CenterPoint to implement an interim rate increase of $42,917,000, or approximately 4.88 percent, effective October 1, 2013.

On June 9, 2014, the Commission issued its Findings of Fact, Conclusions, and Order, which authorized a rate increase of $32,943,000, or approximately 3.9%, over existing rates, to produce test-year jurisdictional retail revenue (including the cost of gas) of $882,470,000.

On August 15, 2014, the Commission issued its Order Granting Request for Clarification which denied the Department's request for reconsideration of the pension expense discount rate issue and clarified the amount of the monthly customer charge for certain transportation customers.

On September 8, 2014, CenterPoint submitted its compliance filing, including its refund plan, which proposed to implement new, final rates on December 1, 2014.

On October 8, 2014, the Department submitted comments generally recommending the Commission accept CenterPoint's compliance filing and recommending approval of CenterPoint's refund plan. However, the Department also recommended the Commission consider whether CPE's proposed revenue apportionment and resulting tariffs are consistent with the Commission's Order or if an alternative revenue apportionment is more appropriate.

On October 20, 2014, CenterPoint submitted reply comments accepting the Department's Recommendation that its compliance filing be accepted. CenterPoint also believes the class revenue apportionment proposed in its compliance filing is consistent with the ALJ's recommendation and the Commission's Orders and should be approved.

(CenterPoint's request for a new base cost of gas to coincide with the implementation of final rates from the rate case, is also on the agenda for this meeting, in Docket No. G-008/MR-14-766.)

Commission Order and Party Positions

As stated in the Background section, CenterPoint requested a $44,322,000 increase in its initial filing and the Commission authorized a $32,943,000 increase in its Order. The $11,379,000 difference and the Company's interpretation of the Order's resulting class revenue apportionment allocation is the basis of CenterPoint's and the Department's disagreement.

The Commission's Order[1] regarding class revenue apportionment concurred with the Administrative Law Judge and accepted her findings, conclusions, and recommendation on this issue. The ALJ's Order[2] stated the following:

> 638. The Administrative Law Judge finds that the Company- and Department- recommended revenue apportionment appropriately balances cost and non-cost factors and should be approved.

Based on the initial $44,322,000, the Department recommended[3] and CenterPoint agreed[4] to the following revenue apportionment:

Table 1 - CenterPoint/Department of Commerce Proposed Apportionment of Responsibility for CenterPoint's Non-Gas Revenue Requirement including CIP

Class	CPE / DOC Proposed Apportionment
Firm:	
Residential	67.48%
Commercial A	2.86%
Commercial/Industrial B	3.40%
Commercial/Industrial C	13.05%
Dual Fuel:	
Small Volume Dual Fuel A	3.84%
Small Volume Dual Fuel B	2.26%
Total Large Volume:	7.10%
Total	100.00%

Since the proposed apportionment was based on the Company's $44,322,000 request, the Department also recommended and CenterPoint agreed that, if the Commission approves a lower revenue requirement than proposed by the Company, the apportionment of the $11,379,000 difference would be allocated by holding the dollar amount apportioned to the non-firm classes

1 PUC, Findings of Fact, Conclusions and Order, page 42
2 Administrative Law Judge, Findings of Fact, Conclusions of Law & Recommendations, Part 2 of 2, page 136
3 Department of Commerce, Shaw Surrebuttal, page 12
4 CenterPoint Energy, Reply Brief, page 48

constant (or unchanged) and prorating among the firm classes the $11,379,000 reduction in the requested rate increase.

As adopted in the Commission's Order and recommended by the Administrative Law Judge, CenterPoint, in its September 8, 2014 compliance filing[5], provided the following Summary Calculation of Total Present and Final Revenue:

Table 2 - Summary Calculation of Total Present and Final Revenue

Class of Service	Total Test Year Revenue @ Present Rates	Late Payment / Other Revenue	Present Billing Rate Revenue	Final Billing Rate Revenue Increase (Decrease)	Final Billing Rate Revenue	Late Payment / Other Revenue	Total Proposed Revenue Responsibility
Residential	$506,363,127	$3,168,110	$503,195,017	$21,116,702	$524,311,719	$3,168,110	$527,479,829
Commercial A	$19,223,087	$146,678	$19,076,409	$832,886	$19,909,296	$146,678	$20,055,974
Comm/Ind B	$34,052,500	$140,191	$33,912,309	$1,237,933	$35,150,242	$140,191	$35,290,433
Comm/Ind C	$148,440,960	$381,273	$148,059,687	$5,274,728	$153,334,415	$381,273	$153,715,688
SVDF A	$48,495,155	$67,427	$48,427,728	$1,167,198	$49,594,926	$67,427	$49,662,353
SVDF B	$30,133,960	$33,678	$30,100,282	$810,257	$30,910,539	$33,678	$30,944,217
Large Volume	$62,824,269	$201,643	$62,622,626	$2,497,608	$65,120,234	$201,643	$65,321,877
Totals	$849,533,058	$4,139,000	$845,394,058	$32,937,312	$878,331,371	$4,139,000	$882,470,371

In its October 8, 2014 reply comments, the Department accepted and recommended approval of CenterPoint's compliance filing – with one exception. The Department determined that the Company's revenue requirement allocation methodology may be inconsistent with the Commission order and recommended that, in reply, "CPE provide an additional revenue apportionment that more closely reflects the initially proposed apportionment".[6]

In its October 20, 2014 reply comments, CenterPoint accepted the Department's recommendation to approve the Company's compliance filing and provided discussion and clarification regarding revenue apportionment. CPE noted that the Company filed financial and rate design schedules based on the ALJ report on April 16, 2014 and that the PUC notice that required the financial and rate design schedules gave parties until April 21, 2014 to file comments and raise any issues or concerns with the schedules. Since no comments on the schedules were received and the Commission concurred and accepted the ALJ's findings in this issue, CPE believes their compliance schedule is consistent with the Commission's order and continues to support it. CenterPoint also provided the following two tables based on the Company's non-gas revenue which summarize the revenue apportionment used in the initial and compliance filings:

[5] CenterPoint Energy, Rate Case Compliance Filing, Schedule A-2a, Page 2 of 2
[6] Department of Commerce, Reply Comments, page 3

Table 3 - CenterPoint Energy Proposed Revenue Apportionment Initial Filing (in 000s) with $44.322 Million Rate Increase

Class	Non-Gas Revenue @ Present Rates	CCRC Test Year Revenue @ Present Rates	non-CIP Test Year Revenue @ Present Rates	CCRC Increase	non-CIP Increase	Total CCRC with increase	non-CIP Non Gas Revenue	Total Non Gas Revenue	Total Non Gas Revenue % of Total
Residential	$186,132	$4,277	$181,855	$8,003	$27,545	$12,280	$209,400	$221,680	67.4%
Commercial A	$8,064	$148	$7,916	$277	$1,068	$425	$8,984	$9,409	2.9%
Comm/Ind B	$10,963	$309	$10,655	$578	($380)	$887	$10,275	$11,162	3.4%
Comm/Ind C	$40,022	$1,465	$38,557	$2,741	$105	$4,206	$38,662	$42,868	13.0%
SVDF A	$11,423	$624	$10,799	$1,167	$16	$1,791	$10,815	$12,606	3.8%
SVDF B	$6,939	$433	$6,506	$811	($27)	$1,244	$6,479	$7,723	2.3%
Large Volume	$21,274	$1,335	$19,939	$2,498	($79)	$3,833	$19,860	$23,693	7.2%
Totals	$284,817	$8,591	$276,227	$16,075	$28,248	$24,666	$304,475	$329,141	100.0%

Table 4 - CenterPoint Energy Revenue Apportionment Compliance Filing (in 000s) with $32.943 Million Authorized Rate Increase

Class	Non-Gas Revenue @ Present Rates	CCRC Test Year Revenue @ Present Rates	non-CIP Test Year Revenue @ Present Rates	CCRC Increase	non-CIP Increase	Total CCRC with increase	non-CIP Non Gas Revenue	Total Non Gas Revenue	non-CIP Non Gas Revenue % of Total
Residential	$186,132	$4,277	$181,855	$8,003	$13,114	$12,280	$194,969	$207,249	66.5%
Commercial A	$8,064	$148	$7,916	$277	$556	$425	$8,472	$8,897	2.9%
Comm/Ind B	$10,963	$309	$10,655	$578	$660	$887	$11,315	$12,202	3.9%
Comm/Ind C	$40,022	$1,465	$38,557	$2,741	$2,534	$4,206	$41,091	$45,297	14.0%
SVDF A	$11,423	$624	$10,799	$1,167	($0)	$1,791	$10,799	$12,590	3.7%
SVDF B	$6,939	$433	$6,506	$811	($1)	$1,244	$6,505	$7,749	2.2%
Large Volume	$21,274	$1,335	$19,939	$2,498	($0)	$3,833	$19,939	$23,772	6.8%
Totals	$284,817	$8,591	$276,227	$16,075	$16,863	$24,666	$293,090	$317,756	100.0%

CPE calculated the percent of the Non-CIP Non Gas Revenue to approximate the Revenue apportionment approved by the Commission because they stated this would be a more reasonable approach given that Dual Fuel classes only received an increase in CCRC and GAP and their non-CIP revenues were not impacted. Therefore, CPE interpreted this to mean that the revenue apportionment should not be based at all on the CCRC increase.

At the Department's request, CenterPoint also provided the following revenue apportionment alternative:

Table 5 - CenterPoint Energy Revenue Apportionment Alternative (in 000s)

Class	Non-Gas Revenue @ Present Rates	CCRC Test Year Revenue @ Present Rates	non-CIP Test Year Revenue @ Present Rates	CCRC Increase	non-CIP Increase	Total CCRC with increase	non-CIP Non Gas Revenue	Total Non Gas Revenue	non-CIP Non Gas Revenue % of Total
Residential	$186,132	$4,277	$181,855	$8,003	$17,856	$12,280	$199,711	$211,991	68.1%
Commercial A	$8,064	$148	$7,916	$277	$746	$425	$8,662	$9,087	3.0%
Comm/Ind B	$10,963	$309	$10,655	$578	($442)	$887	$10,212	$11,100	3.5%
Comm/Ind C	$40,022	$1,465	$38,557	$2,741	($1,294)	$4,206	$37,263	$41,469	12.7%
SVDF A	$11,423	$624	$10,799	$1,167	($0)	$1,791	$10,799	$12,590	3.7%
SVDF B	$6,939	$433	$6,506	$811	($1)	$1,244	$6,505	$7,749	2.2%
Large Volume	$21,274	$1,335	$19,939	$2,498	($0)	$3,833	$19,939	$23,772	6.8%
Totals	$284,817	$8,591	$276,227	$16,075	$16,865	$24,666	$293,092	$317,758	100.0%

CenterPoint pointed out that this alternate apportionment increases the revenue required from the Residential class and decreases the revenue required from the Commercial/Industrial B and C classes and it would move these classes closer to cost. CenterPoint added that, while it supports moving natural gas rates closer to cost, there are concerns with this specific proposal beyond the additional unintended increase to the Residential and small business classes since the detailed calculations have just been developed in response to DOC comments after the close of the rate case record. The Company ended by reiterating its support for the compliance filing's allocation.

Staff Analysis and Conclusion

In most respects, Commission staff believes CenterPoint's compliance filing and interim rate refund plan can be accepted as recommended by the Department. Staff believes the only issue that needs discussion is the Department's observation that the Commission needs to decide whether CPE's proposed revenue apportionment and resulting tariffs are consistent with the Commission's Order or if an alternative revenue apportionment is more appropriate.

Staff believes that the reason for the revenue apportionment disagreement between the Company and the Department boils down to the interpretation of the Commission's order. Staff performed its analysis using two different interpretations of the Commission's Order and has identified them below as the "pre–CCRC calculation" and "post-CCRC calculation". Since CenterPoint and the Department agreed that the allocation methodology would only apply to firm customers, the Proposed Apportionment Table (Table 1, above) needs to be revised to only include firm classes. The next two tables (#s 6 & 7) provide the apportionment basis used in Staff's analysis and the revenue amount to be apportioned.

Table 6 - Revised CenterPoint/Department of Commerce Proposed Apportionment (Prorated)

Class	CPE / DOC Proposed Apportionment
Firm:	
Residential	77.75%
Commercial A	3.30%
Commercial/Industrial B	3.91%
Commercial/Industrial C	15.04%
Total	100.00%

Table 7 – Revenue Amount to be Apportioned (in 000s)

Authorized Increase	$32,943
Less[7]	
SVDF A CCRC Increase	($1,167)
SVDF B CCRC Increase	($811)
Large Volume CCRC Increase	($2,498)
SVDF B Non-CIP Increase (Decrease)	$1
Total Deductions	($4,475)
Amount to be Allocated	$28,468

Since there is not enough information on the record to exactly replicate the apportionment results, Staff's analysis is based on its possible interpretations of the Commission Order.

1. Pre-CCRC Calculation

Staff's pre–CCRC methodology takes the $28,468,000 to be allocated, applies the (table 6) apportionment factors and then breaks the resulting apportionment into the CCRC and non-CIP increases. As shown in table 8, this methodology more closely fits the CenterPoint compliance filing's allocation (as shown in table 4).

Table 8 – Pre-CCRC Allocation Method ($000s)

Pre-CCRC Allocation	Apportionment %	Apportionment $	CCRC Increase	non-CIP Increase	CPE's Compliance Filing non-CIP Increase
Residential	77.75%	$22,134	$8,116	$14,018	$13,114
Commercial A	3.30%	$939	$281	$658	$556
Commercial/Industrial B	3.91%	$1,114	$586	$529	$660

[7] From Tables 4 and 5

Commercial/Industrial C	15.04%	$4,280	$2,780	$1,501	$2,534
Totals	100.00%	$28,468	$11,762	$16,706	$16,864

2. Post-CCRC Calculation

Staff's post–CCRC methodology "locks in" the CCRC increase, takes the $11,379,000 difference ($44,322,000 minus $32,943,000) between CenterPoint's initial request and the Commission approved amount, allocates the difference using each class' apportionment factor and deducts the apportioned amounts from the amount of the requested non-CIP increases. As shown in table 9, this methodology more closely fits the CenterPoint alternate allocation (as shown in table 5).

Table 9 – Post-CCRC Allocation Method ($000s)

Post-CCRC Allocation	Apportionment %	Apportionment $	Requested non-CIP Increase[8]	Revised non-CIP Increase	CPE's Alternative Filing non-CIP Increase
Residential	77.75%	($8,847)	$27,545	$18,698	$17,856
Commercial A	3.30%	($376)	$1,068	$692	$746
Commercial/Industrial B	3.91%	($445)	($380)	($825)	($442)
Commercial/Industrial C	15.04%	($1,711)	$105	($1,606)	($1,294)
Totals	100.00%	($11,379)	$28,338	$16,959	$16,866

3. Staff Conclusions and Recommendation

Based on its analysis, Staff concludes the following:

- Either of the allocation methods used by CenterPoint to calculate its revenue apportionment can be interpreted as being compliant with the Commission's June 9, 2014 Order.

- Since the CCRC represents almost 50% of the authorized rate increase, maintaining the proposed increase in the CCRC while reducing the overall rate increase, is the main cause for these divergent outcomes.

- In prior rate cases the CCRC has represented a small percentage of the authorized increase; therefore, its impact on different interpretations of Commission Orders in the past would have been minimal.

- The Company and the Department agreed on allocation factors; however, there is no discussion addressing the methodology to be used when applying those factors anywhere on the record.

[8] From Table 3

Finally, Staff recommends that, to avoid possible reoccurrences of divergent interpretations in the future, the Commission ask CenterPoint and the Department to develop more detailed allocation methodologies and formulas in subsequent cases for handling any reduction in the amount of the requested rate increase in tandem with maintaining the CCRC at the requested amount, preferably with an illustrative example.

Decision Alternatives

1. Class revenue apportionment

    a. Approve CenterPoint Energy's proposed revenue apportionment and resulting tariffs as being consistent with the Commission's Order, or

    b. Approve CenterPoint Energy's alternative revenue apportionment and resulting tariffs as being consistent with the Commission's Order,

2. Authorize CenterPoint Energy to implement new, final rates on customer bills effective December l, 2014;

3. Approve CenterPoint Energy's proposed conservation cost recovery charge (CCRC) of $0.1849 per dekatherm to be applied to all customer classes except for approved CIP-exempt facilities;

4. Require CenterPoint Energy to resubmit the CIP tracker account (including rates, revenues, expenses, and ending balance) for the entire period that interim rates were in effect within 10 days after the actual date final rates become effective;

5. Approve CenterPoint Energy's refund plan;

6. Require CenterPoint Energy to submit, within 10 days of the completion of the refund for all of its customers, a compliance filing that separately shows the actual refunds and interest paid by rate class including supporting calculations;

7. Future methodology

    a. Ask CenterPoint and the Department to develop more detailed allocation methodologies/formulas in subsequent cases, preferably with an illustrative example, or

    b. Take no action.