CenterPoint Energy

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March 30, 2015

PUBLIC DOCUMENT
Trade Secret Information has been Excised

Daniel Wolf
Executive Secretary
Minnesota Public Utilities Commission
350 Metro Square Building
121 East Seventh Place, Suite 350
St. Paul, Minnesota 55101-2147

Re: CenterPoint Energy's Request for Change in Demand Units 2014-2015
Docket No. G008/M-14-561
Supplemental Reply to the DOC Response Comments of 3-18-2015

Dear Mr. Wolf:

CenterPoint Energy has received and reviewed the March 18, 2015 Response Comments of the Minnesota Department of Commerce ("Department " or "DOC") on CenterPoint Energy's ("CenterPoint") Request for approval of a change in demand units effective November 1, 2014.

On October 2, 2014 the DOC recommended that the Commission:

- Approve CenterPoint Energy's proposed level of demand entitlement subject to supplemental filing(s) by the Company related to the reallocation of units between TF-12 Base and TF-12 Variable services and the final Reservation Fees cost estimate; and
- Accept the design-day level proposed by CPE.

In the same filing, the Department:

- Requested "that CenterPoint use its regression point estimate, not the upper-bound of its analysis in future demand entitlement filings" and
- Requested that CenterPoint Energy, in its *Reply Comments*, provide a detailed discussion regarding its proposal to allocate its two new storage contracts 75 percent to demand and 25 percent to commodity, as it does with reservation fees.

CenterPoint Energy filed its reply on October 13, 2014.

Further, CenterPoint Energy made supplemental filings on October 31 and December 30 to update demand-cost items not set when the request was initially filed on July 1. Following these supplemental filings, the Department filed response comments on March 18, 2015 summarizing the changes and requesting additional information and discussion from CenterPoint Energy on two topics: the uncertainty in the Viking rate case, and the need for a variance to Minnesota Rule 7825.2700, subp.5 for the early implementation of annual demand volumes set in its most recent rate case.

Viking Pipeline Entitlements:

The Viking contract in question was expiring October 31, 2014, and under the terms of the contract CenterPoint was required to notify Viking of its decision by April 30, 2014 (6 months prior to expiration). During the months of March and April of 2014, Viking and its customers were in discussions, trying to settle the upcoming rate case. As part of those discussions, Viking committed to building compression that would make its pipe bi-directional, meaning shippers could buy firm capacity to move gas from Viking's most southern point at its ANR/Marshfield interconnect to upstream locations, however the contracted primary path would have to be designated that direction. This would allow shippers to bring gas off of ANR into Viking.

CenterPoint was interested in this ability, as ANR connects to very reasonably priced storage gas in Michigan and provides access to the ANR/Jolliet hub which may provide a competitive source of supply in the future. To effectively use the reverse direction for supplies on Viking, CenterPoint would need delivery capacity on ANR with firm rights at Marshfield going into Viking. Upon hearing of Viking's bi-directional plans, CenterPoint began discussions with ANR regarding the possibility of acquiring ANR firm transport from Jolliet to Marshfield and potential storage capacity[1]. Preliminary discussions prior to April 30, 2014, indicated it was reasonable to believe this alternative capacity path could be built and could provide an economically viable alternative to the Emerson option on Viking.

CenterPoint Energy was and still is concerned about the price volatility that is occurring with Canadian supplies to Emerson and decided that it would pursue the ANR option. The outstanding issue was that ANR's current firm delivery capacity to Marshfield was sold out, meaning an expansion project would be required to provide that capacity. ANR committed to holding an Open Season for adding firm capacity to Marshfield, however ANR could not provide reliable cost estimates until it had determined total market interest and determined the size of the project. CenterPoint determined a cost range that was reasonable for the ANR capacity when compared to the Emerson economics. ANR indicated back in April 2014 that Open Season results could fall into that range. Thus, CenterPoint determined the prudent decision would be to extend its current forward haul capacity on Viking for one year to allow CenterPoint the flexibility to continue to pursue the ANR option in the future.

In April of 2014 CenterPoint extended Viking for one year. In August 2014, Viking reached tentative agreement with its shippers for a settlement of its rate case which provided for bi-directional expansion of its pipe. In the fall of 2014 CenterPoint entered ANR's non-binding Open Season for Marshfield capacity. In January of 2015, the results of the ANR Open Season were final. [**Trade Secret information begins…**

…Trade Secret Information ends] and is currently faced with another extension decision on Viking before April 30th of this year. That decision has not been made at this point in time.

[1] Access to Michigan storage capacity would allow for replacing current Marketer-based storage services on Northern at reduced rates. This savings was factored into the economic comparison of costs between the two options.

Variance Request:

Minnesota Rule 7825.2700, subpart 5, Demand Adjustment, requires CenterPoint to use test year demand volumes for three years after the end of the utility's most recent general rate case test year. After this time period, the demand adjustment must be computed on the basis of annual demand volume.

At the time of the implementation of the 2014-2015 demand entitlement change, proposed to be effective November 1, 2014, the Company's rate case test year was over. CenterPoint Energy's test year was defined as October 2013 – September 2014. At that point in time, any rate case sales forecast issues in dispute had been resolved for months, and the Company had no reason believe the sales forecast would not be in effect for the next three years.

The alternative sales forecast in use prior to November 2014 was the three-year weather-normal annual demand volume from July 2010 – June 2013. The Company computed the updated firm sales estimate using the same methodology for the July 2011 - June 2014 time period. The sales estimate in the updated version showed an estimated increase in firm sales volumes of slightly more than 5% from the previous estimate.

In contrast, the rate case sales forecast, derived in the spring of 2013, predicted a decrease in sales of about 5% from the 2010-2013 sales estimate in use. The impact of using the updated annual demand volume for one month would have dropped the per-unit rate to $0.07466, and then increased it to $0.08235 in December 2014 as final rates were implemented, before applying the demand smoothing adjustment which may have been mitigated by the foregoing adjustment.

The same sales volumes are used to allocate some storage costs to the Small Volume Dual Fuel classes in the winter (November – March), and the change would have required changes to the amount of the commodity cost "adder" mid-winter, changing the cost recovery of that portion of storage costs. This could be confusing to Small Volume Dual Fuel customers who pay the extra amount each winter.

Because there was agreement and a Commission Order approving the Rate Case sales forecast, and the test year had already passed, CenterPoint Energy did not think implementing the rate case sales forecast required a rule variance. However, if the PUC agrees with the Department that a rule variance is required, the Company requests a variance to the rule.

CenterPoint Energy believes that the request meets the requirements for granting variances found in Minnesota Rule 7829.3200 are met. The requirements are as follows:

A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;

Enforcement of the rule would impose an excessive burden because at this point in time the rates implemented in November cannot be changed. The difference between the costs incurred and the costs recovered are included in the true-up balances. Potential corrections including immediate bill credits or refunds would be complex, given the nature of this cost recovery mechanism.

B. Granting the variance would not adversely affect the public interest;

As noted above, granting the proposed variance will not adversely impact the public interest. The per-unit demand rate billed in November would have been lower than what was charged, but because the demand adjustment rule works to balance demand costs over an annual period, not a monthly period, a mismatch on demand costs is not uncommon. The difference impacts only the demand related true up balances, which by the same rule will be corrected as a revenue difference. Demand costs in general are over-collected during winter months and under-collected in non-heating months because the per-unit rate is based on total annual sales estimates, but are actually billed on monthly sales, which vary greatly from month to month.

C. Granting the variance would not conflict with standards imposed by law

CenterPoint Energy is not aware of any laws that would be violated by granting this variance.

CenterPoint Energy respectfully requests a variance, if it is determined that a variance is required, to Minnesota Rule 7825.2700, subp. 5 to allow the company to use the rate case sales estimate to set its demand PGA for November 2014, one month before implementing final rates in the Company's most recent rate case.

Sincerely,

/s/

Marie M. Doyle
Rates Analyst
612-321-5078

AFFIDAVIT OF SERVICE
Docket G-008/M-14-561

STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

Marie M. Doyle, being first duly sworn on oath, deposes and says she served via e filing or caused to be served on behalf of CenterPoint Energy: its Supplemental Reply Comments in its Request for Change in Demand Units on the Minnesota Public Utilities Commission; on the Department of Commerce (DOC) and; on the Office of the Attorney General - Residential Utilities Division; and on persons on the enclosed service list, by delivering by hand at the respective addresses on the list or by placing in the U.S. Mail at the City of Minneapolis.

___/s/______________________________
Marie M. Doyle, Rates Analyst
Regulatory Services
CenterPoint Energy

Subscribed and sworn to before me
this 30th day of March, 2015

__/s/ Mary Jo Schuh_________
Notary Public
Term expires: 01/31/2020

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