The Commission met on **Thursday, May 5, 2016**, with Chair Heydinger, and Commissioners Lange, Lipschultz, Schuerger, and Tuma present.

The following matters were taken up by the Commission:

ENERGY FACILITIES AGENDA

ET-6/TL-14-665
In the Matter of the Application of Minnkota Power Cooperative, Inc. for a Route Permit for the Clearbrook-Clearbrook West 115 kV Transmission Line and Substation Project in Clearwater County

Commissioner Lange moved to take the following actions:

1) Proposed additional route 3A and 3B for inclusion in the scoping decision for the Environmental Assessment;

2) Reopened the Commission's January 25, 2016 *Order Finding Application Complete and Initiating Alternative Review Process* pursuant to Minn. Stat. § 216B.25 for the purpose of amending Order Point 3, which currently reads:

   Order Point 3. The Commission directs the use of the summary report review process to develop the record for the route permit and requests that the Office of Administrative Hearings prepare a summary report of the comments received regarding the route permit application;

3) Amended Order Point 3 to read as follows:

   The Commission hereby refers the matter to the Office of Administrative Hearings (OAH) for findings and a recommendation, and requests the Administrative Law Judge adapt the existing procedural framework set forth in Minn. R. 7850.3800 to incorporate the following:

   a) Emphasize the statutory time frame for the Commission to make final decisions on applications and to strongly encourage the parties to adhere to a schedule that conforms to the statutory time frame.

   b) Ask the parties, the public, and the Administrative Law Judge to address whether the proposed project and any alternatives meet the selection criteria established in Minn. Stat. § 216E.04, subd. 7, and Minn. R. 7850.4000- .4200. Issues that need <u>not</u> be addressed include the need for the proposed project (no certificate of need is required pursuant to Minn. Stat. §§ 216B.2421, subd. 3 and 216B.243, subd. 2), and the type of environmental review to be conducted for the proposed project (an Environmental Assessment is required pursuant to Minn. Stat. § 216E.04, subd. 5).

c) Prepare a report setting forth findings and recommendations on the merits of the proposed project and alternatives, applying the criteria set forth in statute and rule; and provide comments and recommendations, if any, on the conditions and provisions of the proposed permit.

d) Conduct the proceedings in accordance with Minn. R. 7850.3800, and the following Minnesota Rules as the Administrative Law Judge determines appropriate: Minn. R. 1405.0500, 1405.0600, 1405.0800, 1405.1100, 1405.1900 (to be filed electronically or as required by the ALJ at the prehearing conference), and 1405.2200.

e) Apply the following to the hearing process:

- Intervention as a party is not required. Parties to the proceeding are the Department of Commerce and the Applicant. Other persons may participate as public participants or as otherwise prescribed.
- State agencies shall participate in accordance with Minn. Stat. § 216E.10, subd. 3.
- The sequence of the hearing is left to the discretion of the Administrative Law Judge as provided in Minn. R. 7850.3800, subp. 3.
- The hearing record will be maintained through the Commission's electronic eDockets filing system.

The motion passed 5-0.

ENERGY AGENDA

G-008/GR-15-424
In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota

1. PRIME Project; Plant Retirements; Net Distribution Plant

Commissioner Lipschultz moved that the Commission:

- Approve recovery of CenterPoint's PRIME Project's Test Year expenses totaling $1,442,858.
- Order CenterPoint to calculate its Plant Retirements using the OAG's category-by-category methodology. In addition to removing the appropriate Plant in Service and Accumulated Depreciation amounts, CenterPoint's calculation should also include adjustments to any other applicable ancillary accounts, such as Depreciation Expense, Income Taxes, etc.
- Order CenterPoint to quantify the Plant Retirement impact under the FERC-account method and the category-by-category method in its next rate case.

- Find that CenterPoint's Net Distribution balance and test year rate base should be reduced by $2,268,003, resulting in a test year depreciation expense reduction of $42,493.

The motion passed 5–0.

2. Inflation Factors

Commissioner Tuma moved that the Commission:

- Find that CenterPoint's Payroll Inflation Factor of 5.32% should be used in this proceeding.
- Find that CenterPoint's General Inflation Factor of 3.96% should be used in this proceeding.
- Order CenterPoint to use a PPI average that encompasses a shorter time period when developing its general inflation factor in future rate cases. The PPI index shall reflect a 15-year average.

The motion passed 5–0.

3. Nicollet Mall Headquarters

Commissioner Lange moved that the Commission:

- Find that CenterPoint's purchase of its Nicollet Mall headquarters was prudent.
- Accept the Department's recommended Nicollet Mall cost allocation of 48% Regulated and 52% Non-Regulated and allow CenterPoint to include $12,025,047 in rate base and adopt the Department's amended finding on pages 15 – 19 of its exceptions.
- Order CenterPoint to depreciate Nicollet Mall over 50 years, with a positive 10% salvage value.
- Order CenterPoint to reduce Depreciation Expense by $490,338.
- Approve recovery of all O&M expenses associated with CenterPoint's Nicollet Mall headquarters.
- Approve recovery of CenterPoint's O&M expenses related to the PRIME Project.
- Order CenterPoint to exclude all rate base and O&M costs related to Meet Minnesota lease.
- Order CenterPoint to provide a depreciation analysis of account 390.1 in its next rate case.

The motion passed 5–0.

4. Executive Compensation

Commissioner Tuma moved that the Commission:

- Deny recovery of Mr. Carroll's compensation costs for amounts in excess of his Minnesota jurisdictional share for participation on the independent board of directors.
- Deny recovery of Long-Term Incentive Executive Compensation to Mr. Carroll.

The motion passed 5–0.

5. Cash Working Capital

Commissioner Tuma moved that the Commission approve CenterPoint's Cash Working Capital methodology and order that the Company's final Cash Working Capital reflect decisions made in this rate case.

The motion passed 5–0.

6. Environmental Costs

Commissioner Lange moved that the Commission:

- Approve recovery of CenterPoint's net $2 million environmental costs over the next two years.
- Limit approval to the facts presented in this case. Possible recovery of all future out-of-period environmental costs will require prior deferred accounting approval.
- Include a sunset provision to the recovery as recommended by the Department.
- Order the Company to discuss how it proposes to handle any environmental costs' over-recovery in the initial filing of its next rate case.

Chair Heydinger moved to amend Commissioner Lange's motion to make clear that approval of the environmental cost recovery is limited to the facts in this case.

The motion to amend passed 4–1.

The motion passed 4–1. Commissioner Tuma voted against the motion.

7. Property Taxes

Commissioner Schuerger moved that the Commission:

- Approve recovery of CenterPoint's proposed Property Taxes, excluding the 2% referendum contingency.

- Require that all financial information in CenterPoint's future rate cases (including witnesses' testimony) be presented using the following format: $1,000,000 total Company ($750,000 MN). A similar format will also be acceptable as long as the Minnesota jurisdictional amount is always clear.

The motion passed 5–0.

8. Non-Qualified Pension Expense

Commissioner Tuma moved that the Commission deny recovery of non-qualified pension costs.

The motion passed 5–0.

9. Long-Term Incentive Plan

Commissioner Lipschultz moved that the Commission:

- Adopt a modified ALJ Finding No. 400 to correct the Department witness named from "Susan Campbell" to "Nancy Campbell".
- Deny recovery of CenterPoint Energy's Long-Term Incentive Plan cost and reduce the corresponding test year expenses by a total of $1,444,660, the sum of CPE expenses ($241,945) and the Service Company and Board of Directors expense assigned to CPE ($1,204,715).

The motion passed 5–0.

10. Short-Term Incentive: Refund Mechanism and Annual Reporting

Commissioner Lange moved that the Commission:

- Require CenterPoint Energy to refund to ratepayers all incentive compensation amounts approved by the Commission and included in base rates that are not paid out to employees under the program.
- Require CenterPoint Energy to continue filing an annual report on incentive compensation within 30 days after incentive compensation is normally scheduled for payout. The report should include: (a) a description of the incentive compensation plan; (b) the accounting of amounts of unpaid incentive compensation built into rates to be returned to ratepayers; (c) an evaluation of the incentive compensation plan's success in meeting its stated goals, including the payout ratio; and (d) a proposal for refund, if applicable.
- Require CenterPoint Energy to include in its annual incentive compensation reports identification of each performance indicator and its associated scorecard information, such as the measure, the goal for various attainment levels (threshold, target, maximum), its funding weight and the actual result achieved; and to report the overall plan payout percentage attained relative to the target goal of 100 percent.

The motion passed 5–0.

11. Short-Term Incentive Expense

Commissioner Lange moved that the Commission determine that CenterPoint Energy's test year short-term incentive plan cost recovery be capped at 25 percent of employees' base pay. In future rate cases, if the short term incentive goals do not place greater weight on customer-service components, the Commission may lower the cap or deny recovery of the short-term incentive plan costs.

The motion passed 5–0.

12. Short-Term Incentive: Service Company Short-Term Incentive Expense

Commissioner Lange moved that the Commission:

- Adjust the Service Company's short-term incentive plan test year amount to reflect a 100 percent payout target.
- Determine that the Service Company's short-term incentive plan costs allocated to CPE be capped at 25 percent of employees' base pay.
- Require CenterPoint Energy to include in its annual incentive compensation plan report, a separate reporting of the regulated portion of the Service Company incentive plan amount actually paid as compared to the amount included in base rates; and unless shown that corporate allocations to Minnesota jurisdictional utility operations are the reason for lower payout, require the Company to return to ratepayers the amounts of unpaid Service Company incentive compensation built into rates.

The motion passed 3–2. Chair Heydinger and Commissioner Tuma voted against the motion.

13. Short-Term Incentive: Numeric Discrepancy Resolution, ALJ Report Modification & Future Filing Requirements

Commissioner Lipschultz moved that the Commission:

- Direct CenterPoint Energy to calculate any Commission short-term incentive expense adjustment in favor of its consumers, wherein numeric discrepancies exist.
- Adopt the following modified ALJ Finding 418:

  <u>The Department recommended that the entire Service Company STI amount be denied because CPE did not meet its burden of proof to justify its proposed recovery.</u> ~~Additionally,~~ <u>Alternatively,</u> the Department recommended that if any STI from Service Company is included in corporate allocations, it should similarly be capped at 25 percent. DOC Initial Brief at 40.

- Require CenterPoint Energy to include and identify in the initial filing of future rate cases the incentive plan program documents when recovery of the incentive plan's costs are included in the test year for cost recovery.

The motion passed 5–0.

14. 2013 Rate Case Expenses

Commissioner Tuma moved that the Commission direct CenterPoint Energy to remove all employee expense items related to its 2013 Rate Case Expense to reduce its test year by $11,736 and adopt the following modified ALJ Finding 437:

> 437. CenterPoint has already recovered its 2013 rate case expenses through its 2013 rate case. Therefore, recovery of $11,736 in 2013 rate case expenses in this proceeding is inappropriate.

The motion passed 5–0.

15. AGA Dues

Commissioner Tuma moved that the Commission deny the entire amount of the American Gas Association membership dues included in the test-year costs.

The motion passed 3–2. Chair Heydinger and Commissioner Lange voted against the motion.

16. Charitable Donation

Commissioner Schuerger moved that the Commission approve the cost recovery for donated stock given to United Way based on the original cost of the stock, rather than its appreciated value, and modify ALJ Findings 448 and 449.

The motion was not passed 2 – 3. Chair Heydinger, and Commissioners Tuma and Lipschultz voted against the motion.

Commissioner Lipschultz moved that the Commission deny cost recovery for the donated stock given to United Way.

The motion passed 4–1. Commissioner Schuerger voted against the motion.

17. Calendar-Year Test Years

Chair Heydinger moved that the Commission adopt a modified ALJ Finding 596 to correct the named witness from “Susan Campbell” to “Nancy Campbell”.

The motion passed 5–0.

Commissioner Schuerger moved that the Commission require CenterPoint Energy in future rate case filings to present all testimony and supporting schedules consistently, using the same 12-month time period as CenterPoint’s selected test-year period. CenterPoint Energy shall provide transparent and reconcilable schedules in the event its selected test-year period differs from the financial, operating and budgeting reporting periods used in practice. If the Company fails to comply, the Commission may reject the rate case filing as incomplete. The Company shall also continue to comply with any existing rules regarding the format of information submitted as part of the Company's rate case.

The motion passed 5–0.

Commissioner Tuma moved that the Commission:

- Find that Minn. R. 7829.3200 governs the Commission's variance determinations and adopt ALJ Report Finding 600, modified accordingly.
- Adopt ALJ finding 598 with the following addition: The OAG urged the Commission to use the variance procedures in Minn. R. 7829.3200.

The motion passed 5–0.

18. Interim Rate Design and Billing in Future Rate Cases

Commissioner Tuma moved that the Commission direct CenterPoint Energy in all future rate cases, to change its existing interim rate methodology in order to preserve its existing rate design, by removing cost of gas billings when determining and applying the interim rate increase.

The motion passed 5–0.

19. Capital Structure: Equity

Commissioner Lipschultz moved that the Commission adopt the proposed percent of equity financing of 50.00% as recommended by the OAG.

The motion passed 5–0.

20. Capital Structure: Long- and Short-Term Debt

Commissioner Lipschultz moved that the Commission adopt a capital structure reflecting 41.82% of long-term debt, and a 8.18% of short-term debt. The motion was withdrawn.

Chair Heydinger moved that the Commission adopt a capital structure reflecting 42.3% of long-term debt, and 7.7% of short-term debt.

The motion passed 5–0.

21. Cost of Debt

Commissioner Lange moved that the Commission:

- Adopt CenterPoint's proposed cost of long-term debt of 5.38 percent.
- Adopt the Department proposed cost of short-term debt of 0.65 percent.
- Adopt ALJ finding 133 with the following modifications:

> 133. For the second component of the ~~dividend yield~~ DCF calculation, the Department and the OAG relied upon the expected growth rate in dividends provided by three respected and widely-used investment research services: Zack's Investment Research (Zack's); Value Line; and Thomson First Call Consensus (Thomson). Specifically, ~~it~~ they used the three projected earnings growth rates (lowest, average and highest) provided by Zack's, Value Line, and Thomson.

The motion passed 5–0.

22. Cost of Equity

Commissioner Tuma moved that the Commission determine that the cost of equity should not reflect a flotation cost.

The motion passed 5–0.

Commissioner Lange moved that the Commission adopt the Department's recommended cost of equity without a flotation cost, for a cost of equity of 9.49 percent.

The motion passed 5–0.

Chair Heydinger moved that the Commission direct staff to calculate the proper overall cost of capital, based on the component parts, for inclusion in the order.

The motion passed 5–0.

23. Sales Forecast

Commissioner Lipschultz moved that the Commission:

- Adopt the ALJ's Findings 168–191.
- Adopt the ALJ's findings 604 and adopt findings 605, 606, and 607, as modified to reflect the Department's position in the following manner:

> While the 10-year weather normal is the most appropriate measure in this proceeding, the Commission is not persuaded that the 20-year weather normals should no longer be examined in future rate cases. The Commission reiterates the existing requirement for the Company to provide a comprehensive examination of the predictive power, volatility, and impact on the test year and future revenues of using 10, 15, and 20-year weather data in its sales forecast.

The motion passed 5–0.

24. Class Cost of Service Study

Commissioner Tuma moved that the Commission:

- Adopt ALJ findings 476–489.
- Adopt ALJ findings 524–527.
- Adopt ALJ findings 528–531.
- Adopt ALJ findings 532–538.
- Adopt ALJ findings 539–545.

The motion passed 5–0.

Commissioner Tuma moved that the Commission reject ALJ findings 546 and 547.

The motion passed 5–0.

Chair Heydinger moved that the Commission not adopt ALJ findings 493 and 494; adopt the OAG's proposed findings 493, 494, 494.1, and 494.2; not adopt ALJ finding 498; and supplement ALJ finding 492 with modified language from the OAG's proposed finding 492 as follows:

> 492. The investment in these mains is caused by the requirement to install facilities that connect all customers to the common distribution network and install facilities with sufficient capacity to meet the demands of all customers. <u>Because the distribution system is a jointly-caused cost, the costs cannot be assigned directly to any single class or group of customers. The costs must be assigned using a classification method. A classification method is a system for assigning costs based on economic and engineering theory.</u>

The motion passed 5–0.

Chair Heydinger moved that the Commission not adopt ALJ findings 501 and 502.

The motion passed 5–0.

Chair Heydinger moved that the Commission:

- Adopt ALJ findings 504–510 and not adopt finding 511.
- Adopt the OAG's proposed findings 504–506, with the following modifications to 506:

> 506. The ~~Commission agrees that the~~ AMSM is a reasonable method to calculate the cost of the minimum system in this case.~~ It improves upon the results of the minimum size method, and is more reliable than the zero intercept study conducted by CenterPoint.~~

The motion passed 5–0.

Chair Heydinger moved to adopt ALJ findings 512–515; not adopt finding 516; adopt findings 517–519; adopt the OAG's proposed findings 517.1 and 518.1; and adopt the OAG's proposed finding 519, modified as follows:

> 519. ~~The OAG has persuasively demonstrated that t~~The basic customer method is supported by reasonable economic theory, and has been used by ~~many~~ other regulatory commissions. The Commission determines that it is reasonable to include consideration of the basic customer method when setting rates in this case.

The motion passed 5–0.

Chair Heydinger moved that the Commission:

- Adopt ALJ findings 520 and 523.
- In lieu of ALJ findings 521 and 522, adopt the OAG's proposed findings 521, 522 modified as shown below, and 523 (do not include 523.1). OAG finding 522 is modified as follows:

  > 522. The OAG produced evidence demonstrating that the economic theory behind the peak-and-average method is sound. The OAG also demonstrated that ~~many~~ other regulatory commissions in the country make use of the peak and average method. ~~In addition, the OAG noted that the peak-and-average method is presented in the NARUC Electric Manual.~~

- Find that the OAG also questioned whether the Company's witness had testified consistently in prior rate cases when he represented different interests.

The motion passed 5–0.

Chair Heydinger moved that the Commission adopt the remainder of the ALJ's CCOSS findings to the extent they are consistent with the following findings and discussion:

The Commission finds that the class cost of service studies are a useful guide to revenue apportionment and rate design. While the Company's cost studies are in line with previous cost studies approved by the Commission, the Commission is still in the process of exploring many complex issues in the allocation of costs. The Commission is persuaded, on valid theoretical grounds, that the minimum system studies over-allocate distribution costs to the customer function. Other class of cost of service studies suggest that the over-allocation to the customer component may be significant. The results from the minimum system studies could not be compared with, or validated against, the alternative zero-intercept studies filed by the Company in this case.

As the Commission continues to explore class cost of service issues in the Company's next rate case, the Commission will require the Company to file a minimum system study based on a statistically significant zero-intercept study, in addition to the two-inch pipe study it has traditionally used. The Company shall also file a Basic Customer Approach cost study and a Peak-and-Average cost study. These studies will yield a range of guidance upon which apportionment may be judged.

The Commission will also require CPE to provide a substantive explanation and justification of its classification and allocation methods when it files its CCOSS in its next rate case.

Although the Basic Customer and Peak and Average Methods are not commonly used in Minnesota, of the 43 states that use an embedded cost study, as Minnesota does, 20 states use one of these two methods.

The Commission finds that the class cost of service studies are a useful guide to revenue apportionment and rate design. While the Company's minimum system cost studies are in line with previous cost studies approved by the Commission, the results from the minimum system studies could not be compared with, or validated against, the alternative zero-intercept studies filed by the Company in this case. However, the other class cost of service studies in the record in this case serve to suggest a range of plausible cost allocations to various customer classes.

The OAG showed that there are several methods, including the minimum system, the basic customer, and peak and average methods, for classifying and allocating the distribution system costs.

The results of the CCOSS vary significantly depending on the CCOS model used.

> Out of the total Company deficiency of $54 million, the 2-inch minimum system study sponsored by the Company assigns a revenue deficiency of roughly $61 million to the residential class, whereas the peak and average method estimated by the OAG shows a revenue sufficiency of roughly $2 million attributable to this class.
>
> The other residential class revenue deficiency estimates fall within this range.
>
> The basic customer approach shows a residential class revenue deficiency of roughly $30 million and the Department's adjustments to the Company's minimum system model shows a residential class revenue deficiency of $52 million. The OAG's adjustments to the Company's 2-inch minimum system model show a revenue deficiency attributable to residential class of roughly $46 million.
>
> The Commission finds merit in each allocation theory.
>
> The Commission will consider all the CCOSS models presented in this docket in making a revenue apportionment decision.

The motion passed 5–0.

25. Class Revenue Apportionment

Commissioner Tuma moved that the Commission take the following actions:

- Reject the ALJ's recommendation and adopt the OAG's recommended class revenue apportionment as set forth in Exhibit 406 (Nelson Direct).
- Reject findings 564–567 of the ALJ Report and adopt proposed alternatives from pages 35–36 of the OAG's Exceptions to the ALJ Report.

The motion passed 3–2. Chair Heydinger and Commissioner Lange voted against the motion.

26. Customer Charges

Commissioner Tuma moved that the Commission take the following actions:

- Reject the ALJ's recommendation and maintain the current Residential monthly customer charge.
- Reject the ALJ's recommendations and maintain the status quo for all other classes' customer charges.
- Adopt or reject ALJ findings as necessary to support these determinations.

The motion passed 5–0.

27. New Tariff Proposals; Housekeeping

Commissioner Lange moved that the Commission take following actions:

- Approve CenterPoint's proposed New Market Development Agreement (as amended).
- Approve CenterPoint's proposed Minimum Volume Agreement.
- State that the final order in this docket shall contain summary financial schedules including: a calculation of CenterPoint's authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Direct parties to work with Commission staff to prepare such schedules for inclusion in the Order, should modifications be necessary to reflect the Commission's final decision.
- Require CenterPoint to make the following compliance filings within 30 days of the date of the final order in this docket:
    - Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:
        - Breakdown of Total Operating Revenues by type;
        - Schedules showing all billing determinants for the retail sales (and sale for resale) of natural gas. These schedules shall include but not be limited to:
            - Total revenue by customer class;
            - Total number of customers, the customer charge and total customer charge revenue by customer class; and
            - For each customer class, the total number of commodity and demand related billing units, the per unit of commodity and demand cost of gas, the non-gas margin, and the total commodity and demand related sales revenues.
        - Revised tariff sheets incorporating authorized rate design decisions;
        - Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.
    - A revised base cost of gas, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.
    - A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
    - Direct CenterPoint to file a computation of the CCRC based upon the decisions made herein for inclusion in the final Order. Direct CenterPoint to file a schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.

- If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest to affected customers.

- Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on CenterPoint Energy's proposed customer notice.
- Move that the written order memorializing these decisions may rearrange, reorganize, or renumber the items included as necessary for clarity; standardize or correct abbreviations, phraseology, punctuation, and format; and correct errors as necessary for consistency with the Commission's decision and may amend the ALJ's findings as necessary to be consistent with the Commission's decision.

The motion passed 5–0.

28. ALJ Report

Chair Heydinger moved that the Commission adopt the ALJ's Report and recommendation with modification to one or more of the issues and to the extent the ALJ's Report is consistent with the decisions made by the Commission at this meeting.

The motion passed 5–0.

There being no further business, the meeting was adjourned.

APPROVED BY THE COMMISSION: June 22, 2016

Daniel P. Wolf, Executive Secretary