

## Staff Briefing Papers

Meeting Date December 5, 2019

Agenda Item 7\*\*

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

Docket No. **G-008/MR-19-525**

In the Matter of CenterPoint Energy Resources Corporation's Filing to Establish a New Base Gas Cost Filing (PGA Zero-Out) for Interim Rates in CenterPoint Energy's General Rate Filing, Docket No. G-008/GR-19-524

Issues Should the Commission approve CenterPoint Energy's proposed new base cost of gas?

Staff Jorge Alonso [jorge.alonso@state.mn.us](mailto:jorge.alonso@state.mn.us) 651-201-2258

Ray Hetherington [raymond.hetherington@state.mn.us](mailto:raymond.hetherington@state.mn.us) 651-201-2203

### Relevant Documents

### Date

CenterPoint Energy – Initial Filing	October 28, 2019
Department of Commerce – Comments	November 12, 2019
CenterPoint Energy – Reply Comments	November 19, 2019
Department of Commerce – Response to Reply Comments	November 25, 2019

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email [consumer.puc@state.mn.us](mailto:consumer.puc@state.mn.us) for assistance.

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

## **I. Statement of the Issues**

Should the Commission approve CenterPoint Energy's proposed new base cost of gas?

## **II. Background**

On October 28, 2019, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (CenterPoint, CenterPoint Energy, CPE, or the Company) filed a general rate case under Docket No. G-008/GR-19-524. On the same day, CenterPoint Energy filed a new base cost of gas to coincide with the implementation of interim rates in the general rate case.

On November 12, 2019, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending that the Commission withhold its decision on the Company's base cost of gas filing until CenterPoint Energy provides an updated commodity cost schedule for the test year that includes Ventura Basis price spreads for the entire test year.

On November 19, 2019, CenterPoint Energy filed reply comments complying with the Department's request.

## **III. Relevant Rules**

Minn. Rules Pt. 7829.1300, Miscellaneous Tariff and Price List Filings  
Minn. Rules Pt. 7825.2700, Subp. 2, New Base Gas Cost  
Minn. Rules Pt. 7825.3200 (B), Miscellaneous Rate Changes

## **IV. CenterPoint Energy – Initial Filing**

CenterPoint Energy's filing proposed recovery of test-year demand costs of \$120,142,770 and commodity gas costs of \$400,033,131 which results in total gas costs of \$520,175,901.

## **V. Department of Commerce – Comments**

### **A. Demand Cost of Gas**

The Department reviewed CenterPoint Energy's filing for consistency with the calculations in the rate case and those in the base cost of gas filing and determined that the information is generally consistent between both.

The Department explained that CenterPoint Energy calculated its demand cost of gas based, in most part, on the demand entitlement units and costs that are estimated to be charged in the Company's November 2019 Purchased Gas Adjustment (PGA) filing; however, the demand costs are slightly different between the estimated November 2019 PGA and the rate case and base cost of gas filings. The Department noted that the Company's base cost of gas filing<sup>1</sup> in its

---

<sup>1</sup> Docket G-008/MR-17-591.

previous rate case<sup>2</sup> contained similar discrepancies that were attributed to differences in updated propane costs and capacity release adjustments. The Department requested that the Company explain if the discrepancy in the current proceeding is similar to, or the same as, those identified in the previous proceeding.

Based on a review of the rate case schedules and the demand cost information included in the base cost of gas filing, the Department observed two different demand cost figures. In the rate case, CenterPoint Energy reported demand costs of \$ 120,142,541<sup>3</sup> and, in the base cost of gas filings, it reported test-year demand costs of \$120,142,770.<sup>4</sup> The Department observed a similar instance in the Company's previous three base cost of gas filings; however, the DOC concluded that the minor difference in the instant proceeding is acceptable.

## **B. Commodity Gas Costs**

The Department pointed out that, similar to the methodology used in its previous base cost of gas docket, CenterPoint Energy estimated its commodity costs based on forecasted Henry Hub wellhead prices, basis point differentials for delivery of natural gas to Ventura, and estimates of lost and unaccounted for gas.<sup>5</sup> The Department noted that, in the previous filing, the Company used historical and forecasted Ventura Basis point differentials and included them in their calculation through the end of the test year; however, in the instant proceeding, the Company used only Ventura Basis differentials through October 2019, presumably because those numbers were known. An adjustment to the base cost of gas that reflects the Ventura Basis is necessary as CenterPoint Energy's Minnesota customers pay for gas that is delivered to the Ventura Hub in Northern Iowa, rather than the price that is paid for delivery to the Henry Hub in Louisiana. As such, an adjustment to the Henry Hub price must be made to most accurately reflect the price that is charged to CenterPoint Energy's ratepayers in Minnesota. Although both the Department and the Company were unable to acquire Ventura Basis futures, CPE told the DOC that it was in the process of acquiring forecasted Ventura Basis numbers from an alternative source. The Department requested that, in reply comments, the Company provide an updated commodity cost of gas calculation that includes forecasted Ventura Basis differential adjustments through the end of the test year (December 2020), as well as updating all necessary schedules in the rate case to accurately reflect the base cost of gas.

The Department compared the estimated commodity cost rates delivered to the Henry Hub with current NYMEX market expectations and does not believe the estimates are appropriate. The Department noted that, when final rates are set, these estimates should be compared to actual gas costs and, at that time, the Commission may wish to consider whether any adjustments to gas costs and corresponding effects on other costs in the rate case should be reflected in final rates.

---

<sup>2</sup> Docket G-008/GR-17-285.

<sup>3</sup> Exhibit MAK-D, Schedule 38, Page 6 of 7, Docket G-008/GR-19-524.

<sup>4</sup> Ibid, where \$119,467,000 + \$675,770 = \$120,142,770.

<sup>5</sup> Exhibit MAK-WP, Schedule 38, Workpaper 3, Docket G-008/GR-19-524.

The Department highlighted that, in Attachment 3 of its base cost of gas filing, CenterPoint Energy shows a total commodity cost, based on rounded sales, of \$400,032,000 which differs from the \$400,032,443 commodity figure included in CenterPoint Energy's rate case filing.<sup>6</sup> Since the base cost of gas is a fixed rate in the tariff, based on its analysis, the Department concluded that the calculation resulting in the rounded figure of \$400,032,443 in Attachment 3 of its Petition is the most appropriate for use as the commodity cost of gas figure. Since this commodity cost figure is only shown as a rounded amount, the Department recommended that CenterPoint Energy provide, in Reply Comments, its Attachment 3 without rounding. Furthermore, the unrounded figure should be adjusted to reflect the Ventura Basis adjustment.

### **C. Total Gas Costs**

Although the Department identified a \$4,096 discrepancy from the Company's \$520,175,901 total, the Department noted that the difference does impact the per-dekatherm proposed demand or total cost of gas per dekatherm. The Department pointed out that the commodity gas cost figure is preliminary pending updated Ventura Basis price spreads for the entire test year.

### **D. Department Initial Recommendation**

The Department recommended that the Commission withhold its decision on the base cost of gas filing until updated Ventura Basis price spreads and resulting revised test-year commodity cost schedules are provided.

## **VI. CenterPoint Energy – Reply Comments**

CenterPoint Energy confirmed that some of the small discrepancies identified by the Department are similar to those noted in prior rate cases and should not require changing the rate case estimated cost.

Per the Departments request, CPE was able to obtain Ventura basis data which, as shown in filing's Attachment A, results in an estimated commodity cost of \$3.2161 per dekatherm. Despite the increase from the \$3.0026 in the initial filing, CPE did not propose to increase the base cost of gas. However, in case that the base cost of gas is increased, the Company provided updated workpapers quantifying the change.

Finally, CenterPoint Energy noted that, if an update to the base cost of gas is approved, then several revenue items used in the case would also be impacted by this update. For example, the change would increase the costs of certain items such as bad debt expense and working capital, also increasing the overall revenue requirement. In previous rate cases, the Company has provided updated information related to gas costs during the rate case process and can provide similar updates during this rate case, as well.

---

<sup>6</sup> Exhibit MAK-WP, Schedule 38, Workpaper 1, Docket G-008/GR-19-524.

## VII. Department of Commerce – Response to Reply Comments

The Department reviewed CenterPoint Energy’s reply comments, agreed with the Company that a change in the base cost of gas is unnecessary and recommended that the base cost of gas be approved as filed.

## VIII. Staff Analysis

Staff points out that commodity gas costs, although recovered dollar for dollar, is a component of total revenue and total revenue is either a component or the “driver” for various test year estimates such as bad debt expense, late payment fees and storage costs. For instance, a 10% fluctuation to the proposed \$520,175,901 base cost of gas, would impact bad debt expense<sup>7</sup> by \$270,491.<sup>8</sup>

Due to the commodity gas costs’ impact on various test year estimates, the Commission may want to require CenterPoint Energy to provide updated cost of gas information throughout this proceeding as a check on the reasonableness of the amount forecasted for the test-year. To insure that the record is complete, if the Commission does order these filings, CenterPoint Energy should be instructed to make the filings under both this docket and the general rate case docket.

## IX. Decision Options

### Base Cost of Gas

1. Approve CenterPoint Energy’s Base Cost of Gas as filed. (CPE, DOC)
2. Do not approve CenterPoint Energy’s Base Cost of Gas.

### Updated Commodity Costs

3. Require CenterPoint Energy to provide updated information on the commodity cost of gas during this proceeding and in the general rate case. Direct the Company to work with the Department and Commission Staff to determine the appropriate timing for providing this information and whether this updated information should be applied to CenterPoint Energy’s base cost of gas. The updates shall be filed in both this docket and in the general rate case, in Docket No. G-008/GR-19-524. (Staff)
4. Do not require CenterPoint Energy to provide updated information on the commodity cost of gas.

---

<sup>7</sup> CenterPoint’s proposed bad debt ratio is 0.52%.

<sup>8</sup>  $\$520,175,901 \times 10\% \times 0.52\% = \$270,491$ .