

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
Joseph K. Sullivan	Commissioner
John A. Tuma	Commissioner

In the Matter of a Petition by CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Approval to Change its Level of Demand Units

ISSUE DATE: July 29, 2021

DOCKET NO. G-008/M-20-565

ORDER ACCEPTING DEMAND ENTITLEMENT LEVEL AND DISALLOWING RECOVERY OF CERTAIN COSTS

PROCEDURAL HISTORY

On July 1, 2020, CenterPoint Energy (CenterPoint) filed a petition requesting a change in demand entitlement units and recovery of costs.

On July 31, 2020, CenterPoint filed a supplement to its original request with information on newly acquired entitlements.

On October 30, 2020, CenterPoint filed an updated estimate of annual demand costs.

On January 8, 2021, the Department of Commerce, Division of Energy Resources (the Department) filed comments recommending that the Commission accept the Company's proposed level of demand entitlement and design-day level. The Department also recommended that the Company file additional information on its proposal to recover costs that it agreed to pay to Northern Natural Gas for contribution-in-aid-of construction charges.

On February 16, 2021, the Company filed reply comments in support of its cost recovery proposal.

On March 8, 2021, the Department filed supplemental comments recommending that the Commission disallow recovery of \$2,273,638 in contribution-in-aid-of-construction costs.

On March 12, 2021, the Company filed supplemental reply comments disagreeing with the Department's recommendation.

On June 24, 2021, the matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. Introduction

A natural gas utility buys firm interstate pipeline capacity to supply natural gas to customers based on its “design day,” a 24-hour period of the highest demand that can reasonably be expected based on a long timeframe. The total firm capacity to which a utility is entitled by virtue of its contracts with various suppliers is referred to as its “demand entitlement.”

Under the Commission’s rules, when a utility changes its demand entitlement, it must make a filing explaining the reasons for the change, including any change in its design-day demand.¹ The Commission examines the utility’s design-day analysis, approves or rejects the new level of demand entitlement, and authorizes recovery of reasonable costs caused by the change.

The Department reviewed CenterPoint’s filings, concluded that the Company’s design day and proposed level of demand entitlement were reasonable, and recommended that the Commission accept both. The Department also recommended, however, that the Commission disallow recovery of a portion—\$2,273,638— of the \$49.5 million total capacity expansion-related costs.

II. CenterPoint’s Petition

Due to anticipated growth on its natural gas distribution system, coupled with a need to increase its reserve margin, CenterPoint contracted with Northern Natural Gas, an interstate natural gas pipeline, to add 34,880 dekatherm (Dth) per day of expanded capacity. The contribution-in-aid-of construction (CIAC) costs for the new capacity, which requires new construction, totals \$49.8 million.² The Company proposed to pre-pay the cost and recover the amount from customers over 10 months through the purchased gas adjustment charge on customers’ bills.

The Company also proposed a minor increase in the total level of entitlement for the 2020-2021 heating season, which resulted in a 1,300 Dth/day increase in its demand entitlement level from 1,451,284 Dth/day to 1,452,584 Dth/day. The increase in the design-day estimate from the last heating season resulted in a decrease in the Company’s estimated reserve margin from 1.1% to 0.7%. As part of these entitlement changes, the Company also proposed changes in its propane peaking capacity, stating that available output from its River Plant decreased for the 2020- 2021 heating season due to distribution system replacement work.

¹ Minn. R. 7825.2910, subp. 2

² CIAC costs are those related to a utility’s acquisition or construction of new facilities and include contributions or donations in cash, property, or services from companies, states, municipalities, other governmental agencies, individuals, and others for construction purposes and may or may not be carried as a plant item and earn a rate of return.

CenterPoint’s change in demand entitlement levels is shown in the table below.

Previous Entitlement (Dth)	Proposed Entitlement (Dth)	Entitlement Changes (Dth)	% Change from Previous Year
1,451,284	1,452,584	1,300	0.09%

To develop its design day, the Company used its traditional model, which includes: daily firm usage data from all winter days for the past six heating seasons (November 2014 – March 2020); the monthly count of firm customers; as well as heating degree days (HDDs) and the square of the HDDs as independent variables to account for the non-linear relationships between HDDs and usage. The model estimates the expected use per customer at various levels of HDD. The Company modified the analysis to use the upper bound of the regression output, which resulted in a calculated design day of 1,407,315 Dth/day, which is 8,243 Dth/day greater than the design-day estimate in the Company’s most recent prior demand entitlement filing.

III. Comments of the Department

Based on its analysis of the Company’s design day and proposed level of demand entitlement, the Department stated that the two were reasonable and recommended that the Commission accept both.

The Department also recommended, however, that the Commission deny recovery of associated CIAC costs in the amount of \$2,273,638, stating that the Company’s proposal to use a pre-payment option would cost ratepayers more money, on a net present value (NPV) basis, when compared to the option of financing the CIAC costs and recovering them from ratepayers over 13 or 14 years.

In evaluating the Company’s cost recovery proposal, the Department was particularly doubtful of the Company’s decision to exclude an NPV analysis of the potential costs to ratepayers, a financial tool that is commonly used to provide a more comprehensive analysis of costs over time. This tool, according to the Department, is particularly relevant for evaluating the value of financing the CIAC costs over 13-14 years, rather than recovering the costs over 10 months as the Company proposed.

As part of its calculation of a financing option, the Department factored into its analysis a 10% discount rate, which formed the basis of its analysis.³ According to the Department, a 10% discount rate is within a reasonable range of discount rates of between 6-12% that reflect current market conditions on credit card debt and consumer lending. Under three different scenarios that applied a 10% discount rate, ratepayers benefit the most if the Company finances the CIAC costs, rather than if ratepayers pay over 10 months or if Norther Natural Gas finances the costs. The Department’s analysis shows that of the three scenarios, the Company’s proposal has the highest NPV cost to ratepayers. The Department did not challenge the Company’s request to recover its CIAC cost through the purchased gas adjustment charge.

³ The discount rate is the interest rate used to determine what future cash flows are worth today.

The Department also emphasized the importance of considering the potential near-term bill impact to ratepayers under the Company's proposed scenario—an average monthly bill increase of \$4.00, which the Department maintained is a substantial increase in rates without a sufficiently reciprocal benefit.

For all these reasons, the Department recommended disallowing a portion, \$2,273,638, of CIAC costs.

In response, the Company disputed the need for an NPV analysis and claimed that the Department's use of a 10% discount rate was unreasonable and that a lower discount rate of 7% more accurately reflects an average customer's likely opportunity costs. According to the Company, an NPV analysis with a 7% discount rate demonstrates that the Company's approach to cost recovery is the least-cost option for ratepayers.

IV. Commission Action

The Commission concurs in the Department's analysis of the Company's proposed level of demand entitlement and design-day level. Accordingly, the Commission will accept CenterPoint's proposed level of demand entitlement and the Company's design-day level.

The Commission also concurs with the Department that the Company's proposed recovery of CIAC costs would result in higher costs to ratepayers than the Department's recommended approach, which used an NPV analysis, a commonly used and effective tool for analyzing costs over time. The Department's use of a 10% discount rate reflects current market conditions for borrowers without overcompensating for those conditions and is therefore a reasonable percentage to use in calculating the NPV financing costs of CIAC. Based on the Department's calculations, ratepayers benefit the most when CenterPoint finances the CIAC costs, and the Commission will therefore disallow \$2,273,638 of CIAC costs. The Commission will authorize the Company to recover its remaining CIAC costs through the purchased gas adjustment charge.

The Commission will also require the Company to make future filings of this nature in a manner to ensure that interested parties have sufficient time to review the prudence of the costs prior to implementation of new rates.

ORDER

1. The Commission hereby accepts CenterPoint's proposed level of demand entitlement.
2. The Commission hereby accepts the design-day level proposed by CenterPoint.
3. CenterPoint is authorized to recover the Northern Natural Gas CIAC through the purchased gas adjustment.
4. The Commission disallows recovery of an amount equal to \$2,273,638 of the Northern Natural Gas CIAC.

5. CenterPoint must file requests of this nature so that the Department and other interested parties have sufficient time to allow for the review of the prudence of the costs prior to the implementation of the proposed, new rates.
6. This order shall become effective immediately.

BY ORDER OF THE COMMISSION



Will Seuffert
Executive Secretary



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CERTIFICATE OF SERVICE

I, Chrishna Beard, hereby certify that I have this day, served a true and correct copy of the following document to all persons at the addresses indicated below or on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States mail at St. Paul, Minnesota.

**Minnesota Public Utilities Commission
ORDER ACCEPTING DEMAND ENTITLEMENT LEVEL AND
DISALLOWING RECOVERY OF CERTAIN COSTS**

Docket Number **G-008/M-20-565**

Dated this 29th day of July, 2021

/s/ Chrishna Beard

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