MINNESOTA PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	March 4, 2021	Agenda Item 3**
Company	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy)	
Docket No.	**G-008/GR-17-285** **In the Matter of** the Application by CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota	
Issues	1. Should the Commission accept CenterPoint Energy's revised annual Short-Term Incentive Compensation Plan Report for 2019? 2. Should the Commission require a refund to ratepayers, and, if so, should the Commission require a refund of $52,994 or $147,212, plus interest? 3. Should the Commission allow CenterPoint Energy to combine any incentive compensation refund required with its interim rate refund in docket G-008/GR-19-524?	

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Relevant Documents	**Date**
CenterPoint Energy – Corrected Annual Incentive Compensation Compliance Filing	April 28, 2020
Department of Commerce – Revised Comments	June 8, 2020
CenterPoint Energy – Reply Comments	June 19, 2020
Department of Commerce – Response Comments	August 25, 2020
CenterPoint Energy – Additional Reply Comments	September 8, 2020

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I. Statement of the Issues

Should the Commission accept CenterPoint Energy's revised annual Short-Term Incentive Compensation Plan Report for 2019?

Should the Commission require a refund to ratepayers, and, if so, should the Commission require a refund of $52,994 or $147,212, plus interest?

Should the Commission allow CenterPoint Energy to combine any incentive compensation refund required with its interim rate refund in docket G-008/GR-19-524?

II. Background

On April 15, 2020 (corrected on April 28, 2020), CenterPoint Energy (CenterPoint) filed information on its Incentive Compensation Plan for 2019. The filing was submitted in accordance with the following Minnesota Public Utilities Commission (Commission) Orders:

- *Findings of Fact, Conclusions, and Order*, dated June 3, 2016, in Docket No. G-008/GR-15- 424; and
- *Order Accepting and Adopting Agreement Setting Rates*, dated July 20, 2018 in Docket No. G008/GR-17-285 accepting the *Offer of Settlement* dated March 07, 2018 in Docket No. G008/GR-17-285.

The Minnesota Department of Commerce, Division of Energy Resources (Department) filed a letter on June 5, 2020, and on June 8, 2020, filed a revised letter of comment. The Department recommended "that the Commission accept CenterPoint Energy's annual incentive compensation compliance report for the year 2019 as being compliant with the Commission's Order, only upon CenterPoint Energy's filing of a plan to refund to its customers $147,212, plus interest."

On June 19, 2020, CenterPoint submitted its reply. CenterPoint proposed that the Commission accept CenterPoint's Short Term Incentive Compensation Compliance filing as revised by its filing on April 28, 2020 ("STI Filing"), as compliant with the requirements established in Docket No. G-008/GR-15-424 (the "2015 Rate Case"). In the alternative, if the Commission determines that a refund is due, CenterPoint recommended the Commission order CenterPoint to refund $52,994, as calculated in CenterPoint's reply revised Attachment A, rather than the $147,212 recommended by the Department. Due to the size of the refund, CenterPoint proposes to include the $52,994 as part of any interim rate refund in the current rate case, Docket No. G-008/GR-19-524.

On August 25, 2020, the Department submitted a response to CenterPoint's Reply. The Department continued to recommend that the Commission accept CenterPoint's annual incentive compensation compliance report for the year 2019 as being compliant with the Commission's Order, only upon CenterPoint Energy's filing of a plan to refund to its customers $147,212, plus interest. The Department also stated that it would not object to

CenterPoint "including the $147,212 refund as part of any interim rate refund in the current rate case, Docket No. G-008/GR-19-524."

On September 8, 2020, CenterPoint filed an additional reply. CenterPoint continued to request that the Commission accept CenterPoint's Short Term Incentive (STI) Compensation Compliance filing as revised by its filing on April 28, 2020. In the alternative, if the Commission determines that the separate treatment of corporate allocations and Minnesota operations is warranted, CenterPoint requests that the Commission require a refund of only $52,994.

III. Parties' Comments

A. CenterPoint's Corrected Compliance Filing (April 28, 2020)

The Commission's Findings of Fact, Conclusions, and Order, dated June 3, 2016, in Docket No. G-008/GR-15- 424 (2016 Order) states at ordering paragraph 14:

> CenterPoint Energy shall continue filing an annual report on incentive compensation within 30 days after incentive compensation is normally scheduled for payout. The report must 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;
> d. a proposal for refund, if applicable;
> e. 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%; and
> f. 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.

1. Description of the Incentive Compensation Plan

CenterPoint provided a short description of its Short-Term Incentive (STI) plan and directed the Commission to the direct testimony of Mr. Randolph H. Sutton in this docket, in CenterPoint's last rate case, in Docket No. G-008/GR-17-285 at page 8 and Mr. Sutton's rebuttal testimony at page 2 for a discussion of the STI plan applicable to this Annual Report on the 2019 plan year. To review the discussion regarding compensation and benefits within CenterPoint's pending rate case, Docket No. G-008/GR-19-524, CenterPoint directed parties to see the direct testimony of Ms. Bertha R. Villatoro.

2. Accounting of Amounts of Unpaid Incentive Compensation Built into Rates to Be Returned to Ratepayers

In Section B of CenterPoint's Report, Table 2 on Page 5, CenterPoint provided a comparison of the STI compensation amounts included in base rates and the actual amounts incurred in 2019 and paid out in 2020; separately for both the Minnesota Utility Operations and the Service Company. CenterPoint's Table 2 is copied below.

TABLE 2		Included in Base Rates	2019 Actual Incurred (Paid in 2020)
1	Minnesota Utility Operations	$1,897,774 ($96,047) $1,801,727	$2,092,053
2	Service Company	$1,485,511 ($438,470) $1,047,041	$994,047
3	Total	$2,848,768[4]	$3,086,100

[4] CenterPoint's FN 4: "The Company's test-year projected Minnesota utility STI was $1,897,774, reduced by a $96,047 adjustment recommended by the Department of Commerce. Corporate-allocated STI was $1,485,511, adjusted downward by $438,470. See 2017 Rate Case, Direct Testimony and Attachments of Dale V. Lusti (Minnesota Department of Commerce Department of Energy Resources), January 8, 2018."

According to CenterPoint, "As shown above in Table 2, the total STI paid for 2019 exceeded the amount included in rates; therefore, no refund is required."

3. An Evaluation of the Incentive Compensation Plan's Success in Meeting Its Stated Goals, Including the Payout Ratio

CenterPoint stated:

> The Company believes the STI plan was successful in meeting its stated objectives to provide competitive compensation opportunities, reward employees for contributions to Company success and individual achievement and development, while controlling compensation costs.
>
> The STI plan enabled the Company to attract and retain the skilled employees it needs to deliver high quality services at the lowest possible cost. The 2019 STI goals were exceeded, while rewarding employees for continued customer satisfaction, reducing unnecessary costs, working safely, and efficiently operating and maintaining Company facilities.
>
> The STI plan communicates the targeted performance goals that are most important to driving Company success. By linking a portion of each employee's compensation to the achievement of Company and personal goals, employees have the opportunity to earn greater pay for higher performance. The Company

> believes that its customers and investors benefit from providing incentive compensation opportunities to its employees who can directly impact business operations and service.

4. A Proposal for Refund, If Applicable

According to CenterPoint, since the amount actually paid out for the 2019 STI plan year exceeded the amount included in base rates, no refund is required.

5. 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 a report of the overall plan payout percentage attained relative to the target goal of 100%.

See Table 1 on page 3 of CenterPoint's April 28, 2020 corrected filing for this information.

6. 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.

CenterPoint stated:

> Please see Table 2 above. The total amount of STI paid exceeds the total amount included in base rates; no refund is required on that basis.

In conclusion, CenterPoint requested that the Commission accept its annual report on CenterPoint's Incentive Compensation Plan for the period January 1, 2019 through December 31, 2019.

B. Department Revised Comments (June 8, 2020)

With regard to the plan description, evaluation, and identification of each performance indicator and its associated scorecard information, the Department believes that CenterPoint provided an adequate response to ordering paragraph 14, parts a, c, and e in the corresponding sections A, C and E of the Report.

With regard to ordering paragraph 14, parts b, d, and f, concerning amounts of unpaid incentive compensation built into rates to be returned to ratepayers, the Department "believes that CenterPoint Energy used the wrong comparison to determine that no refund was due for incentive compensation paid during the year 2019."

The Department noted that

the Commission, in its August 13, 2018 Order Requiring Incentive Compensation Refund in Docket Number E,G-002/M-17-429, agreed with the Department that:[1]

> … the proper comparison for calculating whether a refund is due is between the test-year amount used to set base rates and the amount actually paid out that is eligible for recovery from ratepayers—i.e., excluding incentive pay beyond 15% of an individual's base pay."

To ascertain the amount of incentive compensation CenterPoint Energy paid during the year 2019 that was eligible for recovery from ratepayers, the Department used information contained in the Company's Schedules 1 and 2, attached to their Report, to develop the Department's Attachments A, B and C.

1. Minnesota Utility Operations STI:

To determine the amount of Minnesota Utility Operations STI that was paid and eligible for recovery, the Department first calculated in its Attachment B, the Maximum Allowable Incentive for each level of employees by multiplying the total amount of wages for that level by the 15 percent maximum allowable percentage. Next, the Department compared the actual amount of incentive paid for each level with the maximum amount allowable for that level. The Department then determined that the amount eligible for recovery from each level is the lesser of the actual amount paid or the Maximum allowable amount, and is shown in the Department's Attachment B, Column (f). The total amount of Minnesota Utility STI eligible for recovery from ratepayers in 2019 is $1,997,991.

2. Service Company STI:

The Department similarly calculated, in its Attachment C, the amount eligible for recovery for each level of employees in the Service Company allocated to Minnesota utility operations. The Department calculated the amount eligible for recovery from ratepayers as the lesser of the actual amount paid or the Maximum allowable amount (limited to 15 percent of the wages for each level of employees). Based on the Department's calculation, the total amount of Service Company STI eligible for recovery from ratepayers in 2019 is $899,829.

3. Summary Calculation of STI Refund Due

In its Attachment A, the Department first compared the amount of Minnesota Utility Operations STI included in base rates in docket 17-285 of $1,801,727 to the amount of Minnesota Utility Operations STI it calculated in its Attachment B as 2019 actual incurred and eligible for recovery of $1,997,991. The Department's Attachment A shows that, since the amount incurred and eligible for recovery was greater than the amount included in base rates, no refund of Minnesota Utility Operations STI for 2019 is necessary.

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[1] Department FN 4 "Docket No. E,G-002/M-17-429, *Order Requiring Incentive Compensation Refund*, at 3."

Next, the Department's Attachment A shows the amount of Service Company STI included in base rates in docket 17-285 of $1,047,041 is $147,212 greater than the amount of Service Company STI the Department calculated in its Attachment C as 2019 actual incurred and eligible for recovery of $899,829. Thus, the Department calculated that a refund of $147,212 is due to ratepayers for 2019.

The Department believes the Minnesota Utility Operations STI and the Service Company STI calculation are each independent of the other, therefore the Department recommended that the Commission require CenterPoint to refund to customers $147,212 for the year 2019.

In its Attachments D, E and F, the Department performed similar calculations for the 2018 STI paid in 2019. The Department determined that no refund of Minnesota Utility Operations 2018 STI or Service Company 2018 STI was required.

In conclusion, the Department recommended "that the Commission accept CenterPoint Energy's annual incentive compensation compliance report for the year 2019 as being compliant with the Commission's Order, only upon CenterPoint Energy's filing of a plan to refund to its customers $147,212, plus interest."

C. CenterPoint's Reply Letter (June 19, 2020)

According to CenterPoint:

> In general, the Department's analysis fails to correctly apply the 2015 Rate Case Order, which requirements were carried through in the Company's 2017 Rate Case.
>
> The Department's analysis incorrectly disregards the Commission's most recent Order pertaining to the Company's STI filing, which affirms the methodology that has been used by the Company for STI payouts in 2016, 2017 and 2018. The Department also incorrectly claims that a refund is required even though more STI was paid out (adjusted for the 15% cap) based on looking at corporate allocations separately from Minnesota operations STI instead of reviewing the total-The Department also relies on an order specific to Xcel Energy (rather than the Company) to support its position.

CenterPoint argues:

> The Department, without explanation, did not incorporate the "Total Company Results" component, which is applied to reflect CenterPoint's performance on the STI performance metrics. This component can either increase payout above 100% of target or reduce payout to less than 100% of target. The Total Company Results component has been included in the actual payout calculation since 2016.
>
> The exclusion of the Total Company Results component is inconsistent with how information has been provided previously. The Commission specifically approved this methodology when it approved the Company's 2018 STI Compliance Filing in

> its Order issued on September 4, 2019.[2] Inclusion of the Total Company Results component incentivizes employees to work towards achievement of each Company goal, which benefit the rate payers.

Further, CenterPoint argues against the separate treatment of Corporate Allocations and Minnesota Operations STI as follows:

> The Department Letters take the position that a refund is required if the allocated portion of payout for Service Company is below the amount allowed in rates, even if the total payout exceeds that allowed in rates. This is not consistent with the reason the Commission began requiring the reporting of the Service Company portion of STI. The specific reference to Service Company STI was included for the first time in the 2015 Rate Case Order, and was included to ensure that information pertaining to STI included in corporate allocations would be provided in the Company's subsequent STI compliance filings, and that any required refund would include the corporate allocation as well as the Company component.[3]
>
> Comparing the total amount recovered in rates to the total payout, subject to the 15% cap of base pay from the 2017 settlement, allows CenterPoint Energy to make reasonable changes to its business structure between rate cases, favoring efficiency and flexibility over limiting the Company to an established historical structure. An artificial division between STI included in corporate allocations and STI paid to the Company's employees would penalize the Company for that efficiency and would lead to under recovery of authorized expenses.
>
> The Department supports its argument by citing to an order issued to Xcel Energy, not CenterPoint (the "Xcel STI Order").[4] Notably, the Xcel STI Order language highlighted by the Department in its Letters is tied directly to language from Xcel's earlier rate case, which is not relevant to the Company.[5]

CenterPoint "contends that the Commission should accept the Company's Short Term Incentive Compensation Compliance filing as revised by its filing on April 28, 2020 ("STI Filing"), as compliant with the requirements established in Docket No. G-008/GR-15-424 (the "2015 Rate Case")." That is, no refund required. "In the alternative, as discussed below, the Commission should order the Company to issue a smaller refund than that proposed by the Department."

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[2] CenterPoint Reply Comments at FN 5, "It does not appear that the Department responded to, or the Commission acted on, the filings for 2016 or 2017."

[3] Id., at FN 6, "See, Staff Briefing Papers (Vol. II: Financial Issues) (filed April 21, 2016) at 21. "

[4] Id., at FN 7, "Docket No. 17-429, In the Matter of Northern States Power Company's Petition for Approval of Its 2016 Incentive Compensation Plan Report."

[5] Id., at FN 8, "Order Requiring Incentive Compensation Refund, Docket No. E.G.-002/M-17-429 (August 13, 2018) (emphasis in original) quoting Docket No. E-002/GR-92-1185, Order After Reconsideration, at 7 (emphasis added)."

> In the event the Commission determines that a refund is required due to the underpayment of STI specific to corporate allocations instead of looking at the total, the Company contends that the amount of refund due is $52,994, as calculated in the revised Attachment A,[6] rather than the $147,212 referenced in the Department's June 8 Letter. Due to the size of the refund, the Company would propose to include the $52,994 as part of any interim rate refund in the current rate case, Docket No. G-008/GR-19-524.

D. Department Response Comments (August 25, 2020)

Contrary to CenterPoint's statement that "In general, the Department's analysis fails to correctly apply the 2015 Rate Case Order, which requirements were carried through in the 2017 Rate Case[,]" the Department stated its "recommendations directly follow the requirements of the June 3, 2016 Findings of Fact, Conclusions and Order (2015 Rate Case Order), and as modified to reflect the 2017 Rate Case Order."

The Department argued:

> First, as to CenterPoint's argument that no refund is due, the Commission's Order in the 2015 Rate Case stated:
>
> > 10. The Service Company's short-term incentive plan test year amount <u>shall be adjusted to reflect a 100% payout target</u>.
> >
> > …
> > 12. CenterPoint Energy shall 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. <u>The Company's short-term incentive compensation plan refund shall include the amounts of unpaid Service Company incentive compensation built into rates</u> unless it shows that corporate allocations to Minnesota jurisdictional utility operations are the reason for lower payout. (Emphasis added)
>
> CenterPoint made no such showing; as a result, the amounts that were not paid under the Service Company Incentive must be refunded to ratepayers.
>
> Second, regarding the amount of the refund, in its reply letter at page 4, the Company stated "In the event the Commission determines that a refund is required due to the underpayment of STI specific to corporate allocations instead of looking at the total, the Company contends that the amount of the refund due is $52,994, as calculated in the revised Attachment A, rather than the $147,212 referenced in the Department's June 8 Letter."

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[6] CenterPoint Reply Comments FN 9 "Reference updated attached number - $52,994 (1,047,041-994,047 instead of 1,047,041-899,829)"

However, the smaller refund would be inconsistent with decisions already made by the Commission. The Commission's July 20, 2018 Order Accepting and Adopting Settlement Setting Rates in the 2017 rate case (2017 Order) approved the terms of the March 7, 2018 Settlement, which stated the following regarding recovery of short-term incentive:

> In its Application, the Company sought recovery of $3.4 million for short-term incentive ("STI") compensation.
>
> In Direct Testimony, the DOC recommended capping STI compensation at 15 percent of base salary.
>
> **For purposes of this Settlement, the Parties agree** that STI will be capped at 15 percent of base salary as recommended by the DOC.[7] (Emphasis added)

The term "15 percent of base salary as recommended by the DOC" means that the comparison amount of short-term incentives for the Service Company is also 15 percent of base salary.[8] This fact is evidenced by the reference in the approved Settlement at page 9 to pages 18 and 27 of my Surrebuttal Testimony in the 2017 rate case, …

Moreover, this language fits the Commission's 2015 Rate Case Order, where at page 23 the Commission described the role of the cap as follows:

> Short-term incentive compensation costs should continue to be recovered from ratepayers subject to a cap of 25% of base pay. That cap continues to strike the right balance between the interests of ratepayers and shareholders and between the goals of rewarding solid day-to-day financial management and protecting the long-term thinking vital to good utility management.
>
> The cap responds appropriately to the design of the short-term program. While the program does tie employee compensation in part to performance goals that directly serve ratepayers—safety and operational efficiency—it also ties compensation substantially

[7] Department Response Comments p. 3, FN 2 "March 7, 2018 Settlement Agreement *In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for the Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, Docket No. G008/GR-17-285, at 7."

[8] Department Response Comments p. 3, FN 3 "In other words, this approach is the same as the method that the Commission approved for Xcel Electric, specifically, 'the proper comparison for calculating whether a refund is due is between the test-year amount used to set base rates and the amount actually paid out that is eligible for recovery from ratepayers—i.e., excluding incentive pay beyond 15% of an individual's base pay.'"

> to Company financial performance. Accordingly, the Commission agrees with the ALJ that the 25% cap is appropriate and should remain in place.[9]
>
> Finally, the 15 percent cap is evidenced by the Commission's September 4, 2019 Order in this docket.

According to the Department, "the amount eligible for recovery from ratepayers is the smaller of the following two calculations: (1) the Commission approved 15 percent of base salary, and (2) the amount of STI that was paid; for each level of STI Award Percentage, adjusted to reflect the 100 percent target. The refund ensures that ratepayers do not pay for STI above that amount if that incentive is not paid." The Department stated:

> Allowing the utility to recover from ratepayers more than 15% of an employee's base pay would thwart this goal by giving more weight to aspects of utility management that benefit shareholders at ratepayers' expense.
>
> The difference between the Department's recommended $147,212 refund and the Company's alternative recommendation of a $52,994 refund is $94,218. The Department's Attachment A to this Letter compares the Department's calculation of the Service Company incentive eligible for recovery and the Company's calculation of the Service Company incentive eligible for recovery, for each of the Service Company employee STI Award Percentage Levels. The Department's Attachment A demonstrates that the Company wants ratepayers to pay incentive compensation to certain employees at a 120 percent rate of the 100 percent target, in violation of the Commission's 15 percent cap of each employee's base compensation, both of which exceed the amounts the Commission allowed in the 2015 Rate Case Order and as reflected in the Commission-approved settlement in the 2017 Rate Case.

E. CenterPoint Additional Reply (September 8, 2020)

CenterPoint (the "Company") stated the following in its reply:

> The Company has concerns with the Department's recommendation to require a refund in this case. The Company made its filing in compliance with the methodology set forth in the Company's response to Department Information Request No. 1104 (the "1104 Response"). This methodology was approved by the Department and by the Commission in its September 8, 2018 Order in this docket. In fact, the Commission's Order attached a copy of the 1104 Response, making it clear that this was the approved methodology1. There is no question that the

[9] Department Response Comments p. 4, FN 4 "As discussed on page 4 of my Surrebuttal Testimony, which is also referenced in the Settlement, the cap was reduced from 25 percent to 15 percent because "CenterPoint did not address the Commission's statement on page 23 of the Commission's Findings that 'Continued under-emphasis of ratepayer-oriented goals in the Company's short-term incentive program is cause for concern.'""

> Company's calculation in the 1104 Response included the "Total Company Results" factor, because both attachments to the 1104 Response state that the capped amount is based on "STI at 131% achieved."
>
> As noted previously, the Department's recommendation in this docket marks a change of course with respect to its interpretation of the Commission's compliance filing and refund requirement, even though the language set forth in the 2015 Rate Case Order in Docket No. G008/GR-15-424 did not change between the 2018 and 2019 filings.
>
> Accordingly, the Commission could agree with the Department that a different methodology should be used than that employed by the Company in prior filings. Or the Commission could allow the Company to continue to apply the "Total Results Factor" as it has in the past and require only the smaller $52,994 refund amount, or no refund as described in the Company's compliance filing.
>
> In any case, the Company appreciates the Department's thoughtful and thorough review of the compliance filing in this matter, as well as the Commission's clarification of this important issue.

IV. Staff Analysis

The Commission needs to determine if a refund is due, and if so, in what amount.

The disagreement over the refund revolves around two calculation issues.

A. Total Company Results

First, the Department believes the proper comparison for calculating whether a refund is due is between the test-year amount used to set base rates and the amount actually paid out that is eligible for recovery from ratepayers – i.e., excluding STI compensation beyond 15% of each level of employees' base pay. The Department calculated the 2019 STI comparison amounts to be: Minnesota Utility Operations $1,997,991, and Service Company Corporate Allocations $899,829.

CenterPoint calculates the amount eligible for recovery from ratepayers by first limiting each level of employees STI to 15% then multiplying that amount by the total company results factor, which for 2019 was 120%. CenterPoint calculated the 2019 STI comparison amounts to be: Minnesota Utility Operations $2,092,053, and Service Company Corporate Allocations $994,047.

B. Total Comparison versus Separate Minnesota Utility Operations and Service Company Comparisons

Second, the Department believes it is appropriate to separately compare whether a refund is due from the Minnesota Utility Operations and whether a refund is due for the Service Company allocations. Thus, the Department compared its calculation of the 2019 Minnesota

Utility Operations STI paid and eligible for recovery of $1,997,991 to the approved test-year amount of Minnesota Utility Operations STI of $1,801,727. The Department determined that since the 2019 amount eligible for recovery and paid out was higher than the base rate amount, no refund of STI is necessary. Then the Department compared its calculation of the 2019 Service Company STI paid and eligible for recovery of $899,829 to the approved test-year amount of Service Company STI of $1,047,041. The Department determined that since the 2019 amount eligible for recovery and paid out was lower than the base rate amount, a refund of Service Company STI of $147,212 should be required ($1,047,041 - $899,829 = $147,212).

CenterPoint compared the sum of its calculated 2019 Minnesota Utility Operations STI eligible for recovery of $2,092,053 plus its calculated 2019 Service Company STI eligible for recovery of $994,047, for a total of $3,086,100, to the total Minnesota Utility Operations and Service Company STI approved in base rates of $2,848,768 (that is $1,801,727 plus $1,047,041). CenterPoint contends that since the total STI amount eligible for recovery of $3,086,100 is greater than the total included in base rates of $2,848,768, no refund should be required.

In the alternative, in the event the Commission determines that a refund is required due to the underpayment of STI specific to the Service Company allocations instead of looking at the total, CenterPoint contends that the amount of the refund due is $52,994. This number is derived by subtracting CenterPoint's calculated 2019 Service Company STI eligible for recovery of $994,047 from the $1,047,041 Service Company STI included in base rates.

C. Summary

If the Commission determines that the total STI amount eligible for recovery should be compared to the total STI included in base rates rather than looking at the Minnesota Utility Operations and the Service Company allocations separately, than no refund would be due under either the Department's or CenterPoint's calculations. However, as noted above, the Commission's Findings of Fact, Conclusions, and Order, dated June 3, 2016, in Docket No. G-008/GR-15- 424 (2016 Order) states at ordering paragraph 14 (f) that the report must include "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."

If the Commission determines that the Minnesota Utility Operations and the Service Company allocations need to be considered separately, then it should also determine whether the current year's STI eligible for recovery must be strictly limited to no more than 15% of each level of employees base pay as recommended and calculated by the Department, or whether the total company results factor may be applied, increasing the amount eligible for recovery in some instances above the 15% of base pay as contended by CenterPoint.

Staff agrees with CenterPoint that CenterPoint's response to Department Information Request No. 1104 (included with the Commission's September 4, 2019 Order in this docket as Attachment A to the Department's Comments on CenterPoint's 2018 Incentive Plan) included the Total Company Results factor (which was 131% for 2018) in the calculation. However, that was not immediately clear to staff since the header said "Capped at 15%" and the column I indicated it was D*H where D was eligible earnings and H was the percentage earned capped at

15%. However, when staff tried to reproduce Column I, staff realized that column I was not D*H, but rather D*H*131%. Thus, each line was not capped at 15% of base pay.

V. Decision Options

1. Accept CenterPoint Energy's annual report on its Incentive Compensation Plan for the period January 1, 2019, through December 1, 2019, as compliant with the requirements established in Docket No. G-008/GR-15-424 (do not require a refund). [CenterPoint]

2. Determine that the Minnesota Utility Operations STI and the Service Company STI calculation are each independent of the other, and

    a. Require CenterPoint to refund to its customers $147,212, plus interest. [Department] OR

    b. Require CenterPoint to refund to its customers $52,994, plus interest. [CenterPoint alternative. Staff note- CenterPoint did not mention adding interest]

3. Allow CenterPoint to include the refund plus interest as part of any interim rate refund in the current rate case, Docket No. G-008/GR-19-524. [If alternative 2.a. or 2.b is adopted.] [CenterPoint, Department does not object.]