

November 12, 2019

Daniel P. Wolf
Executive Director
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G008/MR-19-525

Dear Mr. Wolf:

Attached are the *Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

A New Base Cost of Gas Filing (PGA Zero-Out) in CenterPoint Energy Minnesota Gas' General Rate Filing.

The *Petition* was filed on October 28, 2019 by:

Marie M. Doyle
Rates Analyst
CenterPoint Energy
505 Nicollet Mall
Minneapolis, Minnesota 55402

Based on its review of CenterPoint Energy Minnesota Gas' (CenterPoint's) *Petition*, the Department recommends that the Minnesota Public Utilities Commission (Commission) withhold a decision on CenterPoint's base cost of gas filing until CenterPoint provides additional information as detailed in the attached *Comments*.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ DANIEL BECKETT
Rates Analyst
651-539-1874

DB/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G008/MR-19-525

I. SUMMARY OF CENTERPOINT ENERGY'S PROPOSAL

CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (CenterPoint or the Company), requests that the Minnesota Public Utilities Commission (Commission) approve a new base cost of gas to coincide with the proposed January 1, 2020 implementation of interim rates requested in its general rate case Docket No. G008/GR-19-524. The Minnesota Department of Commerce, Division of Energy Resources' (Department) analysis of CenterPoint's *Petition* is presented below.

II. THE DEPARTMENT'S ANALYSIS

Minnesota Rules part 7825.2700, subpart 2, requires a utility to petition for a new base cost of gas, submitted as a miscellaneous rate change, to coincide with the implementation of interim rates during a general rate proceeding. This Rule requires that "The base cost of gas must separately state the commodity base cost and the demand base cost components for each class." Through review of CenterPoint's *Petition*, the Department concludes that the Company has complied with these requirements through Attachment 5 in the *Petition*. The Department discusses CenterPoint's demand and commodity costs separately below.

A. DEMAND GAS COSTS

The Department reviewed CenterPoint's filing for consistency with the calculations in the rate case and those in the base cost of gas filing. The Department's analysis indicates that the information is generally consistent between the rate case and base cost of gas filings. CenterPoint 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. These estimated demand costs are representative of the entitlement levels and costs proposed by the Company in Docket No. G008/M-19-278 (2019-2020 Demand Entitlement Filing). However, the demand costs are slightly different between the estimated November 2019 PGA and the rate case and base cost of gas filings. In the Company's previous general rate case and accompanying base cost of gas filing (Docket Nos. G008/GR-17-285 and G008/MR-17-591), a similar discrepancy was identified as being due to differences in up-to-date propane costs and capacity release adjustments and where the two are captured – either in the rate case or the monthly PGA filings. The Department requests that the Company please explain if the discrepancy in the current proceeding is similar to, or the same as, that which was identified in the Company's last base cost of gas and rate case filings.

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 and base cost of gas filings, CenterPoint reported test-year demand costs of \$120,142,541¹ and \$120,142,770, respectively.² The Department observed a similar discrepancy in the Company's 2013 and subsequent base cost of gas filings (Docket Nos. G008/MR-13-674, G008/MR-15-728, and G008/MR-17-591). In the 2013 base cost of gas proceeding, CenterPoint explained in its September 2, 2013 reply comments that the small difference was due to the difference in expected incurred demand costs and the amount of demand costs expected to be recovered during the test year. The Commission concluded that the difference in demand costs incurred versus recovered in both cases was acceptable. The Department concludes that the very minor difference in reported demand costs in the instant proceeding is also acceptable.

B. COMMODITY GAS COSTS

CenterPoint 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.³ The Company's price forecasts were based on estimated New York Mercantile Exchange (NYMEX) Henry Hub gas prices over the period June 2019 to December 2020 as provided by CenterPoint's Gas Supply Group. This is the same method the Company used in its prior rate case and associated base cost of gas filing (Docket Nos. G008/GR-17-285 and G008/MR-17-591). However, the Department notes that in the previous filings, the Company used historical and *forecasted* Ventura Basis point differentials and included them in their calculation through the end of the test year; in the instant proceeding, the Company used only Ventura Basis differentials through October 2019, presumably as those numbers were known. An adjustment to the base cost of gas that reflects the Ventura Basis is necessary as CenterPoint'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's ratepayers in Minnesota.

The Department attempted to independently acquire Ventura Basis futures but was unable to do so. In informal discussion with the Company, CPE indicated that they too were unable to gather Ventura Basis futures at the time of preparing the *Petition*. Further, the Company stated that it is in the process of acquiring forecasted Ventura Basis numbers from an alternative source. The Department requests that the Company provide an updated commodity cost of gas calculation in Reply Comments 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.

¹ See Docket No. G008/GR-19-524: Ex. ____ (MAK-D), Schedule 38, Page 6 of 7 and Attachment 2 in the *Petition*.

² *Ibid*, where $(\$119,467,000 + \$675,770 = \$120,142,770)$.

³ See Docket No. G008/GR-19-524: Ex. ____ (MAK-WP), Schedule 38, Workpaper 3.

The Department compared the estimated commodity cost rates delivered to the Henry Hub with current NYMEX market expectations and, at this time, the rate estimates do not appear to be inappropriate. However, the Department notes that these estimates should be compared to actual gas costs when final rates are set, when 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.

After estimating commodity costs for its customers as reflected in Henry Hub prices, and accounting for lost gas, CenterPoint's total commodity cost recovery amount was calculated by multiplying the rounded test-year sales estimates it proposed in its rate case filing (133,229 thousand Mcf) by the commodity cost rates presented in Attachment 3 of its base cost of gas filing. The total commodity costs CenterPoint includes in its rate case filing are identified in Attachment 3 of its base cost of gas filing as \$400,032,000. This figure differs from the \$400,032,443 commodity figure included in CenterPoint's rate case filing.⁴ The Department notes that the test-year sales and commodity costs presented in the Company's *Petition*, Attachment 3, are rounded appropriately; however, they do not match the figures presented in the rate case filing.

The Department also notes an inconsistency in the Company's rate case schedules. Specifically, the total commodity figure of \$400,032,443⁵ is calculated using the summation of monthly total commodity cost figures (monthly cost figures are calculated using estimated monthly gas costs), while the rounded commodity figure of \$400,032,000 is calculated using the test-year average commodity cost figure of \$3.0026 multiplied by rounded test-year sales of 133,229,000.⁶ Since the base cost of gas is a fixed rate in the tariff, the Department concludes that the rounded figure of \$400,032,000 in Attachment 3 of its *Petition* is the most appropriate commodity cost of gas figure. Additionally, this figure effectively represents the expected test-year gas recovery, which would align with the discussion of demand costs in Section A above. Since this commodity cost figure is only shown as a rounded amount, the Department recommends that CenterPoint provide, in *Reply Comments*, Attachment 3 without rounding. Further, this figure should be adjusted to reflect the Ventura Basis adjustment, as previously mentioned.

C. TOTAL GAS COSTS

When the test-year demand (\$120,142,770)⁷ and commodity (\$400,033,131) gas cost figures in this filing are added together, it equals total gas costs of approximately \$520,175,901. As previously noted, the Department observed a demand cost figure of \$120,138,674,⁸ which differs from the \$120,142,770 provided in Attachment 2 to the *Petition* by approximately \$4,096. The Department notes that this discrepancy does not change the Company's proposed demand or total cost of gas per dekatherm. The Department also notes that the commodity gas cost figure is preliminary pending CenterPoint

⁴ See Docket No. G008/GR-19-524: Ex. ____ (MAK-WP), Schedule 38, Workpaper 1.

⁵ *Ibid.*

⁶ The unrounded commodity figure using total test-year sales and commodity cost is \$400,033,131.

⁷ See Attachment 2 in the *Petition*, where $(\$119,467,000 + \$675,770 = \$120,142,770)$.

⁸ See Docket No. G008/GR-19-524: Ex. ____ (MAK-WP), Schedule 35, Workpaper 3, Page 9 of 9, Line 9.

providing an updated commodity cost schedule for the test year that includes Ventura Basis price spreads for the entire test year.

III. THE DEPARTMENT'S RECOMMENDATIONS

Based on its review of the Company's *Petition*, the Department recommends that the Commission withhold its decision on the Company's base cost of gas filing until CenterPoint provides an updated commodity cost schedule for the test year that includes Ventura Basis price spreads for the entire test year.⁹

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⁹ The Department notes that, once *actual* Ventura Basis price spreads are known, they will be incorporated into the cost of gas before final rates are set after the test year.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. G008/MR-19-525

Dated this **12th** day of **November 2019**

/s/Sharon Ferguson

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