



July 10, 2014

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**VIA E-FILING AND U.S. MAIL**

Dr. Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 East Seventh Place, Suite 350  
St. Paul, MN 55101

RE: In the Matter of an Application by CenterPoint Energy Resources Corp. d/b/a  
CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in  
Minnesota  
MPUC Docket No. G-008/GR-13-316

Dear Dr. Haar:

Enclosed please find the Reply to Corrected Request for Reconsideration and Clarification for CenterPoint Energy Minnesota Gas. This document has been filed with the e-Docket system and served on the attached service list. Also enclosed is our Affidavit of Service.

Very truly yours,

WINTHROP & WEINSTINE, P.A.

/s/ Eric F. Swanson

Eric F. Swanson

Enclosures

Cc: Service List

9273055v1



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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION  
121 Seventh Place East, Suite 350  
St. Paul, Minnesota 55101-2147

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

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

MPUC Docket No. G-008/GR-13-316

**REPLY TO CORRECTED REQUEST  
FOR RECONSIDERATION  
AND CLARIFICATION**

CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (“CenterPoint Energy” or “Company”) files this Reply to the Corrected Petition For Reconsideration and Clarification (“Corrected Petition”) of the Minnesota Department of Commerce (“Department”), filed on July 1, 2014 in the above-captioned matter.<sup>1</sup> The Department asks the Commission to re-open its June 9, 2014 Findings of Fact, Conclusions and Order (“Order”) and reconsider a single sub-issue thoroughly debated and specifically addressed by the Minnesota Public Utilities Commission (“Commission”) – the issue of the appropriate discount rate to use in calculating the Company’s test-year pension expense.<sup>2</sup> The Department also requests clarification regarding the customer charges approved by the Commission for Small Volume Dual Fuel (“SVDF”) A and SVDF B Transportation customers.

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<sup>1</sup> The Department filed its Corrected Petition one day following the statutory deadline for the filing of a Petition for Reconsideration. *See* Minn. Stat. § 216B.27, subd. 1. However, the Department timely filed a Petition the day preceding the Corrected Petition. The Corrected Petition: (1) deletes one clarification request already fully addressed in the Commission’s Order in this matter and (2) deletes numerous references to Minnesota Energy Resources Corporation (“MERC”) and instead correctly refers to CenterPoint Energy. Given the lack of substantive changes in the Department’s Corrected Petition, the Company does not object to the filing of the Corrected Petition.

<sup>2</sup> Like the Department, the Company disagreed with the Commission’s decision regarding test-year pension expense. Indeed, the Company disagreed with other aspects of the Commission’s Order as well. However, neither the Company nor any other party requested reconsideration on any issue or sub-issue in this case.

As discussed below, the Department fails to provide any reason for the Commission to reconsider its decision regarding the discount rate and the arguments it offers in support of its Corrected Petition are incomplete and misstate the Commission's Order. Therefore, the Company urges the Commission to deny the Department's request for reconsideration. Regarding the request for clarification, CenterPoint Energy concurs with the Department's understanding of the appropriate customer charges for SVDF A and SVDF B Transportation customers and has no objection to the Commission so clarifying its Order if the Commission deems clarification necessary.

**I. THE COMMISSION SHOULD DENY THE DEPARTMENT'S REQUEST TO RECONSIDER THE APPROPRIATE DISCOUNT RATE TO USE FOR CALCULATING QUALIFYING PENSION EXPENSE.**

The Corrected Petition restates the Department's pre-filed testimony and briefs regarding the appropriate discount rate to use when calculating test-year qualifying pension expense in arguing that the Commission-determined discount rate is "too low." Perhaps not surprisingly, the Corrected Petition completely ignores the substantial evidence provided by the Company on this issue and supporting a *lower* discount rate than that ultimately found reasonable by the Commission given the facts of this rate case. Moreover, the Corrected Petition ignores the Commission's analysis of the record developed in this case, as expressed in the Order.

As the Company explained in the record, CenterPoint Energy recognizes that ratemaking requires the Commission to determine reasonable assumptions for pension expenses and that ratemaking and approved accounting standards assumptions and methods could diverge. However, the record also demonstrated that ratemaking and accounting standards treatment cannot so diverge without serious ramifications. As Company witness Mr. Sanger – the lone actuarial expert to testify in this proceeding – stated:

Using assumptions and methods that are different from U.S. GAAP, as well as inconsistent with minimum funding requirements under ERISA, will cause an

incongruity between ratemaking and GAAP expense. The Company's expense and contribution requirements will not change. However, the rates will no longer cover those expense and contribution requirements.<sup>3</sup>

Moreover, using different methods and assumptions for ratemaking, if carried over to the Company's financial books, would place the Company in violation of federal law. Mr. Sanger explained this quite succinctly:

Q. What discount rate does federal law require for minimum annual cash funding requirements?

A. ERISA, as amended by the Pension Protection Act of 2006 ("PPA"), generally requires pension obligations to be discounted using high-quality corporate bond yields.<sup>4</sup>

Mr. Sanger also explained that "the most important actuarial objective after the promulgation of ASC 715 and the PPA is the security of pension benefits already earned by plan participants."<sup>5</sup> In order to assure that security, the record reflected that the current best practice is to set the discount rate for pension expense on the basis of:

a single weighted-average discount rate of a hypothetical bond portfolio whose cash flows match the projected benefit payments of the Plan. The yields for the hypothetical portfolio are based on the Aon Hewitt AA Above Median Yield Curve. The yield curve itself is developed based on bond data and pricing information provided by Barclay's Capital, a major global financial services provider and bond expert. A yield curve consists of a data set of yields for bonds of differing maturities as of the measurement date. Generally, the market will provide higher yields for bonds with longer-term maturities, although this may not always be the case at all data points. Therefore, a plan with more benefits payable in the distant future would be expected to have a higher discount rate than a plan with more benefits payable in the near future.<sup>6</sup>

The discount rate recommended by the Company complied with this practice and thus matched the projected benefit payments of the Company's qualified pension plan – benefits no party questioned in this proceeding. Therefore, Mr. Sanger concluded that "the assumptions and

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<sup>3</sup> Ex. 53, p. 4 (Sanger Rebuttal) (emphasis added).

<sup>4</sup> *Id.*, p. 5 (emphasis added).

<sup>5</sup> *Id.*, p. 6.

<sup>6</sup> *Id.*, p. 11 (emphasis added).

methods used by the Company are individually reasonable and are compliant with GAAP, ASC 715, and federal law.”<sup>7</sup>

In contrast to the analytical approach taken by the Company, the Department’s Corrected Petition once again argues to simply set the discount rate equal to the expected long-term growth rate, at least when the actuarially determined discount rate is lower than the expected return.<sup>8</sup> As the Department’s Corrected Petition and its prior testimony and briefs make clear, the Department may recommend approval of an ASC 715 compliant discount rate if that rate was higher than the expected long-term growth rate, since such a result would lower the “ratemaking” pension expense – a position devoid of factual or analytical underpinning.

The Department also again claims that use of a discount rate lower than the Department’s recommendation would result in “overstated pension expense” being charged to ratepayers.<sup>9</sup> This statement finds no record support whatsoever. In fact, as discussed above, it was the *Company’s* discount rate that was calculated taking into consideration the need to “match the projected benefit payments of the Plan.” Of course, the Department did nothing to calculate a discount rate to match the Plan. Rather, it simply used the long-term growth rate to determine its recommended discount rate.

Additionally, there is zero objective evidence in this record demonstrating that pension expense calculated in the manner recommended by the Company would charge more than needed to meet future pension obligations. Indeed, the record demonstrates that, by using the Department’s recommended higher discount rate, “rates will no longer cover those expense and contribution requirements.”<sup>10</sup>

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<sup>7</sup> *Id.*, p. 7.

<sup>8</sup> Corrected Petition, p. 4, citing Ex. 526, p. 16 (Johnson Surrebuttal).

<sup>9</sup> Corrected Petition, p. 5.

<sup>10</sup> Ex. 53, p. 5 (Sanger Rebuttal).



Moreover, the Department's continued argument regarding an alleged "overstatement" of pension expense ignores the in-depth consideration of the record shown by the Commission on this issue, both in its deliberations and in its Order. In fact, the Commission's Order makes clear that the Commission thoroughly reviewed the record of this case and agreed that in this case the *Company's* evidence provided the best basis for establishing an appropriate rate. Despite that finding, however, the Commission determined that it would intentionally err on the side of ratepayers, by adopting a higher rate than that recommended by the Company. Instead of using the Company's rate, the Commission adopted the five-year average discount rate, to "buffer" ratepayers from the effect of recent low discount rates. While the Company disagrees with the Commission's determination to set such an artificially high rate, the Company did not seek reconsideration, given the Commission's thorough and clear analysis. As the Commission stated:

The calculation of pension expenses requires actuarial assumptions appropriate to the factual circumstances in each case. The factual record that resulted in the discount rate determination in the Xcel rate case does not pertain to the pension expense calculation here.

The Commission agrees with the Department that neither the accounting standard nor the federal pension funding laws govern pension expense calculations for ratemaking purposes. When the facts and circumstances of a case support adopting a discount rate that differs from the discount rate dictated by accounting standards applied for other purposes, it is appropriate to adopt a rate that differs.

But even accepting the Department's argument that the Company's rate calculation is artificially low, the Company's evidence provides the best basis for establishing an appropriate rate. The Commission will therefore establish a discount rate with a basis in the record evidence. In this case, the Commission concludes that the Department's calculated historical five-year (2009 – 2013) average discount rate of 5.35% is appropriate.

The appropriate discount rate continuously varies, but changes are only reflected in utility rates periodically—when a rate case is decided. The Company's proposed discount rate is markedly lower than average. For rate setting purposes, in this case, it is appropriate to use a historical average to buffer the effect the recently-below-average discount rate would have on the overall test-year pension expense. Under these conditions, a discount rate based on the five-year average is

more reasonable than a discount rate determined at a single point in time, the timing governed by Company's choice to initiate a rate case.<sup>11</sup>

The Company also notes that in multiple places in its Corrected Petition, the Department argues that the five-year average rate is flawed because "each of the five discount rates making up the average was calculated based on inappropriate assumptions for ratemaking purposes." Of course, in the language quoted above, the Commission appropriately rejected that claim and found that on the basis of this record the Company's evidence provided the proper basis for determining an appropriate rate. The Department provides no new argument that merits reconsideration.

Finally, the Corrected Petition contains the curious request that the Commission "remain open in current and future rate cases based on records developed in those proceedings for further evaluation of the appropriate methodology for calculating the test year discount rate assumption that best ensures just and reasonable rates."<sup>12</sup> Of course, the Commission can *only* base its findings in each rate case on the record developed in that case. It *cannot* ignore the record developed in a case and instead simply adopt a finding from a different rate case. Therefore, no Commission action is required on this request and the Commission should deny the Department's request for reconsideration in its entirety.

## **II. RESPONSE TO REQUEST FOR CLARIFICATION**

The Corrected Petition also seeks clarification regarding the Commission-approved customer charges for SVDF A and SVDF B Transportation customers, as follows:

The Department also requests clarification that the Commission intended the Small Volume Dual Fuel (SVDF) A – Transportation and SVDF B – Transportation customer charges each to be reduced by \$10, to \$150 and \$180, respectively, consistent with the \$10 reduction to the SVDF A – Sales and SVDF B – Sales customer charges ordered by the Commission. This \$10 reduction to the SVDF – Transportation customer charges by \$10 (sic) maintains the \$100

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<sup>11</sup> Order, p. 12 (emphasis added).

<sup>12</sup> Corrected Petition, p. 6.

difference in customer charges between sales and transportation customers as recommended by CPE (Burl Drews Rebuttal, p. 12).

The Company interprets the Commission Order to have approved these reduced \$150 and \$180 customer charges for the SVDF A and SVDF B Transportation customers. If the Commission believes clarification of this point is necessary, the Company has no objection.

### **CONCLUSION**

CenterPoint Energy respectfully requests that the Commission deny the Department's request for reconsideration of a single sub-issue decided by the Commission in this proceeding. The Commission Order demonstrates the thorough consideration given this issue by the Commission and, while the Company may not fully agree with that decision either, the Department offers no reason to reverse it. Therefore, the Commission's determination of the appropriate discount rate to use in calculating qualified pension expenses in this proceeding should stand.

If the Commission believes clarification of the appropriate customer charges for SVDF A and SVDF B customers is necessary, CenterPoint Energy has no objection and agrees with the \$150 and \$180 charges set forth in the Corrected Petition.

Dated: July 10, 2014

WINTHROP & WEINSTINE, P.A.

By: /s/ Eric F. Swanson

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