MINNESOTA DEPARTMENT OF COMMERCE

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April 13, 2016

Daniel P. Wolf
Executive Secretary
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/M-16-228

Dear Mr. Wolf:

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

Petition of CenterPoint Energy for Approval of a Continued Variance from the Commission's Automatic Adjustment Rules Related to the Recovery of Demand Costs.

The petition was filed on February 12, 2016 by:

Kevin Marquardt
CenterPoint Energy Resources Corp.
d/b/a CenterPoint Energy Minnesota Gas
505 Nicollet Avenue
PO Box 59038
Minneapolis, Minnesota 55459-9038

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** the petition and is available to answer any questions the Commission may have.

Sincerely,

/s/ SUSAN MEDHAUG
Supervisor, Energy Regulation & Planning

SM/lt
Attachment

MINNESOTA DEPARTMENT OF COMMERCE

# BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

# COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF ENERGY RESOURCES

DOCKET NO. G008/M-16-228

## I. BACKGROUND AND SUMMARY OF CENTERPOINT'S PROPOSAL

In the Minnesota Public Utilities Commission's (Commission) October 27, 2000 Order in Docket No. G008/M-00-980, the Commission granted CenterPoint Energy's (CenterPoint or the Company) request for a 3-year pilot program, the purpose of which was to reduce the over- or under-recovery of approved demand costs due to deviations from average weather conditions during the gas year (July 1 through June 30) in order to improve the collection of relevant demand costs within the current period. The request required a variance to Minnesota Rules, part 7825.2700, subpart 5[1] in order to impose a monthly Demand Adjustment factor. Subsequent to its initial approval, the Commission has approved continuation of the pilot program and related variance five times, most recently in its December 11, 2013 Order in Docket No. G008/M-13-728 (Docket 13-728).[2]

On March 16, 2016, CenterPoint petitioned the Commission for approval of a continuation of a variance from the Automatic Adjustment (AAA) Rules, Minn. Rule 7825.2700, subp. 5, related to the recovery of demand costs (Petition). CenterPoint requested the variance to allow the Company to continue to make adjustments to the calculation of demand-cost recovery rates during the gas year. CenterPoint is seeking approval to continue the variance for three years.

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[1] Minnesota Rules, part 7825.2700, subpart 5 states:

> The demand adjustment is the change in the annual demand rate which results from a difference between the demand-delivered gas cost and the demand base cost. In the event the demand-delivered gas cost does not change, the demand adjustment must be recalculated for each 12-month period from the date of the last change. The adjustment must be computed using test year demand volumes for three years after the end of the utility's most recent general rate case test year. After this time period, the demand adjustment must be computed on the basis of annual demand volume. If a customer class is billed separately for demand, the demand adjustment must be computed on the basis of the demand component of the rate for that class and applied to the demand charge.

[2] The other extensions were granted in Docket No. G008/M-03-782, Docket No. G008/M-05-1196, Docket No. G008/M-07-1063, and Docket No. G008/M-10-857.

## II. BACKGROUND AND PURPOSE OF THE VARIANCE

It is inherently difficult to match demand-cost expense and demand-cost recovery because recovery is based on normal weather but weather typically deviates on a monthly and annual basis from weather-normalized averages. Demand-cost expenses are, for the most part, fixed costs paid to interstate pipelines. These costs are recovered on a volumetric basis from customers through the purchased gas adjustment (PGA). The yearly per-unit cost recovery amount is calculated based on weather-normalized sales for an average year. Thus, when weather causes actual natural-gas usage to deviate from the weather-normalized volume, the amount recovered deviates from the forecasted amount. In a colder-than-normal year with high usage, the demand costs are over-recovered because more units than forecast are sold; in a warmer-than-normal year with low usage, the demand costs are under-recovered because fewer units than forecast are sold. The greater the deviation in actual weather from the mean, the greater is the magnitude of the over-recovery or under-recovery of demand costs. CenterPoint's intent in requesting a continuation of the variance in the instant docket is to enable the Company to continue to provide a better annual match of the Company's payments to pipelines for demand costs with the demand-cost recovery received from CenterPoint's firm customers. The Company seeks to reduce the annual over-recovery or under-recovery of demand costs caused by deviations of actual weather from average weather conditions. The variance would allow CenterPoint to make monthly adjustments to the demand-cost recovery rate during the months of October through May. The adjustments reflect actual demand-cost recovery during a gas year and thereby more quickly bring the demand-recovery rate in line with the demand-recovery needs of the Company than would otherwise be the case.

Commission rules provide for an annual September 1 true-up to the PGA to ensure that over-recovery or under-recovery does not persist. However, because this process occurs only annually, there may be significant cost shifting between years, as well as time-value financial effects for the Company and customers. Under this variance, CenterPoint's customers receive credits or charges related to current-year demand costs in the current year rather than some 12 to 14 months later through the PGA process, which continues in effect.

## III. CENTERPOINT'S PROPOSAL

### *A. HISTORICAL PERFORMANCE*

CenterPoint stated that the program has been successful in providing a closer match between demand costs incurred and demand costs recovered from customers for the years it has been in effect. In its Exhibit A, CenterPoint provided data showing that the average difference between incurred and recovered demand costs since the program began has been 3.3 percent, while prior to the program the average difference was 7.7 percent. The Company also provided Exhibit B, which summarizes the results, with and without the demand adjustment, for gas years 2000-2001 to 2014-2015. The exhibit shows that, absent the demand adjustments authorized by the variance, the difference between demand costs paid to pipelines and other providers, and demand costs recovered from firm customers would have been larger in eleven out of the fifteen completed years of this program. Taken as a whole, the variance from total demand costs has averaged around 3.7 percent, whereas without the demand adjustments the variance is estimated to be 7.3 percent.[3]

*B. DETAILS OF THE PROPOSAL*

CenterPoint requested approval of a three-year extension of this variance that was first approved for implementation in the 2000-2001 gas year. A continued variance would allow the Company to employ the current demand-rate recovery calculation methodology, defined by Minn. R. 7825.2700, subp. 5, on a monthly rather than an annual basis. The Company proposed to continue using essentially the same methodology, including the adjustment for capacity-release credits approved in Docket No. G008/M-07-1063, and removal of the one-month lag approved in Docket 13-728, for the calculation of the demand cost of gas adjustment. The adjustment would be made monthly from October 1 through May 1 of each year. CenterPoint would continue to calculate the demand adjustment related to changes in demand-delivered gas costs as in the past per Commission Rule.

As originally approved, CenterPoint Energy implemented the demand-rate recovery calculation using a one-month lag in sales data. However, the Commission's December 11, 2013 Order in Docket 13-728 allowed CenterPoint to remove the one-month lag in sales from its calculation, and instead estimate the current month's total throughput using daily sales (based on actual sales through around the 28th of the month and estimated sales for the last few days). In conjunction with this calculation change, the Commission required CenterPoint to report the results of the Company's monthly demand adjustment compared to a hypothetical demand-cost recovery rate reflecting a one-month lag. CenterPoint provided this comparison in Exhibit D of the Company's petition. The results show that, over the past 8 years, the approach eliminating the one-month lag would have reduced the average adjustment from 4.1% to 3.7%.

Extreme abnormal weather could cause the demand adjustment amount to be large; therefore, CenterPoint stated it will continue to cap the monthly demand adjustment amount at 25 percent of the demand-cost recovery rate, which is reported in the monthly PGA. The Company agreed to continue compliance with existing reporting and evaluation requirements. These requirements include:

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[3] It may appear as though the "demand cost recovery with the demand cost adjustment" should tie between Exhibit A and Exhibit B in CenterPoint's Petition; however these two exhibits present different information. Exhibit A is a summary of all demand-cost transactions that occurred in a given year, and therefore reflects actual recovery. Exhibit B, originally developed by the Department of Commerce (then, the Office of Energy Security) in Docket No. G008/M-07-1063 as an analytical tool, presents hypothetical outcomes given certain assumptions about consumption volumes and different demand-cost recovery rates. Exhibit D also reflects the methodology used in Exhibit B. These differences in recovery amounts arise from factors such as cancelled sales, re-billings, and differences in billing cycles from calendar months. Please see page 7 of the Department's September 13, 2010 Comments in Docket G008/M-10-857 for further discussion on these exhibits.

- Reporting in CenterPoint's monthly PGA filings the detailed calculations of the demand adjustment;
- Reporting in CenterPoint's AAA Report a summary of the results of the over/(under) recovery with and without the proposed additional demand recovery adjustment. The summary will reflect the method of calculating this analysis as the Commission ordered in Docket No. G008/M-05-1196; and
- Continue to report in CenterPoint's AAA Filing the results of the Company's monthly demand adjustment compared to a hypothetical demand-cost recovery rate that reflects a one-month lag.

CenterPoint also asserted that the proposal for an extension meets the standards of Minn. Rule 7829.3200 for granting a variance. These standards are: enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule; granting the variance would not adversely affect the public interest; and granting the variance would not conflict with standards imposed by law.

## IV. DEPARTMENT ANALYSIS

### *A. RULE-VARIANCE PERFORMANCE*

The Department analyzed Exhibits A and B of the Company's Petition and agrees with the Company that the exhibits show that the demand-rate adjustment has generally reduced the size of over- or under-recovery of demand costs since being implemented in gas year 2000-2001. The two most recent years since the previous petition have shown excellent performance, having a reduction in the deviation in absolute value from the required recovery for the 2013-2014 gas year of 14.5 percentage points and a reduction of 9.4 percentage points for 2014-2015 using the standardized comparison methodology developed by the Department (Exhibit B).

As similarly noted in the Department's September 11, 2013 comments in CenterPoint's previous variance request (Docket 13-728), there have been four years out of the past 15 in which the mechanism did not reduce the over- or under-recovery:

- 2003-2004: The increased under-recovery was relatively small. Neither CenterPoint nor the Department could identify a reason for the unexpected outcome, although the Company suggested possible causes;
- 2006-2007: A substantial reduction in demand costs occurred in 2006-2007 due to increased capacity-release credits. The magnitude of these credits was not fully known until May 2007, creating a timing difference between implementation of reduction in demand costs into billing rates and actual demand costs;
- 2007-2008: The demand-rate adjustment was not applied for the entire heating season. The request for continuation of the program was not approved until December 24, 2007, therefore allowing three months of the program to pass without an adjustment.

- 2012-2013: CenterPoint attributed the large over-recovery to an abnormal swing in weather. The Company stated that weather during July 2012 through February 2013 was slightly warmer than the latest 20-year average, but that March through May 2013 was over 20 percent colder than normal.

In its *Review of 2013-2014 Annual Automatic Adjustment Reports* in Docket No. G999/AA-14-580, the Department included a table summarizing each natural gas utility's percent over/under recovery of demand costs in 2013-2014 (see bottom of page 11 of the *Report*). The table indicates that CenterPoint's deviation from actual costs was less than the weighted average of all utilities.[4] The Department concludes that the Company's better-than-average performance is at least partially attributable to the demand-rate adjustment. The Department concludes that application of a demand-rate adjustment continues to be reasonable.

*B. RESULTS OF REMOVING ONE-MONTH LAG*

As noted above, prior to the Commission's Order in Docket 13-728, there had been a one-month lag between when actual sales information becomes available and rates are set. Therefore, the demand-adjustment calculation did not include the month immediately preceding the month for which the demand adjustment was calculated; *e.g.*, the demand-adjustment calculation for February was based on sales data through December. Pursuant to the Commission's Order in Docket No. G008/M-07-1063, CenterPoint calculated a hypothetical monthly demand adjustment to the Company's demand cost recovery rate that eliminated the one-month lag from the calculations.

The Company reports the results of both adjustment methods in its AAA reports and summarized the results in Exhibit D of its petition. Although the past two years since the one-month lag method was discontinued have resulted in a larger net over-recovery than had the one-month lag method been used, it is difficult to draw conclusions based on only two years. Exhibit D shows that, over the last eight years, removing the one-month lag would have resulted in an average over-/(under)-recovery as a "% of Total Demand $" of 3.7 percent versus 4.1 percent with the one-month lag in place. Further, in terms of total dollar amounts, removing the one-month lag would have resulted in an approximately $1 million closer match between costs and recovery of those costs over the 8 years.[5] Given the slight, but measurable improvement in reducing deviations, the Department continues to support removing the one-month lag. The Department notes that the differences between the methods will vary from year to year, largely dependent upon the degree to which weather varies from month to month. The Department will continue to monitor this data going

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[4] CenterPoint over-recovered by 10.00 percent, while the weighted average was 15.45 percent over-recovered. Certain adjustments were made (that were not made in the Company's exhibits in the instant docket) in calculating the 10.00 percent to ensure comparability with the other utilities.

[5] Removing the somewhat anomalous 2012-2013 year results in a 7-year average of 3.5 percent over-/under-recovery with the one-month lag removed versus 3.3 percent under the old method. However, in terms of dollar amounts, the one-month- lag-removed method results in a $110,065 under-recovery versus a $2,453,015 under-recovery under the old method.

forward and appreciates CenterPoint's proposal to continue to provide, in its AAA filing, the information included in its Exhibit D.

### *C. MEETS MINNESOTA VARIANCE RULES STANDARDS*

According to Minn. Rule 7829.3200, there are three conditions that must be met in order for the Commission to grant a requested variance to a Minnesota Rule. Below, the Department discusses how CenterPoint's request met each of these conditions.

#### *1. Excessive Burden*

CenterPoint's proposal to extend this variance would continue to more accurately match recovery of demand costs with those customers who caused the costs to be incurred, resulting in smaller over- or under-recoveries. These smaller over- or under-recovery balances reduce the shifting of costs among customers from one year to the next and between the Company and customers, thereby reducing time-value implications. Thus, the potential for an excessive burden on either customers or the Company is reduced to the extent that the magnitude of over- or under-recovery is reduced.

#### *2. Public Interest*

CenterPoint asserted that the public interest would not be adversely affected by continuation of the variance. The Company noted that the total recovery of demand costs would not be changed by the variance, but would improve the match between the timing of costs incurred and costs recovered. The Department agrees with the Company that continuation of the variance would be consistent with the public interest because mitigation of under- or over-recovery would allow the Company to set service prices that would more accurately reflect current demand costs.

#### *3. No Conflict with Minnesota Law*

Like the Company, the Department is not aware of any laws that would be violated by granting the variance. The Department concludes that CenterPoint's request for a variance meets the requirements set forth in Minn. Rule 7829.3200.

### *D. CONCLUSION*

Based on above discussion, the Department concludes that the demand-rate adjustment is working as intended and recommends that the variance to Minn. Rule 7825.2700, subp. 5 be extended for the requested three years.

## V. SUMMARY AND RECOMMENDATION

Concerning CenterPoint's variance request, the Department recommends that the Commission:

- Grant CenterPoint the requested variance to Minn. Rule 7825.2700 subp. 5 for three years;
- Allow CenterPoint to continue to calculate a monthly demand adjustment to the Company's demand-cost recovery rate as approved in Docket No. G008/M-07-1063 and updated in Docket No. G-008/M-13-728, including the provision regarding capacity-release credits and removal of the one-month lag;
- Continue to cap the maximum monthly allowed demand adjustment at 25 percent of the demand cost recovery rate; and
- Require CenterPoint to continue to report the information pertaining to the operation of the program, including:
  - reporting in CenterPoint's monthly PGA filings the detailed calculations of the demand adjustment;
  - reporting in CenterPoint's AAA Report a summary of the results of the over/(under) recovery with and without the proposed additional demand recovery adjustment. The summary will reflect the method of calculating this analysis as the Commission ordered in Docket No. G008/M-05-1196; and
  - reporting in CenterPoint's AAA Filing the results of the Company's monthly demand adjustment compared to a hypothetical demand-cost recovery rate that reflects a one-month lag.

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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/M-16-228

Dated this 13th day of April 2016

/s/Sharon Ferguson

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