

Staff Briefing Papers

Meeting Date April 23, 2026 **Agenda Item 4***

Company CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas

Docket No. G008/M-23-215

In the Matter of CenterPoint Energy’s Natural Gas Innovation Plan

Issues Should the Commission approve CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas’ (CenterPoint’s) request to modify its budget for its Natural Gas Innovation Act hydrogen blending pilot?

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✓ **Relevant Documents**

Date

CenterPoint Energy: Budget Modification Request and Compliance Filing (includes Attachments 1 and 2)

1/22/2026

Initial Comments

Department of Commerce – Division of Energy Resources

3/3/2026

Office of the Attorney General – Residential Utilities Division

3/3/2026

Citizens Utility Board of Minnesota

3/3/2026

Fresh Energy

3/3/2026

Reply Comments

CenterPoint Energy (includes Trade Secret and Public versions, and Attachment)

3/17/2026

Supplemental Comments

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

✓ **Relevant Documents**

	Date
Office of the Attorney General – Residential Utilities Division	3/27/2026
Center for Energy and Environment	3/27/2026
Citizens Utility Board of Minnesota (includes Trade Secret and Public Versions)	3/27/2026
Department of Commerce – Division of Energy Resources	3/27/2026
Fresh Energy	3/30/2026

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BACKGROUND

On October 9, 2024, the Commission approved CenterPoint's first Natural Gas Innovation Act plan with modifications.¹ Under the Natural Gas Innovation Act, natural gas utilities may file innovation plans for Commission approval.² These plans allow utilities to invest in innovative resources to reduce the throughput of conventional geologic gas to Minnesota customers. CenterPoint's approved plan includes Pilot D: Green Hydrogen Blending into Natural Gas Distribution System. In this pilot, CenterPoint proposed to own and operate a 1 MW green hydrogen electrolyzer, powered by on-site solar panels, to generate and blend hydrogen into the natural gas distribution system in Mankato, MN. The Commission approved this pilot with its proposed budget of \$4,646,943 over the 5-year plan period.³

In Ordering Paragraph 26 of the Commission's order, the Commission agreed that CenterPoint may have flexibility to spend up to 25% more than the approved budget for any pilot with certain guardrails, including that any pilot budget increases exceeding 25% of the 5-year budget go through the annual review process or be filed for comment and approval in this docket, and that the increase must not cause the entire plan to exceed the statutory cap.

On May 30, 2025, CenterPoint submitted its first annual report detailing plan progress, and this report included no budget modifications.⁴ The Commission approved the report but ordered CenterPoint to notify in this docket if any delays to the pilot's construction or operation may jeopardize receipt of federal tax credits.⁵

On January 22, 2026, CenterPoint filed a request for approval to increase its green hydrogen blending pilot budget from the \$4.6 million originally approved by \$1,404,384 due to an updated budget estimate from its engineering consultant, Standby Systems. CenterPoint proposed to shift funds from other parts of its plan to cover the increase. As this represents a more than 25% increase to the original budget, CenterPoint requested that the Commission approve the increase.⁶

PETITION SUMMARY

In its petition, CenterPoint stated that it had received updated cost estimates for this pilot from Standby Systems, its consultant, after completing a front-end engineering design study

¹ Docket No. G-008/M-23-215, *In the Matter of CenterPoint Energy's Natural Gas Innovation Plan* ("CenterPoint NGIA Plan"), [Order Approving Natural Gas Innovation Plan With Modifications \(October 9, 2024\)](#) ("CenterPoint NGIA Order")

² Minn. Stat. § 216B.2427, [Natural Gas Innovation Act](#).

³ See CenterPoint NGIA Plan [Commission Staff Briefing Papers \(July 10, 2024\)](#), p. 15 and CenterPoint NGIA Order, Ordering Paragraph 1

⁴ *Id.*, CenterPoint [2024 Annual Report \(May 30, 2025\)](#)

⁵ *Id.*, [Order \(November 13, 2025\)](#)

⁶ *Id.*, CenterPoint [Budget Modification Request and Compliance Filing \(Jan 22, 2026\)](#) ("CenterPoint Petition")

(“FEED”).⁷ CenterPoint stated that the FEED study projected increases to capital costs related to both the solar and hydrogen electrolyzer facilities for Pilot D relative to the initial cost estimates filed in its petition. CenterPoint listed the impacts of inflation, evolving market conditions for labor and materials, and the incorporation of more detailed engineering and design information as reasons for the increase. However, some of the new 5-year budget was offset by an increase in the expected Production Tax Credits (PTCs) the Company expects to receive, as well as a delay in construction which pushes some O&M costs past the 5-year plan window.

In its petition, CenterPoint broke out its increased request in two:

1. The Initial Increase Request (\$468,412), which CenterPoint stated is the bare minimum it would need to move forward with construction.
2. A Contingency Increase Request (\$935,972), to cover a 25% range of accuracy recommended by Standby.

The Company thus requested an increase of \$1,404,384 to its budget. **[Decision Option 1]**

Below is a visual representation of the original budget, and the current increased request by CenterPoint.

Item	Cost
Approved Budget (October 9, 2024)	\$4,646,943
Initial Increase Request	\$468,412
Contingency Increase Request	\$935,972
Total	\$6,051,327

Upon requests by parties for further explanation of the budget increase, CenterPoint explained that the nascency of the hydrogen industry meant that its estimates in its original petition were based on some projections, rather than certainties. At the time of proposing its NGIA plan in 2023, Standby Systems had advised that the Company would likely be able to use a “packaged” (preassembled, rather than custom) model, which was in development but not yet available. However, as packaged systems became available, ones that would stand up to Minnesota’s winter temperatures did not, “and third-party weatherization upgrades would impact commercial guarantees provided by manufacturers.”⁸ Therefore, CenterPoint wrote that it expects to build a custom model, as it did with its pilot in downtown Minneapolis, and this will be more expensive than initially expected.

The Company also explained that Standby typically includes a 15-25% accuracy range for engineering estimates at this level, and that Standby recommended the higher range in this

⁷ CenterPoint Petition, p. 1.

⁸ CenterPoint Reply Comments, pp. 10-11.

case.⁹

In order to address the increase without exceeding the cost cap of the 5-year plan,¹⁰ the Company proposed to shift funds from one of two potential sources:

1. Pilot C, an RFP to purchase renewable natural gas, or
2. Research and Development (R&D) reserve funds.¹¹

CenterPoint stated that it preferred to move the funds from Pilot C, because some of the in-service dates for selected projects are later than expected, moving the window of costs past the 5-year plan, and thus technically freeing up funds within the plan window. In addition, this would keep these funds in alternative fuels, which are a focus of the NGIA statute¹² and CenterPoint's plan.

However, CenterPoint also offered the option of shifting funds from its R&D reserve budget, as most of the \$8.5 million approved has not yet been committed.

CenterPoint clarified that approval of the initial increase (~\$400k) would be enough to proceed with construction in time to be eligible for Investment Tax Credits for on-site solar. However, CenterPoint insisted that the full increase with contingency funds (~\$1.4 million) would provide more certainty that the Company could build the project as envisioned:

For Pilot D to proceed without approval of the Company's budget modification request, the inclusion of major aspects of the pilot would need to be reevaluated for the Pilot to stay within budget – including the on-site solar and/or hydrogen storage.¹³

DISCUSSION

The Citizens Utility Board of Minnesota (CUB), Center for Energy and Environment (CEE), the Department of Commerce – Division of Energy Resources (Department), Fresh Energy, and the Office of the Attorney General – Residential Utilities Division (OAG) commented in this proceeding. None of these parties except CEE recommended that the Commission approve the full requested increase, with varying recommendations for how the Commission should

⁹ CenterPoint Reply Comments, p. 11.

¹⁰ CenterPoint's overall approved plan budget was \$105,701,516 over five years, the maximum cost allowed by Minn. Stat. § 216B.2427, subd. 3.

¹¹ CenterPoint Petition, pp. 6-9.

¹² Minn. Stat. § 216B.2427, subd.2(d)(1) states that "50 percent or more of the utility's costs approved by the commission for recovery under the plan are for the procurement and distribution of renewable natural gas, biogas, hydrogen produced via power-to-hydrogen, and ammonia produced via power-to-ammonia."

¹³ CenterPoint Reply Comments, p. 1.

proceed.

Staff arranges discussion in the following sections:

- Section I: The request for increase, including the amount and source of funds.
- Section II: Recommendations to cancel the pilot.
- Section III: All other recommendations.

I. Request for Increase

All parties except CEE scrutinized the request for a budget increase. CEE agreed this request was in the scope of the Commission’s Order approving the plan. CEE stated that, given that CenterPoint identified its request as “due to factors outside the Company’s control, such as increases in market pricing and general inflation,” and that it would not increase the budget of the overall 5-year plan past the statutory limit, the increase was reasonable.¹⁴

The OAG, however, expressed concern that the new estimates differed so significantly from the original.¹⁵ The OAG noted that, should the project hit the maximum cost estimated in CenterPoint’s various scenarios,¹⁶ the lifetime costs for the pilot could increase by approximately \$10 million.¹⁷ While the OAG noted that the Commission only approves a 5-year budget, it urged the Commission to consider the lifetime costs because a seemingly modest budget increase over the 5-year plan period may greatly affect the lifetime costs borne by ratepayers over time.

The Department argued that the large increase in contingency funding reflected a lack of transparency about the risk and uncertainty in the original proposal:¹⁸

The increases in costs for Pilot D, and the introduction of a contingency portion due to cost uncertainties, exacerbates the already low cost effectiveness of this pilot without a clear picture of what additional learnings the Company would obtain that CenterPoint is not already able to obtain from its existing hydrogen facility [in downtown Minneapolis].¹⁹

CUB and Fresh Energy also referred back to parties’ objections during the initial proceeding around cost-effectiveness, scalability, and redundancy of the pilot to CenterPoint’s Minneapolis hydrogen-blending pilot and argued that such an early increase to the budget resurfaces and

¹⁴ CEE Supplemental Comments, p. 2.

¹⁵ OAG Initial Comments, pp. 2-3.

¹⁶ CenterPoint Reply Comments, p. 13 (Scenario 5)

¹⁷ OAG Supplemental Comments, p. 3.

¹⁸ Department Supplemental Comments, p. 5.

¹⁹ Department Supplemental Comments, p. 5.

exacerbates these concerns.²⁰ CUB argued that, given the early stage of the pilot development and that CenterPoint is still learning from its existing hydrogen pilot in downtown Minneapolis, “we question the reasonableness and prudence of continuing to expend funds on a facility that is already costing ratepayers more than anticipated.”

Fresh Energy and the Department pointed to the cost per metric ton of CO₂e reduced compared to all the other NGIA pilots, arguing that the pilot’s status as the second least cost-effective raises questions about the value, especially in light of an increase.^{21, 22} Staff has highlighted the hydrogen pilot for clarity.

²⁰ CUB Initial Comments, p. 4.

²¹ Fresh Energy Supplemental Comments, pp. 1-2.

²² Department Supplemental Comments, pp. 4-5.

Table 1. Lifetime Utility Costs, Estimated GHG Reductions, and Cost per Metric Tons CO₂e Reduced For All Pilots in CenterPoint's NGIA Plan²³

Pilot	Estimated Lifetime Utility Cost	Estimated Lifecycle GHG Reductions (Metric Tons CO ₂ e)	Cost per Metric Tons CO ₂ e Reduced
RNG Produced from Ramsey & Washington Counties' Organic Waste	\$17,538,491	\$92,414	\$190
Renewable Natural Gas RFP Purchase	\$83,367,472	\$423,134	\$197
Green Hydrogen Blending into Natural Gas Distribution System	\$22,305,727-\$33,563,098 ²⁴	\$27,993	\$797-\$1199
Industrial or Large Commercial Hydrogen and Carbon Capture Incentives	\$2,720,474	\$107,196	\$25
Industrial Methane and Refrigerant Leak Reduction	\$1,132,645	\$33,763	\$34
Urban Tree Carbon Credits	\$299,909	\$4,500	\$67
Carbon Capture Rebates for Commercial Buildings	\$30,481	\$23,757	\$1
New Networked Geothermal Systems	\$42,224,178	\$107,355	\$393
Decarbonizing Existing District Energy Systems	-\$3,419,905	\$124,030	-\$28
New District Energy System	-\$784,412	\$40,882	-\$19
Industrial Electrification Incentive	\$113,108	\$11,896	\$10
Commercial Hybrid Heating	\$5,545,369	\$25,609	\$217
Residential Deep Energy Retrofit and Electric Air Source Heat Pump	\$10,590,172	\$66,760	\$159
Small/Medium Business GHG Audit	\$1,694,181	\$4,380	\$387
Residential Gas Heat Pumps	\$343,823	\$235	\$1,463
Gas Heat Pumps for Commercial Buildings	\$635,129	\$2,154	\$295
Industrial and Large Commercial GHG Audit Pilot	-\$242,238	\$35,560	-\$7

²³ Fresh Energy Supplemental Comments, p. 3.

²⁴ Staff note: these costs are the range provided by CenterPoint in its Reply Comments, depending on different scenarios of the FEED study project costs and scale of tax credits received. The cost per metric tons CO₂e reduced is also therefore shown as a range.

Concerned parties offered multiple pathways to address their concerns, and these are described further in the following sections:

1. Amount of Increase and Funds Used [**Decision Options 2-8**]
2. Recommendations to cancel the pilot and redirect funds towards new initiatives [**Decision Options 9-11**], and
3. Recommendations for future annual reports and new NGIA plans [**Decision Options 12-17**]

CenterPoint refuted parties' concerns. CenterPoint underlined the uncertainty of the hydrogen market as a whole and the many unknowns with this specific project, both of which it tried its best to account for in its original petition.²⁵ CenterPoint argued that it "relied on the best available cost information and engineering assumptions" at the time of its petition, and that further diligence at the time would have been unlikely to yield greater certainty. CenterPoint also argued that cost-effectiveness was only one of the many criteria the legislature directed the Commission to use to evaluate NGIA plans,²⁶ and the Commission should not eliminate the pilot solely based on that.

Amount of Increase

The OAG, Department, and CUB agreed that, if the Commission did approve an increase to the budget, that it should limit the increase to the \$468,412 initial request, and not the ~\$900k in contingency funds. [**Decision Option 3**]

The OAG argued that only approving the initial ~\$400k would incentivize CenterPoint to contain costs, given that this large increase in funds is coming so early in the pilot's development. The OAG pointed out that this would not preclude CenterPoint from requesting additional funds in the future under the terms of the Order.²⁷

CUB and the Department²⁸ agreed. CUB argued:

*The Company should be encouraged to contain costs within approved pilot budgets to the greatest extent possible, rather than requesting an unjustified contingency fund mid-way through the plan. Providing the Company with a firm budget encourages CenterPoint to spend prudently and avoid unnecessary cost overruns.*²⁹

The Department recommended that, should the Commission approve the full \$1.4

²⁵ CenterPoint Reply Comments, pp. 5-7.

²⁶ Minn. Stat. § 216B.2427, subd.2(a)(1-7).

²⁷ CenterPoint NGIA Order, Ordering Paragraph 26.

²⁸ Department Supplemental Comments, p. 6.

²⁹ CUB Supplemental Comments, p. 3.

million increase, it should require CenterPoint to report on any use of the contingency budget along with evidence of cost increases beyond the Company's control in its annual status reports. **[Decision Option 2]** CenterPoint had no objection to this. The Department also recommended that CenterPoint file a new budget modification request if Pilot D's capital costs increase above the baseline costs estimated by the FEED study. **[Decision Option 4]**

Upon requests for clarification, CenterPoint stated that the contingency costs are assumed to be associated with the hydrogen components, while the initial increase would provide certainty to begin construction on the solar array:

Due to the more established nature of the solar industry compared to green hydrogen, a higher level of uncertainty is assumed for the cost of the hydrogen facility compared to the solar facility. For budgeting purposes, CenterPoint therefore conservatively assumed that the 25 percent capital cost increase for the upper end of the range of accuracy for the FEED study estimate was attributed to hydrogen-related components, and therefore not eligible for additional ITCs [(Investment Tax Credits)].³⁰

The OAG argued that CenterPoint's need for certainty around this budget prior to proceeding with construction might itself be the delay that could impact its ability to receive tax credits: "CenterPoint's desire to avoid financial risk for its shareholders is causing it to be cutting it close in terms of the timing for securing ITCs."³¹ The OAG thus recommended that any future cost increases due to a failure to secure ITCs due to construction delays should be borne by CenterPoint's shareholders, not ratepayers. **[Decision Option 8]**

Source of Funds

If the Commission approves an increase to CenterPoint's pilot budget, parties differed on where else in its NGIA plan the funds should come from.

Similar in its argument against the contingency funds, the OAG recommended the Commission look at the full scope of lifetime costs when deciding where to supply the excess funds from. The OAG argued that CenterPoint's assertion that its 5-year budget is decreased for Pilot C is misleading; rather, delays to the contract have simply shifted the costs outside the 5-year plan window, and this would increase lifetime costs for ratepayers by simply shifting the Pilot C funds to future years. The OAG recommended instead moving the funds from the R&D reserve budget, which is fixed for the 5-year plan and does not have lifetime costs beyond it. **[Decision**

³⁰ CenterPoint Reply Comments, p. 11.

³¹ OAG Supplemental Comments, pp. 5-6.

Option 7]

The OAG clarified that it did not believe that Pilot C should be chosen for statutory reasons. CenterPoint had stated in Reply Comments that using funds from Pilot C “ensures compliance with NGIA’s statutory requirement that at least 50 percent of plan expenditures be directed to alternative fuel projects and leaves the reserve R&D funding available for yet-to-be-proposed R&D projects or as support for non-alternative fuel pilots – should such support ever be necessary.”³² The OAG argued that this was an incorrect reading of the NGIA statute, which states that the Commission may not approve a utility’s initial plan unless:

*50 percent or more of the utility's costs approved by the commission for recovery under the plan are for the procurement and distribution of renewable natural gas, biogas, hydrogen produced via power-to-hydrogen, and ammonia produced via power-to-ammonia.*³³

The OAG argued that the 50% rule only applies to the budget approved in the initial plan, not that costs must be recovered in such a way for the duration of the five years. To read this in such a way could lead to “absurd results,” including the Commission needing to cancel or modify pilot budgets just to ensure that every dollar was spent in the exact same proportion of the approved plan.

The Department, on the other hand, agreed with CenterPoint that any increase in funds would be better selected from Pilot C than R&D.³⁴ **[Decision Option 6]** The Department supported preserving R&D reserve funds for projects that are yet to be developed and proposed during annual reports, as is outlined by Commission order.

Fresh Energy did not comment on the source of funds, but did note that Pilot C’s “slower-than-anticipated deployment and expenditures to date” should push the Commission to more closely scrutinize why the funds have not been spent in the timeframe anticipated, and whether unspent funds could be redirected to higher-performing pilots or returned to ratepayers during its review of CenterPoint’s upcoming 2026 annual report.³⁵

II. Recommendation to cancel the pilot

Rather than approve an increase, the Department, CUB, and Fresh Energy used this opportunity

³² CenterPoint Reply Comments, p. 2.

³³ Minn. Stat. § 216B.2427, subd.2(d)(1); OAG Supplemental Comments pp. 6-8.

³⁴ Department Initial Comments, pp. 7-8.

³⁵ Staff has not included this as a decision option as it believes that this falls within the Commission’s legislative directive to evaluate NGIA pilots’ performances during annual reports, and to approve, modify, or reject the continuation of pilots, according to Minn. Stat. § 216B.2427, Subd.(2)(g)(1-3).

to reexamine the pilot's value and recommended that the Commission cancel the pilot altogether. **[Decision Option 9 and 10]**

Fresh Energy pointed to new research commissioned by the Department of Commerce indicating that low-carbon hydrogen – which is in limited supply – would be best directed towards difficult-to-electrify processes like ammonia production, iron and steel, sustainable aviation fuels, and high-temperature industrial heat in Minnesota.³⁶ Fresh Energy argued that low-carbon hydrogen should thus be “prioritized for applications with few viable alternatives, rather than for residential or commercial heating, where electrification and efficiency solutions are more cost-effective and scalable.”³⁷

Because of this, Fresh Energy recommended that the Commission order CenterPoint to redirect the money allotted for its hydrogen-blending pilot to a targeted electrification pilot for low- and moderate-income Mankato residents.³⁸ **[Decision Option 11]** Fresh Energy suggested that this pilot could:

- Provide important learnings on cold-climate heat-pump performance in southern Minnesota, particularly during extreme winter conditions;
- Evaluate program design strategies for low- and moderate-income households, including renters who face different barriers to adoption than homeowners;
- Test community-based implementation strategies by partnering with trusted local organizations; and
- Serve as a strong proxy for other regional centers in Greater Minnesota, in order to scale similar programs across the state.

Fresh Energy recommended that CenterPoint submit this pilot for consideration in its upcoming NGIA annual report (due June 1, 2026). Fresh Energy also recommended that CenterPoint should conduct its own assessment of hydrogen opportunities within its service territory, with a focus on hard-to-electrify industrial customers, to reflect findings from the earlier-referenced research.³⁹ **[Decision Option 14]**

CenterPoint refuted the attempt to reexamine whether the pilot belongs in its NGIA plan, arguing that the Commission had already made a determination on the pilot's value in spite of parties' concerns. CenterPoint cited the Commission's October 9, 2024 order:

³⁶ Fresh Energy Supplemental Comments, pp. 4-5, referencing Maxim Kostylev et al., *The Potential for Hydrogen to Support Low-Carbon Industry in Minnesota* (5 Lakes Energy, May 2025), https://mn.gov/commerce-stat/pdfs/energy-data-reports/the-potential-for-hydrogen-to-support-low-carbon-industry-in-minnesota_5-lakes-energy_may-2025-2.pdf.

³⁷ Fresh Energy Supplemental Comments, pp. 4-5.

³⁸ Fresh Energy Supplemental Comments, pp. 5-6.

³⁹ Fresh Energy Supplemental Comments, pp. 6-7.

The Commission understands commenters' concerns about Pilot D but is persuaded that the pilot should be approved. Pilot D presents an opportunity for CenterPoint to learn more about blending hydrogen with natural gas at a facility that is being powered, at least in part, by onsite renewable energy. CenterPoint expects the reduction in geologic gas throughput and GHG emissions to be significant, which furthers the goals of the NGIA. With the experience CenterPoint has already gained from operating its existing hydrogen blending facility, the new facility under Pilot D is more likely to be successful and provide even more learning opportunities. CenterPoint should further explore implementing this innovative technology.⁴⁰

The Company restated its belief that this pilot is a vital tool in its decarbonization efforts, and that the Commission should not reject the pilot.

III. Additional Recommendations

Concerned parties made several other recommendations to encourage more accurate budgets in future plans and accountability within annual reports.

The OAG and CUB recommended steps to encourage CenterPoint to develop more accurate budgets in future NGIA petitions. The OAG recommended that CenterPoint be required to provide the following information in its next 5-year NGIA plan for each pilot:

- a. Vendor quotations for any major components;
- b. Consultation with companies, engineers, or other organizations that are familiar with the technology and systems to be used;
- c. For any project with a renewable energy or electrification component, consultation with the local retail electric utility including any estimates for interconnection; and
- d. Consideration of the impact of Minnesota's climate and verification that any comparable costs from other locations have been updated to include winterization or other necessary protections due to any environmental factors.^{41, 42}

CUB also recommended that, for future pilots proposed, CenterPoint clearly identify when a budget is based on a prediction about a future market shift: for example, if the budget assumes a reduction in spending based on the assumption that a new technology that is not currently on the market will become available. **[Decision Option 13]**

Fresh Energy recommended that, should the Commission approve an increase to the pilot

⁴⁰ CenterPoint Reply Comments, p. 3; CenterPoint NGIA Order, p. 9.

⁴¹ OAG Supplemental Comments, p. 9.

⁴² CUB Supplemental Comments, pp. 3-4.

budget, it require CenterPoint to file additional information in annual reports to provide enhanced oversight and reduce risk exposure:

- a. Documentation of outreach to and engagement with potential industrial customers regarding hydrogen use, including identification of any prospective offtake opportunities relevant to Pilot D;
- b. Detailed reporting on community outreach and engagement in Mankato, including how customers are informed of hydrogen blending activities and any customer questions or concerns received;
- c. Evaluation of system safety and impacts on customer appliances, including performance and any changes in failure or maintenance rates;
- d. Assessment of impacts on distribution system infrastructure, including mains and service lines, such as material compatibility, leak risk, and implications for system integrity; and
- e. Monitoring and reporting on any changes in maintenance, repair, and replacement frequency or costs associated with hydrogen blending, including impacts on both utility infrastructure and customer-owned equipment.⁴³

[Decision Option 17]

Fresh Energy also noted that the Commission had ordered Xcel to reach a target for its overall portfolio cost-effectiveness target for its NGIA plan, using both the utility cost test and the societal cost test for the lifetime costs, of \$205 per metric ton of CO₂e reduced.⁴⁴ Fresh Energy recommended that CenterPoint be ordered to do the same, in order to provide “a more complete comparison across resource options,” and “a more accurate and consistent basis for evaluating pilot performance and aligning investments with state policy goals.”⁴⁵ **[Decision Option 15]**

STAFF ANALYSIS

Standing to Request Increase

While no parties raised this issue, Staff notes that there is some potential ambiguity as to whether granting CenterPoint's request for budget flexibility at this stage of its NGIA plan is consistent with the Commission's order.

26. The Commission approves CenterPoint's request for budget flexibility⁴⁶ with the following

⁴³ Fresh Energy Supplemental Comments, p. 8.

⁴⁴ Docket Nos. G002/M-23-518 & G999/CI-21-566, Xcel Energy [Compliance Filing – Order Points 32.B and 34: Natural Gas Innovation Act Plan, Exhibit A, p. 7 of 9 \(June 16, 2025\)](#)

⁴⁵ Fresh Energy Supplemental Comments, pp. 3-4.

⁴⁶ In CenterPoint's NGIA Plan Petition, CenterPoint described budget flexibility as “CenterPoint Energy requests that it be allowed to spend up to 25 percent more than budgeted for pilots with higher-than-expected

conditions:

- a. *Prohibit using budget flexibility to increase the budget of any pilot or pilots in such a way that there is insufficient remaining funding available to enable CenterPoint to fund other pilots up to at least 75% of their approved five-year budgets.*
- b. *Require any budget increases exceeding 25 percent of the total five-year pilot budget to go through the annual review process or be filed for comment and approval in Docket No. 23-215. CenterPoint's filing must identify any avenues that could be taken to increase enrollment or improve performance of any pilots not achieving quantitative or qualitative expectations and provide a justification for why these options are not reasonable.*
- c. *Require CenterPoint to describe any use of budget flexibility in annual review filings and explain why the use of budget flexibility was warranted. CenterPoint's justification should include an analysis of pilot performance that takes into account both participation levels and realized cost-effectiveness.*
- d. *Prohibit any use of budget flexibility until the third year of the plan in order to provide sufficient time for pilots to reach maturity and enroll participants.*
- e. *Prohibit CenterPoint from using budget flexibility in a way that leaves insufficient funding to fund the full five-year approved budgets of any pilots that are achieving plan expectations in terms of total lifecycle GHG emissions reductions at a cost equal to or less than estimated in the plan at the time that the budget flexibility is used.*
- f. *Require CenterPoint to ensure the cost recovery mechanism trues up customer class allocations to match actual pilot spending.*
- g. *Segment CenterPoint's exercise of budget flexibility between renewable natural gas, biogas, hydrogen produced via power-to-hydrogen, and ammonia produced via power-to-ammonia investments and all other investments and only allow exercises of budget flexibility within each segmented category. Budget flexibility can only be used to reallocate funding within pilots in the segment.*
- h. *Require CenterPoint to notify the Department and the Office of the Attorney General—Residential Utilities Division when it exercises budget flexibility without a modification. If no written response is received from the Department or an Assistant Attorney General in the Residential Utilities Division within 30 days, CenterPoint shall be authorized to engage in budget flexibility subject to the modified terms. If either the Department or an Assistant Attorney General in the Residential Utilities Division*

expenditures without seeking any additional approval from the Commission, provided that the increase does not cause the Plan, as a whole, to exceed its statutory cost cap or fail to satisfy any other statutory requirements.”

[CenterPoint NGIA Plan Petition, p. 10 of 33.](#)

objects to the use of budget flexibility, CenterPoint must make a filing with the Commission to seek approval of budget flexibility in Docket No. 23-215 or may seek a modification to the pilot in question through annual review filings.

- i. Any budget flexibility shall not allow CenterPoint to exceed its approved budget for the full NGIA plan.*

The ordering language reflects competing policies often present in pilot dockets: the flexibility to adjust pilots as more information is learned versus needing some level of certainty and stability needed to carry out a pilot as originally intended.

Staff notes that the Commission could choose to interpret 26.d. as prohibiting adjustments to pilots' budgets before the third year. 26.d. does appear to encourage CenterPoint to wait until its pilots have "sufficient time for pilots to reach maturity and enroll participants" before adjusting their budgets. However, there is also a possible interpretation that "budget flexibility" only refers to changes to under 25%, and therefore any increases over 25% are in a category of their own and can be brought to the Commission at any time, per 26.b.

If the Commission believes that CenterPoint is not allowed to request flexibility at all, it must choose **Decision Option 9**. However, if it agrees that CenterPoint may request the increase at this time, there are a variety of decision options it may choose.

Amount of Increase

CenterPoint has presented these budget increase requests as providing the certainty it needs to proceed with the project: the initial \$468,412 as the bare minimum, with the contingency \$935,972 to cover any uncertainty from the more detailed engineering study. CenterPoint noted in its Reply Comments that:

Taken together, these requests represent a \$1,404,384 increase to Pilot D's five-year plan budget (approximately 10 percent). For Pilot D to proceed without approval of the Company's budget modification request, the inclusion of major aspects of the pilot would need to be reevaluated for the Pilot to stay within budget – including the on-site solar and/or hydrogen storage.⁴⁷

However, Staff understands from CenterPoint's Reply Comments that the initial increase would be sufficient for proceeding with construction of the on-site solar, while the contingency funds are due to the uncertainty of the hydrogen electrolyzer's costs.⁴⁸ Staff therefore interprets CenterPoint's position to be that the initial increase of ~\$400k [**Decision Option 3**] would allow it to preserve its on-site solar without jeopardizing the tax credits, while approving the whole

⁴⁷ CenterPoint Reply Comments, p. 1.

⁴⁸ CenterPoint Reply Comments, p. 11.

request (including the ~\$900k contingency funds) **[Decision Option 1]** might only affect the hydrogen portion (such as hydrogen storage). Staff believes this is an important distinction, because the on-site solar component was a key factor in approving this pilot. The Commission's Order states "Pilot D presents an opportunity for CenterPoint to learn more about blending hydrogen with natural gas at a facility that is being powered, at least in part, by onsite renewable energy."⁴⁹ In addition, should the green hydrogen not be generated by on-site renewables, the Commission would have to reexamine whether the pilot qualified for NGIA in the first place.⁵⁰

Depending on the Commission's interpretation of its ordering paragraph around budget flexibility, the Commission may wish to consider whether it is necessary to approve the full amount. Staff agrees with the OAG's interpretation that CenterPoint could, per the order, continue to request approval of additional funds beyond the initial amount should the Commission only approve the initial amount **[Decision Option 3]** and those contingency costs materialize.

Staff recognizes parties' concerns about the inaccuracy of the initial budget, and the potential for increasing the lifetime costs of the pilot. Given the current energy affordability challenges across the U.S., the Commission should consider any impacts to bills when considering whether to approve an increase. Staff offers two other factors for the Commission to consider when deciding whether to approve any increase to the budget:

1. The Commission only approves the 5-year plan budget. Staff agrees with the OAG that the Commission should be aware of how any increases to the 5-year plan could inflate lifetime costs. The Commission did put an explicit guardrail on Xcel's NGIA plan by requiring Xcel to include the costs of any programs in subsequent NGIA plans: if a pilot continues outside the 5-year plan window, and Xcel wishes to continue to recover the costs under NGIA, its budget must be included in the subsequent NGIA plan.⁵¹ This could be an option if the Commission wishes to ensure that costs outside the 5-year plan window are still evaluated by the Commission on an annual basis as long as the pilot project operates under NGIA. **[Decision Option 16]**
2. The green hydrogen landscape has indeed changed since the petition was first

⁴⁹ NGIA Order, p. 9.

⁵⁰ Subd.(1)(n) of the NGIA statute defines NGIA-eligible power-to-hydrogen as "the use of electricity generated by a carbon-free resource to produce hydrogen."

⁵¹ DOCKET NO. G-002/M-23-518, *In the Matter of Xcel Energy's Natural Gas Innovation Plan*, ("Xcel NGIA Plan") [Order Approving Natural Gas Innovation Plan with Modifications \(May 16, 2025\)](#) Ordering Paragraph 2.

submitted and the NGIA plan approved. Changes to tax credits,⁵² hydrogen hubs,⁵³ and shifting investment in green hydrogen across the U.S. have all changed the landscape from when CenterPoint first proposed the pilot. It is therefore reasonable to Staff that a budget for this type of project might change over time, as might the value of the lessons learned, and the potential for future scale.

Regardless of the decision made, Staff believes it may be helpful to clarify that any budget adjustments are relative to the original budget approved by the Commission in the October 9, 2024 order. **[Decision Option 5]**

Source of Funds

If the Commission does approve an increase to the budget, either the initial or the full amount, it must decide which other parts of the plan from which to draw the funds: Pilot C or R&D **[Decision Options 6 or 7]**. Staff believes this is entirely up to the Commission's preference, and there do not appear to be any statutory or order-derived restrictions. While CenterPoint did imply that pulling the funds from Pilot C would help to ensure continuing compliance with the NGIA statute's requirement that 50% of the budget approved go towards alternative fuels, Staff tends to agree with the OAG's interpretation that this 50% rule is not relevant now that the plan is underway, and said as much during its briefing papers during the initial petition's proceeding.⁵⁴ Staff thus does not believe that the Commission has a statutory obligation to use Pilot C funds over R&D.

Recommendations to cancel Pilot D and New Pilot

As for the recommendation to cancel the pilot **[Decision Option 10]** and redirect funds to a new strategic electrification pilot **[Decision Option 11]**, Staff notes that Fresh Energy made a similar recommendation, which the Commission adopted, in Xcel's NGIA proceeding. The Commission rejected or modified the budgets of several pilots and instead directed Xcel to use those funds

⁵² H.R.1 - *An act to provide for reconciliation pursuant to title II of H. Con. Res. 14.*, Sec. 112013, <https://www.congress.gov/bill/119th-congress/house-bill/1> moved termination of the clean hydrogen Production Tax Credit five years earlier, from 2033 to 2028.

⁵³ Congressional Report, *Hydrogen Hubs and Demonstrating the Hydrogen Energy Value Chain*, (November 17, 2023) <https://www.congress.gov/crs-product/R47289#fn7>; Department of Energy, *Energy Department Announces Termination of 223 Projects, Saving Over \$7.5 Billion* (October 1, 2025), <https://www.energy.gov/articles/energy-department-announces-termination-223-projects-saving-over-75-billion>.

⁵⁴ [Staff Briefing Papers \(July 10, 2024\)](#), p. 40: "However, the NGIA requires the Commission to consider the 50% requirement when approving a utility's proposed innovation plan. When reviewing a utility's proposal, it is not possible to know what percentage of recovered funds from an innovation plan will be allocated to each approved pilot. All costs are subject to prudence reviews, and each pilot may be modified or discontinued through annual status reports. At the time the Commission considers Plan approval, it is not possible to know how or if pilots will be further modified during the Plan's 5- year life, whether any pilots will be discontinued, or whether CenterPoint will spend all of its budget prudently. Thus, a reasonable interpretation is that the 50% requirement only applies to the costs comprising the Commission's approved plan and not to the actual costs expended by the utility at the end of the five-year plan term."

to develop several new strategic electrification pilots, aimed at low-income households and commercial buildings.^{55, 56} In that proceeding, the Commission ordered Xcel to eliminate a pilot (the Indian Land Tenure Foundation Improved Forest Management) and reduce several other RNG pilots' budgets, and to use those funds to propose new pilot programs on strategic electrification for low-income and commercial customers. However, it is uncertain to Staff, legally, whether this can be done outside the annual reports, as the legislation only provides for the Commission to approve, modify, or disapprove the continuation of a pilot in the annual reports subdivision.

DECISION OPTIONS

Approve

1. Approve CenterPoint Energy's request to increase its Natural Gas Innovation Act budget for Pilot D from the budget approved in the Commission's October 9, 2024 order by \$1,404,384 (\$468,412 initial and \$935,972 in contingency). (Support: CenterPoint, CEE)
2. Require CenterPoint to report on any use of the contingency portion of the budget and to provide evidence of cost increases beyond the Company's control in its annual reports. (Support: Department if 1 is chosen; No Objection: CenterPoint)

OR

Modify

3. Approve CenterPoint's request to increase Pilot D's budget by the initial amount of \$468,412, and deny the request for \$935,972 in contingency funds. (Support: Department Alternative if 9 is not chosen, CUB Alternative if 9 is not chosen)
4. Require CenterPoint to file a new budget modification request if Pilot D's capital costs increase above the baseline costs estimated by the FEED Study. (Support: Department)
5. Clarify that all budget flexibility approved in Ordering Paragraph 26 of the October 9, 2024 shall be calculated in relation to the budgets originally approved in that order, and not in relation to any subsequent modifications. (Support: Staff)

Funds Used

If the Commission chooses to approve an increase to Pilot D's budget (Decision Options 1 or 3), it must choose either Decision Option 6 or 7 below.

⁵⁵ Xcel NGIA Order, Ordering Paragraphs 3, 4, 9, and 18

⁵⁶ Xcel NGIA Plan, [Notice of Approval of New Pilots and Other Compliance Filings \(October 9, 2025\)](#)

6. Order CenterPoint to shift funds from its Pilot C budget to cover the increase to Pilot D's budget.
(Support: CEE)

OR

7. Order CenterPoint to shift funds from its R&D reserve budget to cover the increase to Pilot D's budget. (Support: OAG)
8. Order CenterPoint to assign any future cost increases due to a failure to secure Investment Tax Credits due to construction delays to be borne by CenterPoint's shareholders, not ratepayers.
(Support: OAG)

Deny

9. Deny CenterPoint's request to increase its Pilot D budget from the budget approved in the Commission's October 9, 2024.
(Support: Fresh Energy, CUB, Department)
10. Eliminate Pilot D from CenterPoint's Natural Gas Innovation Plan.
(Support: Fresh Energy, CUB, Department)
11. Order CenterPoint to work with stakeholders to develop a targeted electrification pilot in Mankato focused on deploying cold-climate heat pumps for low- and moderate-income residents, including collaboration with community-based organizations and a focus on equitable program design, and to include a detailed proposal for this pilot in its June 1, 2026 NGIA annual report for Commission review and approval.
(Support: Fresh Energy)

Future NGIA Reports and Plans

The Commission may choose any combination of 12-16 regardless of the decision it makes on CenterPoint's request.

12. Require CenterPoint to provide the following information for each pilot in its next NGIA plan:
 - a. Vendor quotations for any major components;
 - b. Consultation with companies, engineers, or other organizations that are familiar with the technology and systems to be used;
 - c. For any project with a renewable energy or electrification component, consultation with the local retail electric utility including any estimates for interconnection; and
 - d. Consideration of the impact of Minnesota's climate and verification that any comparable costs from other locations have been updated to include

winterization or other necessary protections due to any environmental factors.

(Support: OAG, CUB)

13. Require CenterPoint to identify in future NGIA plan proposals if the budget is based on a prediction about a future market shift, such as an assumption about the cost of a technology that has not yet come to market.

14. Direct CenterPoint to conduct and report on a targeted assessment of hydrogen opportunities within its service territory focusing on industrial customers and applications where electrification is not feasible, consistent with evidence that hydrogen is best suited for hard-to-electrify sectors, and to document any outreach to potential industrial end users in its 2026 annual report.

(Support: Fresh Energy)

15. Require evaluation of cost-effectiveness using both the utility cost test and societal cost test when assessing the Commission's \$200/MTCO₂e objective in all future NGIA reporting, consistent with prior Commission direction and practice in CenterPoint's NGIA plan.

(Support: Fresh Energy)

16. If CenterPoint includes any of its pilots from this NGIA plan in subsequent NGIA plans, CenterPoint must include the subsequent costs in the budgets of those subsequent plans.

(Support: Staff)

The Commission may only choose 17 if it chooses Decision Options 1 or 3.

17. If the Commission approves the budget increase request for Pilot D, require CenterPoint to provide the following in future annual reports:

- a. Documentation of outreach to and engagement with potential industrial customers regarding hydrogen use, including identification of any prospective offtake opportunities relevant to Pilot D;
- b. Detailed reporting on community outreach and engagement in Mankato, including how customers are informed of hydrogen blending activities and any customer questions or concerns received;
- c. Evaluation of system safety and impacts on customer appliances, including performance and any changes in failure or maintenance rates;
- d. Assessment of impacts on distribution system infrastructure, including mains and service lines, such as material compatibility, leak risk, and implications for system integrity; and
- e. Monitoring and reporting on any changes in maintenance, repair, and replacement frequency or costs associated with hydrogen blending, including impacts on both utility infrastructure and customer-owned equipment.

(Fresh Energy Alternative to 9 and 10)