# Minnesota Public Utilities Commission

*Staff Briefing Papers*

**Meeting Date:** **September 12, 2013 ....................................................... ** Agenda Item # _4_**

---

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

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

**Issues:** **Should this filing be accepted, the proposed rates suspended, this matter referred to the Office of Administrative hearings, and interim rates set as requested by the Company?**

**Staff:**
Dorothy Morrissey ..................................................................... 651-201-2232
Jorge Alonso ............................................................................. 651-201-2258
Sean Staples .............................................................................. 651-201-2252
Clark Kaml ................................................................................. 651-201-2246
Andy Bahn ................................................................................. 651-201-2249
Bob Harding ............................................................................... 651-201-2237

---

***Relevant Documents***

CenterPoint Energy - Initial Filing & Interim Rate Petition ...................................... Aug. 2, 2013
Department - Comments.......................................................................................... Aug. 12, 2013
CenterPoint Energy - Reply Comments..................................................................... Aug. 15, 2013

---

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

**This document can be made available in alternative formats (i.e., large print or audio) by calling (651) 296-0406 (voice). Persons with hearing loss or speech disabilities may call us through their preferred Telecommunications Relay Service.**

*September 4, 2013*

# Table of Contents

# Statement of the Issues

- Should this filing be accepted as complete? Should the Commission request the Company to file supplemental information?
- Should the proposed rates be suspended? If so, for what period?
- Should this matter be referred to the Office of Administrative Hearings for a contested case proceeding? If so, are there issues in addition to the standard rate case issues the Commission would like parties to address?
- What level of interim revenue increase should be set? How should the increase be collected from customers?

# Introduction

On November 2, 2013, CenterPoint Energy[1] filed a general rate case with the Minnesota Public Utilities Commission (Commission) which is assigned Docket No. G-008/GR-13-316. The Company is asking for an increase in its retail natural gas rates in Minnesota of approximately $44.322 million or approximately 5 percent per year, effective October 1, 2013, based on a rate of return on common equity capital of 10.3 percent.

CenterPoint proposed a forecasted test year ending on September 30, 2014. In its proposed test year, CenterPoint has approximately 822,700 customers and throughput of approximately 157.7 Bcf of natural gas per year.

CenterPoint is also asking for authority to increase the amount of revenue it collects from customers using the fixed, monthly service charge and for permission to implement a revenue decoupling mechanism for its non-gas margin revenue.

CenterPoint requests an interim rate increase of approximately $42.917 million, or 4.88 percent, per year, based on a 10.23 percent rate of return on common equity, effective October 1, 2013.[2] The Company proposes to apply the interim rate increase as a uniform 4.88 percent increase to the basic charge, delivery charge and the base cost of gas.

The basic issues at this stage of a rate case are whether to accept the filing, suspend the proposed final rates, refer this matter to the Office of Administrative Hearings (OAH) for a contested case proceeding, and set interim rates subject to refund.

# Background

On August 5, 2013, the Commission issued its notice requesting comments on whether CenterPoint's filing complies with the filing requirements in Minn. Stat. § 216B.16, Minn. Rules, Parts 7825.3100 to 7825.4400 and Commission Orders. The Commission also asked for

---

[1] CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas ("CenterPoint Energy", "CenterPoint", "CPE" or "the Company").

[2] If the Commission suspends the proposed rates.

comments on whether this rate application should be referred to the Office of Administrative Hearings (OAH) for a contested case proceeding.

On August 12, 2013, the Minnesota Department of Commerce, Division of Energy Resources (Department) recommended the Commission accept CenterPoint's application as substantially complete. In its comments, the Department emphasized that its initial review of CenterPoint's filing relates only to whether CenterPoint's application is substantially complete with respect to

- Minn. Stat. § 216B.16,
- Minn. Rules, Parts 7825.3100 to 7825.4400,
- Commission's Order from CenterPoint's last rate case in 2008,
- Commission's Orders in various dockets prior to and subsequent to CenterPoint's last rate case, and
- all of the items referenced in the Company's "matrix of regulatory requirements".

The Department's initial review did not look at the substance or merit of CenterPoint's request, or whether CenterPoint had met its burden of proof with respect to its request for this rate increase. The Department recommended the Commission refer this matter to the Office of Administrative Hearings for a contested case proceeding.

On August 15, 2013, CenterPoint submitted a letter agreeing to the Department's recommendation for a contested case proceeding.

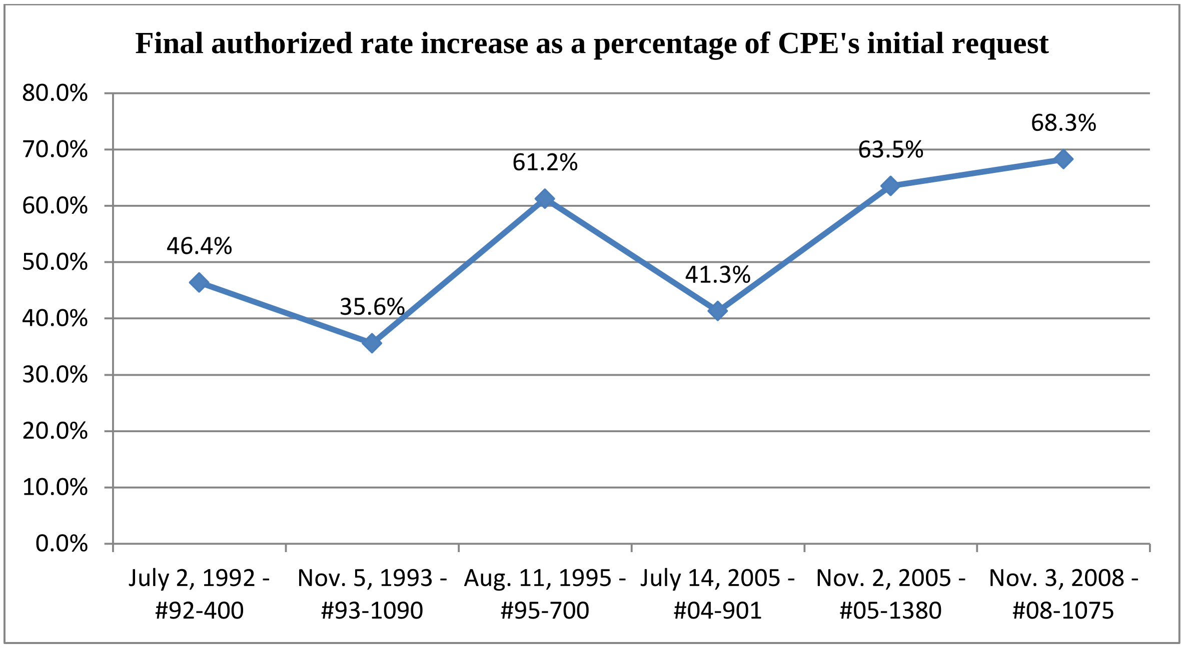
(On August 2, 2013, CenterPoint also submitted its request for a new base cost of gas, in Docket No. G-008/MR-13-674, pursuant to Minn. Rule 7825.2700, subpart 2. On August 30, 2013, the Department submitted comments and stated that it is withholding its recommendation "until CenterPoint provides additional information reconciling its test-year demand costs between the rate case filing and the base cost of gas filing." This docket is on the Commission's agenda for this meeting. On September 3, 2013, CenterPoint submitted its reply to the Department.)

# Prior Rate Cases

CenterPoint has filed six rate cases since 1992.

| Rate Case | Amount Requested | | Interim Rates | | Final Rates | | | |
|---|---|---|---|---|---|---|---|---|
| | $ millions | % increase | $ millions | % increase | $ millions | % increase | Authorized Rate of Return on Equity (ROE) | Authorized Rate of Return (WACOC) |
| 2008 | $59.8 | 3.9% | $51.2 | 3.3% | $40.8 | 2.7% | 10.24% | 8.09% |
| 2005 | $40.9 | 2.4% | $24.7 | 2.1% | $26.0 | 1.6% | 9.71% | 7.54% |
| 2004 | $21.8 | 1.8% | $16.9 | 1.4% | $9.0 | 0.8% | 10.18% | 8.03% |
| 1995 | $24.3 | 4.2% | $17.8 | 3.1% | $14.9 | 2.6% | 11.00% | 9.76% |
| 1993 | $22.7 | 3.6% | $14.6 | 2.3% | $8.1 | 1.1% | 11.00% | 9.67% |
| 1992 | $24.8 | 5.5% | $11.8 | 2.6% | $12.9 | 2.9% | 11.50% | 10.41% |

CenterPoint's request for an interim rate increase of $42.917 million in this case is equal to approximately 96.8 percent of CenterPoint's request for a final increase in rates of $ 44.322 million. In the previous six rate cases, final authorized rates have been in the range of 35 to 68 percent of requested final rates.




# CenterPoint's Application (in this docket)

CenterPoint is asking for an increase in rates of approximately $44.322 million, or approximately 5 percent per year, effective October 1, 2013. According to CenterPoint, the main reason for this rate case is the need to make significant capital expenditures in the follow areas:

- … the evaluation of safety requirements, resulting from regulatory rules and orders, result in the fact that replacements and upgrades on our system have not only increased, but must be accelerated. The more significant expenditures in this category will be related to:
  - The Belt Line Transmission pipeline
  - Addressing Bare Steel Main and Service Lines
  - Replacing Cast Iron Main
  - Replacing Copper Service lines and moving Inside Meters to Outside

- … public improvements by local governments that require us to protect and, at times relocating, our distribution facilitates.

- Modernization of communications and computer systems. [3]

[3] CenterPoint, Joseph Vortherms, pre-filed direct testimony, p. 12

CenterPoint also proposes to use a sales forecast for its test-year revenue requirement calculations that is based on ten rather than twenty years of weather-related usage data. CenterPoint also proposes to significantly increase the monthly customer charges, and to apply a new revenue decoupling mechanism to its distribution rates.

## Comparison of Authorized and Proposed Revenue Requirement

The following abbreviated schedule compares the revenue requirement approved in CenterPoint Energy's 2008 rate case, Docket No. G-008/GR-08-1075, and the proposed revenue requirement in this docket.

| **Financial Summary** | **Authorized 2008 Rate Case - Docket No. G-008/GR-08-1075** | **Proposed 2013 Rate Case - Docket No. G-008/GR-13-316** |
|---|---|---|
| Rate Base | $635,904,000 | $702,359,000 |
| Rate of Return | 8.09% | 7.80% |
| Return on Equity | 10.24% | 10.30% |
| Required Operating Income | $51,445,000 | $54,784,000 |
| Revenue (including gas revenue) | $1,172,140,000 | $883,181,000 |
| Expenses (including gas expenses) | $1,120,695,000 | $854,383,000 |
| Operating Income | $51,445,000 | $28,798,000 |
| Income Deficiency | ---------------- | $25,986,000 |
| Conversion Factor | 1.7056 | 1.7056 |
| Revenue Deficiency | ---------------- | $44,322,000 |

The proposed increase of approximately $44.32 million can be attributed to the following changes since rates were increased in the 2008 rate case:

| | |
|---|---|
| Increase in Rate Base | $9.17 million |
| Decrease in Net Income | 38.63 million |
| Decrease in Rate of Return | (3.47) million |
| Total | $ 44.32 million |

The Company's requested increase when compared to its last filing shows an income deficiency primarily due to revenue and expense changes as well as increased plant investments. The Company's proposed rate base increased 10 percent since its last filing. Accordingly, its proposed operating depreciation expense is approximately $11.5 million higher than the prior case's. Together, the rate base/plant investment and depreciation expense changes account for approximately 46 percent of the overall requested revenue increase in this filing. Additionally, the Company stated its 2012 property tax costs increased about 40 percent over its last rate case amount and its proposed test-year expense of $28.2 million is, compared to the last rate case, $11.4 million higher.

Since its last rate filing, the Company's annual CIP[4] related expenses increased by approximately $11 million, from approximately $13.7 million[5] to $24.7 million[6]. Also, due in part to the lower cost of gas, it is noted that the Company's proposed bad debt expense shows a reduction of about $11 million when compared to its last case filing.

When compared to the previous rate case, and contributing to the $39 million decrease in net income, the following table illustrates expense changes by major groups:

| | **Prior Rate Case** | **2014 Test Year[7]** | **Change in $** | **Change in %** |
|---|---|---|---|---|
| Production | $ 399,000 | $ 876,000 | 477,000 | 120% |
| Other Gas Supply | 305,000 | 802,000 | 497,000 | 163% |
| Underground & Other Storage | 1,952,000 | 1,504,000 | (448,000) | -23% |
| Distribution | 29,098,000 | 31,316,000 | 2,218,000 | 8% |
| Customer Accounts | 51,367,000 | 35,072,000 | (16,295,000) | -32% |
| Customer Service & Informational | 16,985,000 | 31,414,000 | 14,429,000 | 85% |
| Sales | 556,000 | 505,000 | (51,000) | -9% |
| Administrative & General | 33,974,000 | 36,554,000 | 2,580,000 | 8% |
| Maintenance Expenses | 13,913,000 | 19,983,000 | 6,070,000 | 44% |
| Depreciation and Amortization | 50,271,000 | 61,813,000 | 11,542,000 | 23% |
| Federal, State & Deferred Income Taxes | 23,899,000 | 8,347,000 | (15,552,000) | -65% |
| Investment Tax Credit Adjustment | (463,000) | (463,000) | 0 | 0% |
| Other Taxes | 20,052,000 | 32,116,000 | 12,064,000 | 60% |
| Total Operating Expenses | 242,308,000 | 259,839,000 | 17,531,000 | 7% |

Expense increases since the last rate case includes:

- Production and Other Gas Supply have each, respectively, more than doubled and, combined, account for a $1 million increase. Underground storage has decreased 30%, mostly due to the drop in gas prices.

[4] The Conservation Cost Recovery Charge (CCRC) is the amount included in base rates dedicated to the recovery of CIP costs as approved by the Commission in the Company's general rate case.
[5] Docket No. G-008/GR-08-1075 CPE Direct Testimony Nesvig, p. 15.
[6] Docket No. G-008/GR-13-316 CPE Direct Testimony Nesvig, p. 35.
[7] The test-year in the 2014 rate case is October 1, 2013 through September 30, 2014.

- Distribution's increase of $2.2 million and Maintenance's increase of $6.0 million is mostly related to CPE's mains.

- Customer Service & Informational is up $14.4 million, mostly due to the previously mentioned increase in CIP.

- Administrative & General's $2.6 million increase is mostly attributable to pensions and benefits.

- As previously mentioned, Depreciation increased $11.5 million due to plant investments and Other Taxes increased $12.0 million mostly due to Property Tax increases.

Expense reductions since the last rate case includes:

- Underground & Other Storage $450,000 reduction is mostly due to reductions in Gas Losses and Compressor Station expenses.

- Customer Accounts $16.3 million decrease is result of the previously discussed $11 million drop in Bad Debt and a $5 million reduction in Customer Records and Collections.

- Due to the reduction in Operating Income, Income Taxes are $15.5 million lower; however, most or all of these "savings" will be eliminated once new rates are approved and Operating Income rises accordingly. For instance, if the full rate increase request were to be approved, Federal, State and Deferred Taxes would increase from $8.3 million to $26.7 million. When compared to the prior case, the $15.5 million net decrease would become a $2.8 million increase.

Comparing base year to test year, the Company's calculates its inflation adjustment to be $3.6 million. Since they are already embedded, these inflation costs are **not** in addition to the expense group increases mentioned above.

## Proposed Test Year Cost of Capital

In its most recent rate case (G-008/GR-08-1075) Center Point Energy was authorized a rate of return of 8.09 percent based on a cost of long term debt of 5.79 percent, a cost of short-term debt of 3.53 percent and a return on equity of 10.24 percent.

In this case, CenterPoint Energy is requesting a rate of return on common equity of 10.30 percent and an overall weighted cost of capital of 7.80 percent. The filing requirements regarding rate of return and cost of capital are found in Minnesota Rules, Part 7825.4200. The Company complied with this rule in Volume I, Tab D, of its filing.

CenterPoint Energy's proposed test year capital structure and cost of capital is shown below:

| Component | Percent of Total | Cost Rate | Weighted Cost |
|---|---|---|---|
| Long-Term Debt | 40.16% | 5.84% | 2.35% |
| Short-Term Debt | 7.24% | 0.36% | 0.03% |
| Common Equity | 52.60% | 10.30% | 5.42% |
| Total ( ROR) | | | 7.80% |

## Proposed Test Year Sales Forecast

### Compliance with Commission 2008 Rate Case Order

In the Commission's January 11, 2010 Commission Order in CPE's 2008 general rate case, the Company was required to take a number of actions related to the sales forecast:

- Meet with the Department, and any other interested parties, prior to the preparation of its next rate case to discuss its billing cycle data and determine which data stream is appropriate to use in its test-year forecast … and to file in a compliance filing a report as to how these issues are resolved on a going-forward basis.

CPE's February 1, 2013 compliance filing states the Company met with the Department of Commerce on January 16, 2013 and offered to meet with any other interested parties.

- Prepare, and provide in future initial rate case filings, a spreadsheet which calculates present and proposed revenue based on the sales forecast, numbers of customers, present, and proposed rates.

Mr. Nesvig's workpaper to Schedule 32 contains this spreadsheet.

- File any, and all, data for its sales forecast in advance of its next general rate case.

CPE filed this sales forecast data on July 1, 2013, in this docket.

- Meet with the Department and any other interested parties to resolve the following issues:
    - Verification of CenterPoint's process that the Company uses to calculate the input data it uses in its test-year sales analysis;
    - If, in the future, CenterPoint updates, modifies, or changes its billing system, verification of the link between the old and new billing systems

and validation that there is no difference between the two billing systems; and

- Retention of all information related to CenterPoint's billing cycle sales, cancellations/rebills, customer bills, and weather data (adjusted for billing errors) to allow for independent verification of any, and all, data used by CenterPoint and to independently analyze the reasonableness of CenterPoint's test-year sales."

CenterPoint's February 1, 2013 compliance filing states the Company met with the Department on January 16, 2013 and offered to meet with any other interested parties.

**Sales Forecast**

CenterPoint proposes a forecasted test year ending September 30, 2014 (Test Year 2014). In Test Year 2014, CenterPoint forecasts throughput of approximately 157.7 Bcf, after adjustment for estimated curtailment.

CenterPoint's average customer count is 822,713. For the two largest classes, Residential (59 percent of sales) and Commercial & Industrial-C (20 percent of sales), CenterPoint forecasts a slight decline in use per customer. On an overall basis, CenterPoint projects a declining sales forecast in Test Year 2014.

| ***Statistic*** | ***2005 (docket #05-1380, authorized)*** | ***2008 (docket #08-1075, authorized)*** | ***TY 2014 (docket #13-316, proposed)*** |
|---|---|---|---|
| Total throughout (in Bcf) | 157.96 | 159.3 | 157.7 |
| # of Residential customers | 720,458 | 735,899 | 754,001 |
| # of Total Customers | 785,521 | 802,892 | 822,713 |
| Residential sales (in Bcf) | 71.02 | 67.8 | 66.4 |
| Residential sales (in Dth) | 71,020,295 | 67,785,005 | 66,414,471 |
| Residential Use-Per-Customer (in Dth) | 98.6 | 92.1 | 88.1 |

CenterPoint based its sales forecasts on ten-year normalized weather, which calculates class-by-class monthly gas use per customer for the period 2003-2012.

CenterPoint proposed a ten-year weather-normalization period in its 2008 rate case as well. In that case, the Commission adopted and incorporated the findings of the Administrative Law Judge, as recommended by the Department, to require the use of a 20-year weather-normalization period.

## Proposed Rate Design

CenterPoint's filing contains many proposals for changes in rate design. Some of the proposed changes are relatively minor while others are more significant. The following summary is an overview of some of the proposed changes and is not meant to be a complete or comprehensive catalog of CenterPoint's rate design proposal in this docket.

### Class Revenue Apportionment

The following table contains CenterPoint's proposed apportionment of each customer class' responsibility for CenterPoint's revenue requirements under current and proposed rates as well as the proposed dollar amount and percentage increase for each customer class:

| Customer class | # of customers | Dekatherm sales | Current revenue | Proposed revenue | Increase ($) | Increase (%) |
|---|---|---|---|---|---|---|
| Residential | 754,001 | 66,414,471 | $522,893,558 | $558,441,801 | $35,548,243 | 6.8% |
| Comm/Ind Firm A | 31,768 | 2,300,312 | 19,740,506 | 21,085,669 | 1,345,163 | 6.8% |
| Comm/Ind Firm B | 17,662 | 4,793,973 | 35,296,251 | 35,493,471 | 197,220 | 0.6% |
| Comm/Ind Firm C | 16,502 | 22,745,863 | 154,933,437 | 157,778,924 | 2,845,487 | 1.8% |
| Small Dual Fuel A | 2,125 | 9,687,875 | 51,278,006 | 52,461,879 | 1,183,874 | 2.3% |
| Small Dual Fuel B | 408 | 6,409,828 | 30,178,675 | 30,961,965 | 783,290 | 2.6% |
| Large Volume | 247 | 45,368,303 | 55,779,722 | 58,198,426 | 2,418,705 | 4.3% |
| Total | 822,713 | 157,720,625 | $870,100,154 | $914,422,136 | $44,321,982 | 5.1% |

This table is based on numbers from CenterPoint's prefiled sales forecast summary CenterPoint's initial filing, schedule E-1(a).

### Basic Monthly Service Charges and Per Therm Delivery Charges

CenterPoint proposed increases in the customer charges for residential and small commercial and industrial customers but did not propose increases in the customer charge for its larger customers. CenterPoint also proposed decreases in the delivery charge for its residential and medium sized (segment B) commercial and industrial (C&I) customers and increases for all of its other customers.

| Customer Class/Type (usage in therms) | Basic Charge (per month) | | | Delivery Charge (per therm) | | |
|---|---|---|---|---|---|---|
| | Current | Proposed | Increase (%) | Current | Proposed | Increase/ Decrease (%) |
| **Residential** | $8 | $15 | 88% | $0.17127 | $0.12943 | -24% |
| **Commercial/Industrial** | | | | | | |
| Com/Ind Firm A (up to 1,500/yr.) | $12 | $15 | 25% | $0.15170 | $0.16046 | 6% |
| Com/Ind Firm B (1,500 to 5,000/yr) | $18 | $21 | 17% | $0.14912 | $0.13997 | -6% |
| Com/Ind Firm C (5,000 or more/yr.) | $43 | $43 | 0% | $0.13852 | $0.15103 | 9% |
| **Small Volume Dual Fuel Sales Service** | | | | | | |
| Small Vol Dual Fuel A (up to 120,000/yr.) | $60 | $60 | 0% | $0.09941 | $0.11163 | 12% |
| Small Vol Dual Fuel B (120,000 or more/yr.) | $90 | $90 | 0% | $0.09420 | $0.10642 | 13% |
| **Large Volume Dual Fuel Sales Service** | $600 | $600 | 0% | $0.04270 | $0.05492 | 29% |

As shown in the table below, if CenterPoint's proposal is approved in its entirety, CenterPoint would be authorized to increase the amount of revenue it collects using customer charges by approximately $65.1 million per year while decreasing the overall amount of revenue it collects from distribution charges by approximately $20.8 million per year.

| CenterPoint Energy | Current Revenue | Proposed Revenue w/rate increase | Change in rates | |
|---|---|---|---|---|
| | | | ($) | (%) |
| Basic Charge Revenue | $93,300,000 | $158,400,000 | $65,100,000 | 70% |
| Volumetric Margin Revenue[8] | $190,900,000 | $170,100,000 | $(20,800,000) | -11% |
| Net Margin Revenue[9] | $284,200,000 | $328,500,000 | $44,300,000 | 16% |
| Total Test Year Revenue[10] | $883,200,000 | $927,500,000 | $44,300,000 | 5% |

### Revenue Decoupling

CenterPoint Energy proposed a full revenue decoupling mechanism for its Residential, Commercial A, Commercial/Industrial B, Commercial/Industrial C, and the Small Volume Firm Transport rate classes. CenterPoint Energy calls its proposal the Revenue Decoupling ("RD") Rider. If approved, the Company would be allowed to automatically adjust its rates for all of its firm sales and its small volume firm transport customers each year. These annual rate

[8] Volumetric margin revenue includes delivery charges, CCRC, GAP and Demand/Minimum Volume charges. Volumetric margin revenue does not include basic monthly customer charge revenue.
[9] Net margin revenue includes basic customer charges, delivery charges, CCRC, GAP and Demand/Minimum Volume charges.
[10] Total test year revenue includes late payment fees and other revenue.

adjustments would allow CenterPoint Energy to match the actual revenue the Company receives each year from these customers to the amount of test-year revenue allowed in this rate case, adjusted for customer growth.

The RD Rider Adjustment will be calculated annually and on a class-by-class basis for each class of customers to which the RD Rider applies and will be applied on a per therm basis. The RD rider shall apply to CenterPoint Energy's small firm customers receiving gas service throughout CenterPoint Energy's service territory under the Residential Sales Service, the Small Volume Commercial and Industrial Sales Service, and Small Volume Firm Transportation Service rate schedules.

The purpose of the RD Rider is to reduce CenterPoint Energy's financial disincentive to the promotion of energy efficiency and conservation by severing the link between the recovery of CenterPoint Energy's non-gas distribution costs and the volume of gas delivered to its small volume firm customer rate classes. This will be accomplished by comparing the level of non-gas revenues authorized in the last general rate case adjusted for increases in customer counts to the level of non-gas revenues collected by rate class to calculate either a class revenue shortfall or revenue surplus. If either a revenue shortfall or a revenue surplus exists in an applicable rate class, then a per revenue decoupling rate adjustment will be calculated for that rate class to collect or return the calculated revenue shortfall or revenue surplus to the applicable rate class.[11]

The calculation of the per therm RD Rider rate adjustment is based on a formula that uses numbers from this rate case. The RD Rider Adjustment shall equal the Allowed Revenues less the Evaluation Period actual Non-Gas Revenues, divided by the authorized class forecast volumes used to determine final rates from this rate case, where Allowed Revenues are equal to authorized revenue per customer multiplied by the greater of (1) the actual evaluation period number of customers or (2) the number of customers used to determine final rates in the last general rate case in the applicable rate class.[12]

---

[11] CenterPoint also proposed that the RD Rider Adjustment for the applicable rate classes to collect an *under-recovery amount of non-gas revenues* will be capped at +5% of the total volumetric charge for each of the rate classes, while the RD Rider adjustment for the applicable rate classes to return an over-recovered amount of non-gas revenues shall not be capped.

[12] CenterPoint's calculation for the RD Rider Adjustment is similar to the formula MERC uses for its decoupling rider adjustment that was approved by the Commission in Docket No. 10-977. CenterPoint's proposal, however, includes an additional provision as protection against a decline in customers in an applicable rate class.

CenterPoint's proposed RD Rider Adjustment for the residential customer class is:

> [((Non-gas revenue requirement per residential customer from rate case) * (the greater of (1) the actual evaluation period number of residential customers or (2) the number of residential customers used to determine final rates in rate case)) - (Non-gas residential class revenue in current year)] ÷ [Rate case test-year sales to all residential customers in therms]

**Supplied Meter Communication Rider**

CenterPoint also proposed a new rider that would allow it to charge customers $17 per month when CenterPoint supplies

> … communication service to a customer who has installed telemetry equipment and elects to have CenterPoint Energy supply non-analog communication service to the customer.[13]

CenterPoint is proposing this rider because

> Some customers requiring telemetry service have failed or been unable to supply, in a timely manner, analog telephone to the telemetering equipment, which renders the equipment incapable of collecting and sending the usage to CenterPoint energy. Under this rider, CenterPoint energy will install and arrange for celluar or other non-analog communication service to transmit the customer's usage information to CenterPoint Energy. Also, some customers may prefer that CenterPoint Energy arrange the necessary communication service for them and bill them for these costs.[14]

# Staff Analysis

## Should this filing be accepted, and if so, as of what date?

**Completeness**

Compliance with rules and statutes

Staff reviewed this filing for compliance under Minn. Stat. § 216B.16 and Minn. Rules 7825.3100 through 7825.4400. Staff agrees with the Minnesota Department of Commerce – Division of Energy Resources ("Department" or "DOC") analysis and believes CenterPoint Energy's filing substantially complies with these requirements.

Compliance with and issues from prior Commission orders/recent & pending dockets before the Commission

Staff believes the Company has made a good faith effort to comply and respond to the orders issued in CenterPoint Energy's last rate case as well as other orders that have a bearing on this case. The Company provided its 11-page "Compliance Requirements" schedule which is attached to Joseph J. Vortherms' direct testimony as schedule 4.

**Date of acceptance**

Staff agrees with the Company and the Department and believes CenterPoint Energy's filing was substantially complete as of August 2, 2013, the date CenterPoint Energy submitted its filing.

[13] CenterPoint, Kirk R. Nesvig, direct testimony, p. 124
[14] CenterPoint, Kirk R. Nesvig, direct testimony, p. 125

## If this filing is accepted, should the proposed rates be suspended, pursuant to Minn. Stat. § 216B.16, subd. 2?

Staff agrees with the Department that, if the Commission accepts this filing, then proposed final rates should be suspended. Once rates are suspended, and while the Company's filing is investigated and parties are in litigation, statute provides for usage of interim rates during the suspension period. These rates are subject to refund.

## If this filing is accepted, should this matter be referred to the Office of Administrative Hearings ("OAH") for a contested case?

The Department recommended the Commission refer this matter to OAH for a contested case proceeding. The Commission is required to refer a rate case to OAH for a contested case proceeding unless the Commission finds that all significant issues can be resolved to its satisfaction, pursuant to Minn. Stat. § 216B.16, subd. 2(b). Staff does not believe the Commission can make such a finding absent a fully developed record and recommends setting this matter for contested case.

The statutory deadline, pursuant to Minn. Stat. § 216B.16, subd. 2(a), for the parties, the ALJ and the Commission to complete their work on this matter is ten months from the date the Commission accepts this filing as substantially complete. If the Commission suspends the proposed final rates for ten months, until June 2, 2014, then staff recommends the Commission request the ALJ's report by April 2, 2014. This is consistent with the Commission's practice of asking for the ALJ report at least two months prior to the Commission's statutory deadline for issuing its order. Staff believes this is reasonable given the size and complexity of the case, and to ensure the Commission has sufficient time to consider this matter and issue its order within the ten month statutory deadline.

### Identification of issues of special interest or requiring additional, supplemental testimony

In its August 2, 2013 filing, CenterPoint provided a "Compliance Requirements" schedule which includes a list of information required under a number of Commission orders and where in CenterPoint's pre-filed testimony these issues are addressed. The Commission may want to include a general request that parties thoroughly review issues identified in the Commission's past orders. If the Commission wants to give special emphasis to any of these particular requirements, it could do so at this time.

The Commission may also want to include in its Notice And Order For Hearing, a request that parties thoroughly address and develop (in addition to the standard rate case issues) a complete record (e.g. in testimony, at hearing, and if applicable, in settlement documents) on the issues noted below, and any other issues the Commission may identify.

First, according to Company Witness Centers' direct testimony, the Company's responses to Minnesota Department of Public Safety Office of Pipeline Safety's (MNOPS) most recent inspections of its transmission integrity management program (TIMP) and its distribution integrity management program (DIMP) were anticipated to be submitted to MNOPS by mid-August 2013. Staff suggests that the Commission ask CPE to file as a supplemental exhibit to this case its responses to the warning letters and notices of probable violation issued by MNOPS [under MNOPS Case Number 1299473-1 (2011–13) and Case Number 1307070-2 (2013)] in order to include these in the case record and to make these responses available to all parties. (CPE, Witness: Centers, Direct, pp. 17-18).

Second, the per dekatherm demand cost proposed in the Company's companion base cost of gas filing (Docket No. G-008/MR-13-674) is based on the sales forecast used by CenterPoint Energy in its general rate case. In the event the sales forecast changes, then the per dekatherm demand cost will also change. As such, any sales forecast change will make it necessary to adjust the demand rate(s) in the base cost of gas. Staff recommends that the Commission request that parties make the necessary adjustment to the per unit demand cost of gas if there is a change in the sales forecast. This will eliminate the need to revise the operating income statement after the Commission's Order in the rate case. Staff included a decision alternative for consideration.

Staff also suggests the Commission request that parties specifically and thoroughly address the following issues in the course of the contested case proceedings:

1) In Schedule C-2(b) of its rate case filing, CPE states that their Total Utility Operating Income for 2012 was $33,947,000; however, in its most recent Jurisdictional Annual report (JAR) report filed in Docket No. E,G-999/PR-13-04, on May 1, 2013, the Company reported 2012 income to be $36,900,000. Since 2012 is this rate case's base year, a discrepancy of almost $3 million is a material difference. In order to properly analyze base year to test year changes, Staff recommends that the Commission require to CenterPoint to reconcile and explain the reason for the difference and inform the Commission which are the appropriate numbers to be used in this rate case.

2) According to Mr. Vortherms' testimony, a substantial amount of the capital investment is to upgrade and replace aging infrastructure. Since replacements may result in abandonment, staff recommends that the Commission request more specific information regarding how much of the replaced infrastructure will be abandoned and how that will comply with current regulations.

3) Should the Commission decide to grant CenterPoint's decoupling request, the decision will result in an increased fixed expense recovery guarantee. A higher recovery guarantee translates into lower risk for CPE's investors and lower risk should result in lower return on equity (ROE). In this particular rate case, a one basis point (0.01%) change in ROE results in a $63,000 change in revenue requirement. These combined factors lead staff to recommend that, for this case, the proposed ROE receive closer-than-usual scrutiny.

4) In page 64 of his testimony, Mr. Kirk R. Nesvig states that CenterPoint is billed for corporate costs using billable hourly rate; however, Mr. Nesvig does not provide any information on how this billable hourly rate is calculated nor what additional burden is included in its calculation. Staff recommends that, in order to validate the hourly rate's fairness to ratepayers, the Commission request information regarding the design of the billable hourly rate and its components.

5) In CenterPoint's last rate case, the Commission approved, over a period of three years, a $1.5 million recovery of rate case expenses. In Docket No. G-008/GR-08-1075, Ordering paragraph 9, the Company was ordered to use deferred accounting to track any over-collected rate case expense for crediting against its future revenue requirement. Since approximately five years have passed since CPE's last rate case, staff estimates that CenterPoint, has potentially over-collected approximately $1 million; however, when addressing prior rate case expenses, Mr. Nesvig's testimony does not mention the over-collection. Staff recommends that the Commission request additional information regarding the Company's rate case expense recovery tracking and handling of the over-collection.

6) From review of past customer (staff) bills, customers may not be billed twelve equal monthly customer charges over the course of a year of continuous service. This may occur due to an accelerated or a delayed meter read collection that is within the responsibility of the utility. In such an event, the billing period may become a longer (>35 days) or a shorter (<25 days) interval than normal (30 days) resulting in an increased (or decreased) billed monthly customer charge under Minn. Rule 7820.3300 and per Company Tariff Section 9.01. Given the Company's proposed level of increase in the customer charge component, Staff suggests that the Commission request the Company to comment on the prevalence of customers, i.e. those customers maintaining continuous service throughout the year, charged more or less than the expected twelve equal monthly customer charges. Additionally, the Commission may request an assessment of the financial impact based upon the Company's actual experience of extended or shortened billing periods, in order to allow the Commission and parties to evaluate any unintended consequence and the need for any revisions to preserve appropriate billing of this fee.

## If this filing is accepted, should interim rates be set as requested by the Company?

For the purpose of setting interim rates, CenterPoint proposed an increase in revenues of $42.917 million annually, or approximately 4.88%, above existing rates that include the cost of gas, based on a 10.23 percent rate of return on common equity. CenterPoint Energy requested interim rates be made effective for service rendered on and after October 1, 2013.

**Interim rate statute**

Minn. Stat. § 216B.16, subd. 3, states in part that:

> (a) Notwithstanding any order of suspension of a proposed increase in rates, the commission shall order an interim rate schedule into effect not later than 60 days after the initial filing date. The Commission shall order the interim rate schedule ex parte without a public hearing. ... [and]
>
> (b) Unless the Commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design. . . .

**Effective date for interim rates**

If the Commission accepts CenterPoint's filing as substantially complete as of August 2, 2013, and suspends the proposed final rates, then the Commission must order interim rates into effect within 60 days, i.e. no later than Tuesday, October 1, 2013, pursuant to Minn. Stat. § 216B.16, subd. 3(a).

**Financial matters**

Minn. Stat. § 216B.16, subd. 3(b) states, in part:

> (b) Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year …, rate base, and expenses, except that it shall include: (1) …; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and….

CenterPoint proposed an interim rate increase, subject to refund, of approximately $42.917 million based on the following revenue summary:

| | |
|---|---:|
| Rate Base | $702,307,000 |
| Rate of Return | 7.77% |
| Required Operating Income | $54,600,000 |
| Net Operating Income | $29,400,000 |
| Income Deficiency | $25,200,000 |
| Revenue Conversion Factor | 1.7056 |
| Revenue Deficiency | $42,900,000 |

The interim rate request is a $1.4 million decrease from CenterPoint's $44.3 million general rate case increase request. This discrepancy is attributable to two factors: a decrease of $1 million in Administrative & General expenses and a $0.4 million decrease due to the return on equity variance resulting from Company's use, as required, of a 10.24% interim rate of return on equity instead of the requested 10.30%.

Most of the interim revenue decrease, or $1,040,000, is attributable to the removal of certain expenses that were disallowed or reduced in the prior rate case. The expense types and the corresponding amounts removed for interim rates are as follows: lobbying expense ($95,000); a fixed miscellaneous employee expense adjusted for inflation, that related to certain expenditures disputed as excessive ($336,000); employee incentive pay in excess of 25 percent of base salaries ($273,000); and the differential in rate case expense that was the result of using the approved amortization period of three years for interim rates purposes, rather than the two-year period proposed in this case that was disallowed in the last rate case ($336,000).

The return on equity adjustment accounts for approximately $359,000 of the interim rate decrease. (For interim rates, the Company is required to use the rate of return on equity from its most recent rate case, 10.24%, rather than the rate of return on equity requested in its general filing of 10.30%.)

The remaining $6,000 interim decrease results from a reduced return on investment attributable to a reduction in cash working capital in rate base. Cash working capital reflects the operation funding requirement that result from timing differences between when revenues are received and when expenses are paid. The funding of operation costs, before (or after) receipts of revenues, impacts the overall investment in a utility. The reduction of certain expenses described earlier caused some preliminary funding requirement to be lowered, and a reduction to rate base, which in turn reduced the interim revenue requirement.

**Cost of capital**

Minn. Stat. § 216B.16, Subd. 3 (b) reads:

> Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; ...

In its most recent rate case (G008/GR-08-1075) Center Point Energy was authorized a rate of return of 8.09% based on the following:

| Component | Percent of Total | Cost Rate | Weighted Cost |
|---|---|---|---|
| Long-Term Debt | 45.76% | 5.79% | 2.65% |
| Short-Term Debt | 1.70% | 3.53% | 0.06% |

| Component | Percent of Total | Cost Rate | Weighted Cost |
|---|---|---|---|
| Common Equity | 52.55% | **10.24%** | 5.38% |
| Total ( ROR) | | | 8.09% |

The Company is proposing an interim cost of capital of 7.77% based on the following:

| Component | Percent of Total | Cost Rate | Weighted Cost |
|---|---|---|---|
| Long-Term Debt | 40.16% | 5.84% | 2.35% |
| Short-Term Debt | 7.24% | 0.36% | 0.03% |
| Common Equity | 52.60% | **10.24%** | 5.39% |
| Total ( ROR) | | | 7.77% |

Center Point Energy's proposed interim cost of capital follows the statute requiring that rate schedules be calculated using the proposed test year cost of capital and with the exception that the rate of return on common equity to be used shall be that authorized by the commission in the utility's most recent rate proceeding.

In its petition the Company noted that in CPE's last rate case the Commission incorporated a hypothetical capital structure without specifying specific levels of debt or equity.

**Rate design**

CenterPoint - Interim Rate Petition - Allocation of Interim Deficiency - Schedule IR-6

| Customer Class | Test Year Billing Revenues Under Existing Rates[15] | Proposed Interim Revenue Increase | |
|---|---|---|---|
| | | $ | % |
| Residential | $522,894,000 | $25,534,000 | 4.88% |
| Commercial & Industrial (Firm ) | $209,969,000 | $10,253,000 | 4.88% |
| Dual Fuel (Interruptible) & Transportation | $146,018,000 | $7,130,000 | 4.88% |
| Total Revenue | $878,881,000 | $42,917,000 | 4.88% |

[15] Does not include other revenue, late payment fees, etc.

**Is CenterPoint Energy's request to apply an equal percentage increase to all operating bill revenue consistent with the requirement in the interim rate statute that there be no changes made in the existing rate design?**

CenterPoint proposed to show the increase on customer bills as a separate line item (interim rate adjustment) that is applied to the basic charge, the delivery charge (excluding the conservation cost recovery adjustment (CCRA), the gas affordability program (GAP) adjustment, and the base cost of gas. The interim adjustment would not apply to late payment charges, franchise fees, sales taxes, the monthly purchased gas adjustment, or the revenue decoupling adjustment.

This is generally the same approach and the same calculation that was approved in CenterPoint's last rate case.[16] Staff believes this is consistent with the statutory requirement that there be no changes made in the existing rate design for interim rates. Staff believes this is consistent with the Commission's policy statement on interim rates, and will be the least confusing for CenterPoint's customers.[17]

For its interim rate tariffs, for all of its customers including the market-rate service rider customers, CenterPoint proposed language that describes the interim rate adjustment (surcharge) surcharge and interim rate refund as follows:

> Effective October 1, 2013, customers' bills will be increased on an interim basis by 4.88% before the inclusion of the purchased gas adjustment. Any sales tax and franchise fees will be calculated on the increased bill.
>
> If the total amount of the rate increase approved at the end of the rate case (Docket G-008/GR-13-316) is lower than the total amount of the interim rates collected, the Company will refund the difference with interest, and if the total amount of final rates are higher than the total amount of interim rates, the Company will not charge customer for the difference.

---

[16] The calculation of the interim rate increase uses billing revenues as its denominator while the final proposed rate increase is calculated using total operating revenues. The reasons for using different revenues to calculate the increase are as follows: the interim increase is actually applied to a customer's basic charge, delivery charge and base cost of gas billing components. The increase is not applied to late payment charges and other revenues. Therefore, the interim rate calculation should not be based upon those revenue items. The final proposed rate increase is the overall increase expressed as a percentage of total operating revenues because the proposed rate increase can include changes to other items not specifically included in the tariffed billing rates, such as late charges. [CenterPoint Energy, Interim Rate Petition, pp. 2-3]

[17] The Commission's April 14, 1982 Statement of Policy on Interim Rates, states: "The Commission interprets that "no change in the existing rate design" applies to both the allocation of revenue responsibility among customer classes (or product and service categories) and the structure of the individual rates. Accordingly, interim rates should consist of the existing rate schedules with an interim rate adjustment equal to the overall requested interim increase percentage. This procedure will assure that consumption decisions will be made on the same basis as under existing rates and will allow refunds, if necessary, to be made across-the-board to all customers such that the final rates are prospective only." . . . "The interim rate adjustment should be shown as a separate item on the customer's bill, if practical." [Statement of Policy on Interim Rates, pp. 1 & 2]

Staff believes this language is appropriate and recommends CenterPoint also include in its interim rate tariff compliance filing, copies of sample customer bills that show the interim rate surcharge as it appears on the customer bills.

Staff also notes that CenterPoint believes the GAP rate applied to the GAP tracker account needs to increase when interim rates go into effect to ensure the Company continues to have the opportunity to collect $5 million per year from its customers for the affordability program. Otherwise, with the decrease in forecasted sales during the test-year, there could be a revenue shortfall in the GAP tracker account.[18] CenterPoint does not, however, propose to increase the GAP program's $5 million annual budget.

CenterPoint offered to clarify the interim tariff language that was initially proposed for the GAP surcharge. CenterPoint provided the following new language (which is underlined). Staff believes this is a helpful clarification.

> Paragraph 4.3
> A tracking mechanism ("Tracker") will be established to provide for recovery of actual Program costs as compared to the recovery of Program costs through rates. CenterPoint Energy will track and defer Program costs with regulatory approval. The prudency of the program costs are subject to regulatory review. ~~The rate is $0.00490 per therm.~~ <u>During the time interim rates are in effect in Docket No. G-008/GR-13-316, customer bills will reflect the rate of $0.00490 per therm which was approved in Docket No. G008/GR-08-1075. Interim rates, which are displayed as a single line item on customer bills, will include additional GAP recovery using the interim GAP recovery rate of $0.00519 per therm, subject to adjustment for final approved sales volume. At the conclusion of Docket G-008/GR-13-316, the GAP tracker will be restated by making an accounting entry at the time the Final Rates are implemented.</u> CenterPoint Energy may petition the Commission to adjust this rate in order to true up the Program balance in the Tracker in its next general rate case.

**Should the Commission approve CenterPoint Energy's request to impute but not collect the full amount of the interim rate increase from its market-rate service customers?**

In its interim rate petition, CenterPoint stated that it

> … is proposing to assess the same interim rate increase to all customers who are assessed interim rates. Similar to what was approved in prior rate cases, we are not proposing to collect interim rates from customers who have negotiated a market-based rate with the Company pursuant to the "flexible tariff" authority under Minn. Stat. §216B.163. Instead, the company proposes to forego the interim rate revenue associated with those customers. For these customers subject to

[18] As of January 1, 2013, CenterPoint reported in its March 29, 2013 annual GAP compliance filing, in Docket No. G-008/GR-05-1380, an approximately $1.3 million surplus in the GAP tracker account.

> "effective competition", their rates are market-driven and the price has already been negotiated and agreed to with the customer (e.g., market rate sales service). These negotiations are generally based upon the rates of competitive fuels in the market place or utility "bypass" situations. … [CenterPoint Energy, Interim Rate Petition, pp. 3-4]

According to the interim rate statute, Minn. Stat. § 216B.16, subd. 3,

> ... Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using ... (3) no change in the existing rate design.

The Commission's usual practice on rate design for interim rates has been to require utilities to assess all classes of customers an equal percentage amount for the interim rate increase.

In CenterPoint's 1992 and 1993 rate cases, CenterPoint was not allowed to exempt its market-rate customers from interim rates. In CenterPoint's 1995 rate case, the Commission found exigent circumstances, and allowed CenterPoint to change its rate design and assess its market-rate customers for interim rates at a lower rate than its other customers.

In CenterPoint's 2004 rate case (docket # 04-901), the Commission rejected CenterPoint's request to exempt its market-rate customers from the interim rate increase, and directed

> CenterPoint to impute revenues to all its customers on an equal percentage basis. But the Commission will not require CenterPoint to pass through its interim rate increase to its market rate customers. CenterPoint will retain its discretion to negotiate prices with these customers. Where CenterPoint concludes that it cannot negotiate a higher price for this interim period, it may refrain from doing so, but CenterPoint may not recoup the difference from other customers.[19]

In CenterPoint's 2005 and 2008 rate cases (in docket #s 05-1380[20] and 08-1075), CenterPoint requested permission to use the approach authorized by the Commission in the Company's 2004 rate case. The Commission approved CenterPoint's request. This is the same approach CenterPoint requested in this case (in docket #13-316). Staff believes the following staff comment from the interim rates briefing papers in the 2005 rate case also applies to CenterPoint Energy's request in this case:

> The Commission's policy of requiring gas companies to assess all customer classes an equal percentage amount of the interim rate increase during a rate case is based on statute and the assumption that the existing rate structure and rate design are equitable unless or until proven otherwise. Applying the interim rate increase to all customers equally does not attempt to prejudge any proposed

---

[19] ORDER SETTING INTERIM RATES, In the Matter of the Application of CenterPoint Energy Minnegasco, a Division of CenterPoint Energy Resources Corp., for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-008/GR-04-901 (September 10, 2004)

[20] The finding of exigent circumstances in the 2005 Commission's interim rates decision applied to the lower percentage interim rate increase that was authorized for the No Surprise Bill ® customer bills.

> change in revenue apportionment or rate design in a pending application.
>
> The Commission has generally left it to the utility to decide whether to try and collect an authorized interim rate increase from its market-rate customers or to forego the revenue if the utility believes it will be bypassed if it tries to collect the interim rate increase from its market-rate customers. Because these are market-rate customers, CenterPoint is authorized to adjust the rates it charges these customers outside of a rate case (usually once per month). Sometimes the market-rate (or flexible rate) is below the standard tariffed rate for that customer class and sometimes it is above the standard tariffed rate. (The minimum and maximum rates that these customers may be charged is set in a rate case.) These market-rate adjustments are tied to the cost of the customer's alternative source of fuel. Between rate cases, CenterPoint maximizes the amount of revenue it collects from these customers. Because the alternative fuel is typically oil and oil prices are ... relatively high (compared to the cost of natural gas), staff does not believe CenterPoint is currently subjected to very strenuous competition. Staff believes the interim rate increase can be imputed to these customers and CenterPoint can continue to decide on a month-to-month basis how much to bill these customers based on market conditions.
>
> Staff believes CenterPoint's request to assess all of its customers an equal percentage amount of the interim rate increase, including the proposed interim surcharge tariff language for market rate customers, is reasonable and may be approved without a finding of exigent circumstances.

In the 2008 rate case, the Commission stated in its December 22, 2008 Order Setting Interim Rates, that CenterPoint's

> … proposal is consistent with the interim rates order in the Company's last two rate cases, and the Commission will approve it. It preserves the rate statute's requirement that interim rates be calculated using existing rate design, as well as the flexible tariff statute's requirement that gas utilities be permitted to negotiate rates with large customers for whom the Company's service is subject to effective competition.

CenterPoint estimated the amount of forgone interim rate revenue would be approximately $1.6 million based on test year revenue.

### Methods, procedures and interest rate for refunding

Pursuant to Minn. Stat. §216B.16, subd. 3, CenterPoint's "Agreement and Undertaking" to make appropriate refunds if required is contained in Volume 1, Notice of Change in Rates.

As part of the Agreement and Undertaking CenterPoint makes an unqualified agreement concerning the refund of any portion of the requested increase in rates determined by the Commission to be unreasonable. The Company states:

> CenterPoint Energy hereby agrees and undertakes to refund to its customers the excess of increased rates collected during the period of suspension, including interest thereon which shall be at the current rate of interest as determined by the commission, computed from the effective date of the proposed rates through the date of refund, if any part of the rates put into effect is finally disallowed by the Commission. The refund shall be made in accordance with Minn. Stat. § 216B.16, subd. 3, (c) in a manner approved by the Commission.

In its interim rate petition, CenterPoint proposes to use the average prime rate, pursuant to Minn. Rule, part 7825.3300,[21] in the event an interim rate refunds are required.

Staff does not believe the Commission needs to address CenterPoint's proposal to use the prime rate of interest in the event an interim rate refund before parties to this case have had a chance to provide testimony or brief this issue.

## Public Hearing Locations

The date, time, and location of the public hearings is typically discussed and decided around the time of the pre-hearing conference by the Administrative Law Judge in consultation with the Company, parties, and the Commission. A formal Commission decision on this point is not needed for the purpose of issuing the Commission's orders at this time. However, in the interest of developing a schedule for this proceeding, staff's recommendation at this time would be for the ALJ to hold afternoon or evening hearings in Coon Rapids, and evening hearings in South Minneapolis, Bloomington, Brainerd, and Mankato.

Staff recognizes this is one more public hearing than was held in the last CenterPoint rate case. Despite the low attendance generally and at the out-state hearings specifically in previous rate cases, staff is reluctant to recommend the Commission not hold hearings in those locations.

[21] Minn. Rules, part 7825.3300. Methods and procedures for refunding. Any increase in rates or part thereof determined by the commission to be unreasonable shall be refunded to customers or credited to customers' accounts within 90 days from the effective date of the commission order and determined in a manner prescribed by the commission including interest at the average prime interest rate computed from the effective date of the proposed rates through the date of refund or credit.

The following table summarizes the public hearing location and attendance information from CenterPoint Energy's last three rate cases.

| | 2004 | 2005 | 2008 |
|---|---|---|---|
| Public Hearing Locations | Minneapolis (afternoon - downtown and evening - South Minneapolis); Bloomington (evening); Coon Rapids (evening) | Minneapolis (afternoon - downtown and evening - South Minneapolis); Bloomington (evening); Coon Rapids (afternoon and evening) | Coon Rapids, Minneapolis, North Mankao, and Alexandria |
| Public Hearing - Estimated Attendance | 73 | 41 | 10 |
| Public Hearing by video conference | Brainerd (technical problems), Mankato, Willmar | Brainerd, Mankato, Plymouth, Willmar | n/a |
| Video Conference - Estimated Attendance | 7 | 4 | n/a |

Some direction from the Commission on the appropriate number and location of public hearings to recommend to the ALJ would be welcome.

## Administrative and Compliance Issues

The Commission's practice in most rate cases has been to require: a) notice to municipalities and counties of the proposed rate change, b) public hearings at locations within the company's service area, and c) notice of evidentiary and public hearings.

The decision alternatives contain ordering language that is similar to the language used in notice and orders for hearing in previous general rate proceedings.[22] Staff recommends that this language be incorporated into the Commission's decisions in this docket. General rate case notice requirements can be found in Minn. Stat. § 216B.16, subd. 1, and Minn. Rules, Part 7829.2400, subparts 3 and 7.[23]

[22] *Notice and Order for Hearing*, In the Matter of a Petition by Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc., for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-004/GR-02-1682, November 19, 2002 (please see Ordering Paragraphs 3, 4 and 5)

[23] Staff also recommends the Commission require CenterPoint to send a copy of the Commission's notice and order for hearing to all local governing bodies in its service area. This notification will ensure that these entities can make an appearance at the prehearing conference or make arrangements to intervene in this case if they are interested.. This notification is in addition to the notice required by Minn. Stat. § 216B.16, Subd. 1, and Minn. Rule 7829.2400, subp. 3, and is consistent with past Commission practice.

The Commission's practice has also been to require interim rate compliance filings. These filings typically include tariff sheets with supporting documents, and a Commission-approved notice to customers of the interim rate increase. Companies are also required to keep records of their sales and collections to support any potential interim rate refund obligation. The decision alternatives contain language typical of the language used in previous Commission Orders authorizing interim rates.

Staff recommends the Commission require all of the administrative and compliance related items listed in the decision alternatives. Customer notices are generally administrative items that are negotiated between Commission staff and the utility, and authority to approve notices is usually delegated to the Commission's Executive Secretary for the duration of the proceeding. Staff has been working with the Company to finalize these notices prior to issuance. Staff recommends continuing that practice here.

# Decision Alternatives

**1. Acceptance**

a. Accept this filing as being in proper form and substantially complete as of August 2, 2013, or
b. Reject this filing as not being in proper form and/or not being substantially complete.

**2. Suspension of Proposed Final Rates**

If this filing is accepted as being in proper form and substantially complete as of a certain date, then the Commission should also decide the following:

a. Suspend the proposed final rates until the Commission makes its final determination in this matter, or
b. Do not suspend the proposed rates.

**3. Referral of this Matter to the Office of Administrative Hearings for a Contested Case Proceeding**

a. If the Commission adopts alternative 2(A) above, request the ALJ's report within eight months of the date of the Commission's acceptance of this filing, i.e. on or before April 2, 2014. If the statutory deadline for the Commission's decision is extended beyond the normal ten months at any point during this proceeding for any reason (e.g. settlement discussions, waiver, etc.) request the ALJ's report at least two months before the extended deadline for the Commission's decision. and

b. Identification of issues requiring development of a complete record in this case.

i. The standard rate case issues,[24] and
ii. Any other issue as identified by the Commission. (Please see items one through six, on pp. 14-15 of these briefing papers for a list of possible issues.)

**4. Issues for Supplemental Testimony or Exhibits**

a. Require CenterPoint to submit as a supplemental exhibit to this case, its August 2013 and any subsequent responses to the warning letters and notices of probable violation issued by Minnesota Office of Pipeline Safety (MNOPS) [under MNOPS Case Number 1299473-1 (2011–13) and MNOPS Case Number 1307070-2 (2013)].

[24] The standard rate case issues are: 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) Is the rate design proposed by the Company reasonable? and 3) Are the Company's proposed capital structure and return on equity reasonable? *Notice and Order for Hearing*, In the Matter of the Application of Minnegasco, a Division of NorAm Energy Company, for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-008/GR-95-700, p. 3, October 4, 1995

b. Updated Sales Forecasts Impact on Demand Cost of Gas Rate - Require CenterPoint Energy to reflect any updated sales forecasts from its general rate case in its per dekatherm demand cost of gas rate. The updates should be filed in this docket and the related base cost of gas, in Docket No. G-008/MR-13-674.

**5. Effective Date of Interim Rates**

If the proposed final rates are suspended, i.e. alternative 2(A), the Commission is required to set interim rates as of a certain effective date.

Authorize CenterPoint to implement interim rates for service rendered on and after October 1, 2013 (sixty days after CenterPoint's August 2, 2013 filing date).

**6. Interim Rates (Financial Matters)**

a. Approve an annual interim rate revenue deficiency of $42.917 million, or 4.88 percent.
b. If the Commission makes any adjustments to the level of interim rates proposed by the Company, direct CenterPoint to file revised financial schedules and calculations (interim rate base, income statement, cost of capital, and revenue summary) and class revenue schedules reflecting the Commission's modifications within 5 days of this meeting.

**7. Interim Rates (Capital Structure & Cost of Capital)**

a. Approve CenterPoint's proposed interim cost of capital for setting interim rates,[25] <u>or</u>

b. Determine that exigent circumstances exist adopt some other cost of capital structure and component costs for setting interim rates.

**8. Interim Rates (Rate Design)**

a. Approve CenterPoint's request to collect the $4.917 million interim rate increase as a uniform 4.88 percent interim rate adjustment to the base rate portion of customer bills, i.e. the basic service charge, the delivery charge (excluding the conservation cost recovery adjustment (CCRA), the gas affordability program (GAP) adjustment, and the base cost of gas. And to display the interim rate increase on customer bills using a single, line-item interim rate adjustment. <u>and</u>

b. Approve CenterPoint's request to assess but forgo collection of the interim rate increase from its market rate service (flexible rate) rider customers, and to not seek recovery of the difference from its other customers.

---

[25] CenterPoint proposed a rate of return on common equity of 10.24 percent and an overall rate of return of 7.77 percent for the calculation of interim rates.

## 9. Administrative & Compliance Issues

a. In the Notice and Order for Hearing, require the following:

   i. This Order will be served on the Company, which shall mail copies of the Order to all municipalities, counties, and local governing bodies in its Minnesota service area.

   ii. Public Hearings shall be held in this matter at locations within the service area of the Company.

   iii. The Company shall give the following notices of the evidentiary and public hearings:

      1. Individual written notice to each customer, which may be in the form of a bill insert, and shall be served at least ten days before the first day of hearings.
      2. Written notice to the governing bodies of all municipalities, counties, and local governing bodies in the area affected and to all parties in the Company's last two rate cases. These notices shall be mailed at least ten days before the first day of hearings.
      3. Display advertisements in legal newspapers of affected counties and other newspapers of general circulation within the Company's Minnesota service area. These advertisements shall appear at least ten days before the first day of hearings. They shall include the heading **RATE INCREASE NOTICE**, which shall appear in bold face type no smaller than 30 points.
      4. The Company shall submit proposed notices for Commission approval prior to publication or service. and

b. In the Order Setting Interim Rate require the following:

   i. Order the Company to file with the Commission and the Department of Commerce-Division of Energy Resources interim rate tariff sheets and supporting documentation reflecting the decisions herein. The Company's filing should also include the notice to customers, approved by the Executive Secretary, regarding the rate change under the interim rate schedule.
   ii. Order the Company to keep such records of sales and collections under interim rates as would be necessary to compute a potential refund. Any refund should be made within 120 days of the effective date of the Commission's final order in a manner approved by the Commission.
   iii. Order the Company to include with each customer's first bill under the interim rate schedule a notice of the rate change, approved by the Executive Secretary. Upon completion of this task, the Company shall certify this fact to the Commission. and

c. Require CenterPoint to maintain records of CIP costs and collection through the interim period so that it can be ascertained that recoveries dedicated to CIP are properly recorded as CIP.

**10. Approval of Notices and Customer Bill Inserts**

a. Delegate authority to approve notices, bill inserts, and bill format to the Commission's Executive Secretary for the duration of this proceeding, or

b. Do not delegate authority to the Commission's Executive Secretary.

# Concluding Comment & Recommendation

If the Commission accepts this filing as substantially complete, the Commission should also suspend the proposed final rates, set this matter for contested case hearing, and request the ALJ's report and recommendation within a sufficient amount of time for the Commission to issue its order before the statutory deadline.

With respect to interim rates financial issues, staff recommends the Commission approve the adjusted interim increase amount of approximately $42,917,000, and that the base cost of gas in this docket be consistent with the base cost of gas decision in docket 13-674. With respect to the interim rate design issues, staff recommends the Commission approve CenterPoint Energy's proposal. Staff also recommends all of the administrative and compliance items listed under alternative 9(a, b and b) and recommends the Commission delegate to the Commission's Executive Secretary authority to approve notices and customer bill inserts for the duration of this proceeding.

Staff recommends alternatives 1(a), 2(a), 3(a), 3(b)(i and ii), 4(a and b), 5, 6(a), 7(a), 8(a), 9(a, b and c) and 10(a).