

**Minnesota Public Utilities Commission**  
*Staff Briefing Papers*

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**Meeting Date:** September 10, 2015 ..... \* Agenda Item # 2

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**Company:** CenterPoint Energy Resources Corporation d/b/a CenterPoint Energy  
Minnesota Gas

**Docket No.** G-008/MR-15-728  
In the Matter of CenterPoint Energy Resources Corporation’s Filing to  
Establish a New Base Gas Cost Filing (PGA Zero-Out) for Interim Rates in  
CenterPoint Energy’s General Rate Docket No. G-008/GR-15-424

**Issue:** Should the Commission approve the proposed new base cost of gas?

**Staff:** Jorge Alonso ..... 651-201-2258  
Dorothy Morrissey ..... 651-201-2232

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***Relevant Documents***

Initial Filing ..... August 3, 2015  
Department Comments ..... August 17, 2015  
CenterPoint Energy Reply Comments ..... August 24, 2015

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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.

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*September 3, 2015*

## **Statement of the Issue**

Should the Commission approve the proposed new base cost of gas?

## **Background**

On August 3, 2015, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (“CenterPoint”, “CenterPoint Energy”, “CPE”, or the “Company”) filed a general rate case under Docket No. G-008/GR-15-424.

On August 3, 2015, CenterPoint Energy filed a new base cost of gas to coincide with the implementation of interim rates in the general rate case.

On August 17, 2015, the Department of Commerce (DOC) filed comments recommending, subject to CenterPoint providing Exhibit E, Attachment 3, Page 1 of 2, without rounding, approval of CenterPoint’s base cost of gas filing.

On August 24, 2015, CenterPoint Energy filed reply comments complying with the Department’s request.

## **Relevant Rules**

Minn. Rules Pt. 7829.1300, Miscellaneous Tariff and Price List Filings  
Minn. Rules Pt. 7825.2700, Subp. 2, New Base Gas Cost  
Minn. Rules Pt. 7825.3200 (B), Miscellaneous Rate Changes

## **Department of Commerce Comments**

### **Demand Cost of Gas**

The Department reviewed CenterPoint’s filing for consistency with the calculations in the rate case and those in the base cost of gas filing and determined that the information is generally consistent between both.

The Department explained that CenterPoint calculated its demand cost of gas based, in most part, on the demand entitlement units and costs that are estimated to be charged in the Company’s November 2015 Purchased Gas Adjustment (PGA) filing; however, the demand costs are slightly different between the estimated November 2015 PGA and the rate case and base cost of gas filings because the rate case and base cost of gas have updated propane costs, and do not contain capacity release adjustments, which are included in the monthly PGA filings.

Based on a review of the rate case schedules and the demand cost information included in the base cost of gas filing, the Department observed two different demand cost figures. In the rate case, CenterPoint reported demand costs of \$81,386,446 and, in the base cost of gas filings, it reported test-year demand costs of \$81,384,000. The Department observed a similar instance in

the Company's previous base cost of gas filing and requested that CenterPoint clarify the reason for the difference in cost in that proceeding. CenterPoint responded that the small difference was related to anticipated incurred demand costs and the amount of demand costs expected to be recovered during the test year. The Department concluded that the difference in demand costs was acceptable in the previous base cost of gas filing. Moreover, this approach is reasonable since it reflects the revenue credit that ratepayers are expected to receive. Thus, the Department agrees with CenterPoint's proposal to set base rates using the \$81,384,000 figure.

### **Commodity Gas Costs**

The Department pointed out that CenterPoint estimated its commodity costs based on forecasted Henry Hub wellhead prices, forecasted basis point differentials for delivery of natural gas to Ventura, estimates of lost and unaccounted for gas, and pipeline transportation charges. The Company's price forecasts were based on estimated New York Mercantile Exchange (NYMEX) Henry Hub gas prices over the period April 2015 to September 2016 as provided by CenterPoint's Gas Supply Group.

The Department compared the Company's estimates to current NYMEX market expectations and determined that the rate estimates do not appear to be inappropriate. The DOC noted that, when final rates are set, these estimates should be compared to actual gas costs and, at that time, the Commission may wish to consider whether any adjustments to gas costs and corresponding effects on other costs in the rate case should be reflected in final rates.

The Department highlighted that, as shown in Exhibit E, Attachment 3, Page 2 of 2 of its base cost of gas filing, CenterPoint's total commodity cost recovery amount is \$428,363 which is a rounding, in thousands, of the \$428,362,617 shown in Kirk Nesvig's Schedule 62, Workpaper 2 in the general rate case. Although the DOC noted that the rounding was correct, they do not match the figures presented in the rate case filing; therefore, the Department recommended that, in Reply Comments, CenterPoint provide Exhibit E, Attachment 3, Page 1 of 2 without rounding.

### **Total Gas Costs**

The Department stated that, when the test-year demand gas cost (\$81,384,000) and test-year commodity gas cost (\$428,362,617) are added together, it translates into total gas costs of approximately \$509,746,617. The Department concluded that CenterPoint's total gas costs are appropriate and reconcile with the cost figures presented in the rate case filing.

### **Recommendations**

Subject to the Company filing Exhibit E, Attachment 3, Page 1 of 2, without rounding, the Department recommended that the Commission approve CenterPoint's base cost of gas filing.

## CenterPoint Energy Reply Comments

As requested by the Department, CenterPoint filed Exhibit E, Attachment 3, Page 1 of 2, without rounding.

### Staff Analysis

Staff points out that commodity gas costs, although recovered dollar for dollar, is a component of total *revenue* and total revenue is either a component or the “driver” for various test year estimates such as bad debt expense, late payment fees and storage costs. For instance, test year bad debt expense is calculated as 0.78% of total revenue; therefore, a 10% fluctuation (\$42.84 million) in commodity gas costs would have an impact of \$334,000 in bad debt expense.

Due to commodity gas costs’ embedded impact on various test year estimates, the Commission may want to order CenterPoint to update this cost throughout this proceeding. To insure that the record is complete, if the Commission does order these filings, CenterPoint should be instructed to make the filings under both this docket and the general rate case docket.

### Decision Alternatives

1. Base Cost of Gas
  - A. Approve CenterPoint’s Base Cost of Gas as filed. (CPE, DOC)
  - B. Not approve CenterPoint’s Base Cost of Gas.
2. Updated Commodity Costs
  - A. Order CenterPoint Energy to update the commodity cost of gas. Direct the Company to work with the Department and Staff to determine the timing of these updates. The updates shall be filed in both this docket and the general rate case Docket No. G-008/GR-15-424. (Staff)
  - B. Do not require CenterPoint Energy to update the commodity cost of gas.